



RESEARCH NOTE

Number 26, 2000-01
ISSN 1328-8016

History of the Zone Rebate

Introduction

It is reported that the Government is planning a far-reaching review of policies for regional Australia, including 'zonal' tax concessions.¹ This Research Note details the history of the zone rebate including changes in its value.

Section 79A of the *Income Tax Assessment Act 1936* provides special income tax concessions for people residing in certain zones of Australia for more than one-half of an income year. There is currently a rebate of tax to taxpayers resident in certain prescribed areas 'in recognition of the disadvantages that taxpayers are subject to because of the uncongenial climatic conditions, isolation and high costs of living in comparison to other areas of Australia'.² Generally referred to as the zone rebate, it comprises a base amount plus a percentage of other applicable rebates. The rebate is generally limited to the tax otherwise payable; there is no refund of any excess rebate.

The zone allowance

The zone rebate was preceded by the zone allowance which was introduced in 1945 when, it appears, the Government of the day took the view that post-war development plans could be adversely affected without action to abate the effect of the then high rates of taxation

on allowances which were often paid to employees in remote areas.

The rationale of the zone allowance provisions was indicated by the Treasurer of the day (the Hon. Ben Chifley) when he stated in the second reading speech for the Income Tax Assessment Bill 1945:

The bill also contains special concessions for taxpayers who live in the remote parts of Australia. Honourable members will recall the discussion last session regarding the taxation of district and regional

relief proposed takes the form of a special deduction. In order to determine which taxpayers shall be entitled to this special deduction, it has been found necessary to divide the continent into zones. Zone A embraces the northern parts of Queensland, Western Australia, and the Northern Territory. The territories of Papua, Norfolk Island, and New Guinea are also included. Taxpayers living in Zone A will be allowed a deduction of 40 pounds [\$80]. Zone B consists broadly of the central and southern parts of

Western Australia, the north and west of South Australia, the southern portion of the Northern Territory, central, east-central and south-western Queensland, and the western part of New South Wales. A 20 pound deduction [\$40] will be allowed to taxpayers who live in Zone B.

The allowance for Zone A was increased several times (see Table 1) and, from 1958-59, an additional component to the allowance became available where the taxpayer maintained dependants.

Boundaries

The boundaries that were drawn up in 1945 for the zone allowance have remained largely unchanged for the rebate. The criteria used to delineate the zonal boundaries were latitude, rainfall, distance from centres of population, density of population, predominant industries, access to rail and road service, and the cost of food and groceries.

In 1955 an amendment brought certain external territories into Zone A and in 1956 the 26th parallel was substituted for the Tropic of Capricorn as the southern boundary of Zone A between the WA coastline and the 141st meridian. The reasons given for the change were that a review had found some areas in Zone B deserved a greater allowance. Consequently areas such as Alice Springs, Carnarvon and



Source: NATMAP NMP/84/002.24

allowances. These allowances are paid to employees as compensation for the disabilities of uncongenial climatic conditions, isolation, or relatively high living costs. They are taxable in full; consequently, the absorption by taxation of a substantial portion largely defeats the purpose for which they are paid. If complete exemption were granted, serious anomalies would arise as between taxpayers living in the same district. However, it is considered that some measure of relief should be granted not only to employees but also to all other taxpayers who live in the remote parts of the Commonwealth. The

Table 1: Changes to Zone A allowances (\$)

| | |
|---------|-----|
| 1945 | 80 |
| 1947-48 | 240 |
| 1956-57 | 360 |
| 1958-59 | 540 |

Source: P. Cox, S. Burston, A. Kerr and G. Slater, *Report of the Public Inquiry into Income Tax Zone Allowances*, AGPS, June 1981.

Table 2: Changes to Zone Rebates^a

| | Ordinary | | Special | |
|---------|-------------|------------|--------------|--------------|
| | Zone A | Zone B | Zone A | Zone B |
| 1975–76 | \$216 + 25% | \$36 + 4% | na | na |
| 1981–82 | \$216 + 50% | \$36 + 20% | \$750 + 50% | \$750 + 20% |
| 1984–85 | \$252 + 50% | \$42 + 20% | \$875 + 50% | \$875 + 20% |
| 1985–86 | \$270 + 50% | \$45 + 20% | \$938 + 50% | \$938 + 50% |
| 1992–93 | \$304 + 50% | \$51 + 20% | \$1056 + 50% | \$1056 + 50% |
| 1993–94 | \$338 + 50% | \$57 + 20% | \$1173 + 50% | \$1173 + 50% |

a The percentage figure shown is the proportion of other relevant rebates also claimable as a component of the total zone rebate. Taxpayers without dependants would have only been entitled to a rebate of the base amount shown whereas taxpayers with dependants would have received a higher rebate with the actual amount depending on individual circumstances. Source: Australian Master Tax Guide, various issues.

Birdsville were transferred from Zone B to Zone A. There are no rebate zones in Victoria.

The zone rebate

In 1975 the zone allowance, along with most other concessional allowances was converted to a rebate. In 1976 rebates for dependent children were replaced by the family allowance but notional rebates for dependent children were retained for zone allowance purposes. There has been one public review³ of the zone rebate and changes to arrangements, including minor boundary changes, on three subsequent occasions. Changes to the level of the rebate are summarised in Table 2.

Cox inquiry

In his 1980–81 Budget Speech, the then Treasurer the Hon. John Howard announced the establishment of a public inquiry to examine the cost and other disabilities of living in remote areas, and to make recommendations on possible changes to the zone rebate. The main, but not unanimous, recommendations of this inquiry, chaired by Phillip Cox, were:

- creation of 'special areas' for particularly isolated areas in each zone, with higher rebates available to residents
- these special areas to be defined as being 250 km or more from a population centre of 2500 or more
- the basic allowance to be unchanged but the proportion of the rebate allowed for dependants be increased to 50 per cent in Zone A and 20 per cent in Zone B
- only minor adjustments to boundaries with towns with a

population over 25 000 in Zone A be changed to Zone B, and those in Zone B be excluded from the zone areas

- reviews of the quantum and boundaries to be undertaken every five years after the census year, and
- the six months period for eligibility should be able to be accrued over two years.

1981–82 Budget

In the 1981–82 Budget, Treasurer Howard announced that the Government had largely accepted the recommendations of the Cox Report with changes to take effect from 1 November 1981. These were probably the most significant changes ever made to the rebate. It made distance from the nearest population centre (of 2000 or more) a key determinant of the level of the zone rebate, and this distance criteria applies irrespective of whether the taxpayer is located in Zone A or Zone B.

1984–85 Budget

In the 1984–85 Budget the then Treasurer, the Hon. Paul Keating announced i) a 25 per cent increase in the base amounts of the rebate with effect from 1 November 1984 and ii) adjustment of the boundaries of the special zones to reflect changes in town populations arising from the 1981 Census, but only where this adjustment is advantageous to the taxpayer.

1992–93 Budget

In the 1992–93 Budget the then Treasurer the Hon. John Dawkins announced a 25 per cent increase in the base amounts of the rebate with effect from 1 January 1993.

Rebate arrangements have not been changed since then.

Beneficiaries and cost

In 1997–98 (latest figures available) 491 733 taxpayers claimed zone rebates totalling \$200 million which gives an average claim of \$407 per taxpayer.⁴

The total cost of the rebate is less than above as not all claims are successful. The tax revenue foregone in 1998–99 (which reflects 1997–98 claims) was \$180 million. It is expected to rise to \$185 million in 2000–01 and to \$190 million in 2002–03.⁵

Real value of rebate

It is argued that the increases in the base amounts of the zone rebate have not been sufficient to offset the effects of inflation. For the rebate to have maintained the same value in real terms since its introduction, the ordinary rates for Zones A and B would have needed to be \$886 and \$147 respectively in 1999–00 while the special rate would need to have been \$1710.

Although the base amount has not increased since 1993–94, the value of the rebate to taxpayers with dependents has increased because of the linkage with dependent spouse and sole parents rebates which are subject to annual indexation.

Peter Hicks Economics, Commerce and Industrial Relations Group Information and Research Services

27 March 2001

Views expressed in this Research Note are those of the author and do not necessarily reflect those of the Information and Research Services and are not to be attributed to the Department of the Parliamentary Library. Research Notes provide concise analytical briefings on issues of interest to Senators and Members. As such they may not canvass all of the key issues. Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion.

1. T. Walker and P. Cleary, 'Howard's Regional Re-vamp', *Australian Financial Review*, 13 March 2001, p. 1.
2. ATO website zone rebates http://www.ato.gov.au/content.asp?doc=/content/ormsboa/rs_zo_zr.htm
3. P. Cox, S. Burston, A. Kerr and G. Slater, *Report of the Public Inquiry into Income Tax Zone Allowances*, AGPS, June 1981
4. Australian Taxation Office, *Taxation Statistics 1997–98*, p. 17.
5. The Treasury, *2000 Tax Expenditures Statement*, January 2001, p. 35.