

Open Letter to the Prime Minister

**from the
National Rural Health Alliance**

27 May 1999

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Open Letter to the Prime Minister

Dear Prime Minister

We are writing on behalf of the National Rural Health Alliance to make some comments about your negotiations on revisions to the tax package.

There is one aspect of the negotiations that we support very strongly and that has not been picked up by other commentators. It is clear from what we have seen about the negotiations in the media that the revised tax package will have a number of *differential elements*, including some that are differential as between rural and metropolitan areas. We welcome very much the intention to utilise the tax system as a means of encouraging the development of a more balanced, more sustainable and creative society.

This is a use of the taxation system for which the Alliance has been arguing, including in *A Blueprint for Rural Development*. Taxation is one of the so-called 'big policy levers' that governments must have the confidence to use if they are to make a major improvement in the status and development capacity of rural and remote communities.

“It is now widely accepted that an unfettered market produces poor outcomes in rural areas because of the small and/or sparse population. This is one of the premises of this Blueprint. The proposals in this Paper assume that ‘authorities’ will intervene, whether through governments’ decisions on taxes and charges, or through decisions in the private sector on pricing policies.

This will be an area of major contention in this Paper. Interventions in tax and pricing systems produce anomalies, economic inefficiencies, distortions and ‘winners and losers’. All this is true: the purpose of this Blueprint is to make rural people the winners so that, in the long term, Australia’s national welfare is improved through growing, contented and productive rural areas.”
(A Blueprint for Rural Development, RHIP 5, NRHA, Canberra, August 1998.)

It is our firm view that the key to encouraging and supporting rural development is differential treatment for rural and remote communities, businesses and individuals. This is widely accepted in relation to health and educational services, for example; the Royal Flying Doctor Service and the School of the Air are among the best-known examples of structures that work well in rural and remote areas and that are quite different from the way that emergency medical transport and education are organised in the major cities.

We are concerned, however, that in the absence of major improvements to the tax package in this area it is likely to have differentially adverse impacts on rural and remote Australia. As you would be aware, the direct price impact of the GST will be greater in rural and remote areas than in the cities because of the inclusion of all transport and distribution costs in the tax base. We recognise that the Government has tried to offset this impact through its proposed reductions to diesel fuel excise, but the evidence available to us indicates that this offset is only partial and hence that a net adverse differential impact will remain.

Moreover, we are concerned that there will also be a differentially adverse impact from the proposed income tax reductions arising from the fact that average taxable incomes are lower in rural and remote Australia than in metropolitan areas.

Hence we believe that the positive differentials being considered in your negotiations with the Democrats need to more than offset these negative differential impacts before they can be considered as a means of developing a more positive and sustainable future for rural and remote areas and the people who live and work in them.

We have noted the following examples, noting also that they have the status only of media reports at this stage:

- the potential exemption of selected alternative health treatments from a GST, which would encourage their further development and use, relative to treatments not exempted but not relative to other treatments excluded.
- differential taxation of food. The Alliance has argued for exemption for food, particularly fresh food, from the GST. This would have particular benefits for rural areas as the main producers of Australian food, it would reduce the regressivity of the Government's initial package, and the inclusion of food would have the potential for adverse health implications.
- the differential treatment of trucks used in the transport of goods to rural and remote areas, as distinct from those used to transport goods within the major cities. This is a critical issue for the health and development of rural and, especially, remote areas. We are aware of some reservations about using the tare weight of trucks as a proxy for this distinction but are confident that there are the means to make the distinction accurately, and certain of the importance of making it.
- differentiating public from private transport. The Alliance is acutely aware that, currently, there is a very limited supply of public transport in rural and remote areas. The fact that your negotiations covered this issue (largely for environmental reasons, as we understand it) shows that it is possible to differentiate on this 'variable'. We would make the point that it is therefore a means by which public transport could be made more available in non-metropolitan areas and by which community transport, for example, could be encouraged in rural areas.
- differentiating so as to encourage tougher environmental standards in transport, including for faster development of so-called 'cleaner engines'.
- differentiating in the taxation regime so as to encourage the further development and use of alternative fuels. We would point out that this has the capacity to be

the basis of additional rural and remote industries and jobs, as well as a means by which the environment can be improved and protected.

- differential diesel rebates for rail cf road.

One of the most important initiatives not included in this list of apparently-active proposals is the possibility and desirability of widening and deepening the remote zone rebate in the income tax system, at least as it relates to actively earned business income. This would have a major positive impact on rural and remote development and thus health in those areas, and should be considered a higher priority than the relatively regressive income tax changes proposed by the Government

As advocates for better health and stronger rural and remote communities we are very encouraged by these 'differentiating initiatives'. It is a means for the Federal Government to intervene for a more balanced and better society without picking specific industries or localities as winners. There will be winners, and they will include rural and remote Australians and the political parties that respond to their cries.

In the context of the fairly dry analysis of tax intervention referred to in the piece from the Alliance's *Blueprint* quoted above, the anomalies will favour rural people and the environment; the economic inefficiencies will be borne by polluting industries and our over-crowded cities; and the distortions will all be positive.

We commend to you this rare opportunity to use changes to the taxation system as means by which the future of rural and remote communities can be enhanced. Once done, there will be major savings to be made in the programs which are required only because those communities are crying out for palliative care.

Yours sincerely



John Lawrence
Chairperson

Gordon Gregory
Executive Director