Business Tax Working Group Consultation

Submission of the

Accommodation Association of Australia

Accommodation Association of Australia – Principal Contact
Mr Richard Munro
Chief Executive Officer
Phone: +61 2 8666 9015

EXECUTIVE SUMMARY

- The accommodation industry supports a lower rate of company tax because of the benefits for our industry, particularly small businesses in our sector.
- The accommodation industry opposes any change to the taxation system which would result in operators paying more taxation.
- Should the accommodation industry be faced with paying more taxation, this would jeopardise investment in tourism accommodation businesses, including investment in refurbishment of existing businesses and developing new businesses.
- Tax deductions for building depreciation is a critical factor for investors, including developers, when they are evaluating whether to incur construction expenditure on accommodation businesses.
- As buildings in the accommodation industry require ongoing refurbishment, the current effective life for buildings of 100 years is not realistic for buildings in our industry.
- The current rate of building depreciation of 4 per cent per annum represents an effective life of 25 years. A high-level tourism investment report has recommended the introduction of a 50 per cent capital works deduction bonus, with the remaining 50 per cent spread over 12.5 years at 4 per cent to be made available for a short term.
- Reducing the rate of depreciation (based on an effective life of greater than 25 years or a uniform rate of 2.5 per cent) or even eliminating building depreciation would result in significant additional tax costs for our industry.
- All of the building depreciation options which have been put forward would constrain future investment in hotel construction and refurbishment.
- There should be a broader debate about the merits or otherwise of recalibrating the Passenger Movement Charge so that it benefits domestic tourism by funding direct taxation relief.

INTRODUCTION

1. The Accommodation Association of Australia welcomes the opportunity to put forward the following formal submission to be considered by the Business Tax Working Group as part of its consultation process.

ABOUT THE ACCOMMODATION ASSOCIATION

2. The Accommodation Association of Australia (the Accommodation Association) is the national industry body for the Australian accommodation industry.
3. Members of the Accommodation Association include major hotels, resorts, motels, motor inns, serviced and holiday apartments, bed-and-breakfasts, hosted accommodation, guest-houses, backpackers and timeshare establishments in metropolitan, regional and rural Australia across all states and territories.
4. The Association's membership base includes almost 2000 properties and more than 110,000 guest rooms.
5. The Association's members include major hotel chains, including Accor Hotels, Mirvac Hotels and Resorts, Hilton Hotels, Toga Hospitality, Mantra Group, Rydges Hotels, Amora Hotels, InterContinental Hotels Group and Quest Serviced Apartments.

TOURISM AND ACCOMMODATION – OVERVIEW

6. Tourism contributes $34 billion to Australia's gross domestic product (GDP), a 2.6 per cent share.[1]
7. Around 500,000 Australians are employed in the Australian tourism industry – 4.5 per cent of total employment.[2]
8. Employment within Australia's accommodation sector is 110,969.[3]
9. Tourism is Australia's leading services export and it is the sixth-largest total export earner.[4]
10. Tourism contributes $23 billion or 9 per cent of Australia's total export earnings for all goods and services.[5]
11. There are 4279 tourism accommodation establishments in Australia.[6]
12. There are 227,320 tourism accommodation rooms within Australia and 640,454 bed spaces.[7]
13. Tourism's share of the Australian economy has been declining.

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[1] Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, May 2011, Page 44
[2] Ibid, Page 44
[3] Ibid, Page 55
[4] Ibid, Page 45
[5] Ibid, Page 45
[6] Ibid, Page 55
[7] Ibid, Page 55

14. The number of domestic overnight trips taken by Australians has fallen by 1.1 per cent on average each year over the period 2001-2010.[8]
15. The total number of domestic visitor nights fell by 1.2 per cent on average each year between 2001-2010.[9]
16. Tourism has a number of unique characteristics in comparison to other industries. These include:
    - It is highly labour intensive;
    - It requires the input of many service providers into a single “product” to the end consumer;
    - It is dominated by a significant number of small businesses;
    - Tourism competes against all other discretionary expenditures for the “hearts and minds” expenditure of the consumer; and
    - Tourism businesses operate in a highly complex environment requiring significant compliance skills and costs.

8 Ibid, Page 26
9 Ibid, Page 26

Context – Tourism Accommodation Infrastructure in Australia

17. With the tourism industry, including the accommodation sector, being a major contributor to the Australian economy and a major employer, maintaining and attracting additional investment in the industry is vital to the well being of the nation.
18. The focus on the business environment for accommodation has become sharper as a result of recent increases in the number of international visitors to Australia from Asia. If the current trend continues, China could become Australia's leading source of inbound visitors.
19. To cope with this influx and provide tourism accommodation infrastructure that meets the expectations of the Asian middle class, a significant amount of additional investment will be required.
20. Investment in tourism accommodation infrastructure can come in the form of refurbishment of existing businesses or developing new ones.
21. In this context, Tourism Australia's "2020 Tourism Industry Potential", which was publicly released in November 2010, outlined an ambitious set of goals to promote long-term, sustainable growth of Australia's tourism industry.
22. For industry, realising this potential, according to Tourism Australia, would:
    - Double overnight expenditure from $70 billion in 2009 to as high as $140 billion in 2020;
    - Increase tourism's contribution to GDP to up to 3 per cent in 2020; and
    - Increase tax revenues from tourism from $9.3 billion in 2009 to as high as $14.5 billion in 2020.
23. To achieve the goals in the 2020 Tourism Industry Potential, Tourism Australia estimates between 40,000-70,000 new accommodation rooms will be needed in Australia (at occupancy rates of 75 per cent). These new rooms will be needed mainly in capital cities, with improvements on quality, rather than quantity being the focus for regional Australia.
24. It is critical that any increases in room inventory are not overly detrimental to existing tourism accommodation businesses.
25. The number of new accommodation businesses which have been developed (new builds) in Australia in the past decade is extremely low and for the accommodation rooms target in the 2020 Tourism Industry Potential to be reached, significant investment incentives will be required. For example, it took until October 2011 for the first new five-star hotel in (or around) the Sydney CBD since the 2000 Olympics to be built.
26. On 2 May 2012, the Federal Government launched two documents which, together with a strategic partnership between Tourism Australia and Austrade, are designed to lift the level of investment in tourism accommodation infrastructure in Australia.
27. The documents are the Australian Tourism Investment Guide and the Tourism Investment Monitor.

Reducing Company Tax

28. The accommodation industry is supportive of lower levels of taxation for business.
29. In particular, the industry is pleased that the Federal Government is seeking to reduce the rate of company tax.
30. A lower rate of company tax would benefit businesses in our industry and small businesses in particular, which are large number of accommodation establishments in Australia are.
31. However, the industry opposes any change which would result in operators paying more taxation and the Accommodation Association calls on the Business Tax Working Group to ensure that this does not eventuate.

Buildings used for Tourism Accommodation are different

32. Buildings used for tourism accommodation are subject to onerous requirements under the Building Code of Australia (BCA) in comparison to buildings which are used for other purposes.
33. When hotels and other major accommodation businesses undertake major upgrades, this often means there are extra costs on top of the construction work to ensure the building complies with current BCA standards, which invariably are much higher than when the building was constructed. This is not nearly as bigger issue in buildings which are used for other purposes.
34. The highest costs of complying with BCA standards are ensuring disability access and building fire safety requirements are met. This creates the effect that many components of the original building structure have to be altered, therefore reducing the working life.

Building Depreciation

35. The Accommodation Association notes that Option B.12 in the Business Tax Working Group Discussion Paper proposes that new capital works on buildings would be subject to the uniform capital allowances systems such that they are depreciable over their effective lives and subject to balancing adjustment provisions. The cost of repairs would continue to be the subject of an immediate deduction.
36. The current tax deduction available for building depreciation for tourism accommodation is at the uniform rate of 4 per cent per annum.
37. Tax deductions for building depreciation is a critical factor for investors, including developers, when they are evaluating whether to incur construction expenditure on accommodation businesses.

Option: Depreciate Buildings over Effective Lives

38. The Commissioner for Taxation has determined that the current effective life for buildings is 100 years.
39. As buildings in the accommodation industry require ongoing refurbishment to meet the expectations of Australian consumers and international visitors, this effective life is not realistic for buildings in our industry.
40. Refurbishments and other major forms of construction – demolition or alteration of major components – on buildings in our industry (parts that are eligible construction expenditure), take place several times within a 100-year period.
41. The current rate of building depreciation of 4 per cent per annum represents an effective life of 25 years. The National Long-Term Tourism Strategy report, "Tourism Investment and Regulation Review" recommends the introduction of a 50 per cent capital works deduction bonus, with the remaining 50 per cent spread over 12.5 years at 4 per cent to be made available for a short term.

Options: Remove Building Depreciation/Uniform Depreciation of 2.5 per cent per annum

42. Reducing the rate of depreciation (based on an effective life of greater than 25 years or a uniform rate of 2.5 per cent) or even eliminating building depreciation would result in significant additional tax costs for our industry.
43. Such additional tax costs would deter investment in new construction expenditure. This comes at a time when expenditure of this nature is under threat due to high development and operating costs.
44. Many of Australia's larger accommodation businesses (international standard hotels in major cities) are owned by listed and unlisted trusts which rely on attracting both domestic and international investment.
45. Tax payable from investments which are made into these vehicles is a major consideration for investors when forecasting return on investment. Building depreciation for hotels significantly impacts the tax payable by investors into these vehicles.
46. The amount of tax payable by investors is reduced by building depreciation through tax-deferred distributions to resident investors or lower withholding taxes on distributions to non-resident investors resulting from this depreciation. This illustrates the direct link between building depreciation and investment in the accommodation industry.
47. Any reduction in company tax would not benefit many of the investors in the investment vehicles that hold hotels because they are individuals, trusts, superannuation funds and non-residents and therefore, they are not subject to company tax.
48. All of the building depreciation options which have been put forward would constrain future investment in hotel construction and refurbishment.

FISCAL ENVIRONMENT

49. The Accommodation Association acknowledges that for the company tax rate to be reduced with a neutral fiscal impact would require increased income from other forms of taxation. On this basis, the Accommodation Association is advocating for a debate about changing the structure of the Passenger Movement Charge (PMC).
50. The Accommodation Association is fundamentally opposed to the PMC (which replaced departure tax in 1995) because it is a virtual tax on tourism.
51. In essence, the PMC remains a departure tax because it is imposed on a person who is departing from Australia to another country, whether or not the person intends to return to Australia.
52. In 2010, outbound tourism (departures for overseas from Australia) increased by 13.2 per cent, while inbound tourism (international visitor arrivals to Australia) increased by 5.4 per cent.
53. Since 2008, the number of outbound passengers has outstripped the number of inbound visitors and this is a gap that continues to widen.
54. Despite representations from industry, the Federal Government has signalled that it is determined to retain the PMC and the quantum of the tax has increased.
55. In this context, if the PMC is to remain, then the Accommodation Association submits that consideration should be given to focusing the financial impost on outbound travellers for the benefit of domestic tourism.
56. As far leisure tourism is concerned, the growing gulf between the number of international departures and arrivals confirms that more Australians are making a conscious decision to travel overseas in preference to domestic travel, reducing the benefits of tourism to the Australian economy. Decisions to travel overseas are made because of the high Australian dollar, the relatively low cost of overseas destinations and a range of other factors.
57. It is highly likely that such travellers will not be deterred from going overseas by having to pay an even higher PMC, but for international visitors to Australia who are forced to pay the PMC on their departure from Australia, this remains an issue because it effectively penalises inbound tourism.
58. Therefore, consideration should be given to there being a broader debate about the merits or otherwise of increasing the PMC for persons who have been in Australia for more than three months (i.e. Australians travelling overseas) and reducing it for persons who have been here for less than three months (i.e. international visitors).
59. Such a debate should involve careful analysis of the long-term future of domestic tourism within Australia in comparison to outbound travel, particularly to emerging destinations such as many within Asia.
60. In addition, if there is to be additional revenue raised by recalibrating the PMC, then this extra funding should be quarantined specifically to benefit the slowing domestic tourism industry.

CONCLUSION

61. The Accommodation Association looks forward to further engagement with the Business Tax Working Group on the issues raised in this submission which are of importance to Australia's accommodation industry.

Date: 21 September 2012