Tax Forum – 2011

Submission of the Accommodation Association of Australia

Introduction

1. The Accommodation Association of Australia welcomes the opportunity to put forward the following formal submission to be considered for the 2011 Tax Forum.

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, guesthouses, backpackers and time-share 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 international hotel chains, including Accor Hotels, Mirvac Hotels and Resorts, Hilton Hotels, Toga Hospitality, Mantra Group and InterContinental Hotels Group.

The Accommodation Sector – An Integral Part of the Tourism Industry

6. Tourism contributes $34 billion to Australia's gross domestic product (GDP), a 2.6 per cent share.
7. Around 500,000 Australians are employed in the Australian tourism industry – 4.5 per cent of total employment.
8. Employment within Australia's accommodation sector stands at 71,500 – 14.3 per cent of the total employment in tourism.
9. Tourism is Australia's leading services export and it is the sixth-largest total export earner.
10. Tourism contributes $23 billion or 9 per cent of Australia's total export earnings for all goods and services.
11. There are 4279 tourism accommodation establishments in Australia.
12. There are 227,320 tourism accommodation rooms within Australia and 640,454 bed spaces.
13. Tourism's share of the Australian economy has been declining.
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.
15. The total number of domestic visitor nights fell by 1.2 per cent on average each year between 2001-2010.

16. Outbound tourism from Australia is growing at a much faster rate than inbound tourism.
17. 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.

Fiscal Context

18. The Accommodation Association acknowledges the Federal Government’s publicly stated fiscal context and specifically, that it is in the Government’s wish to bring the Budget back into surplus by 2012-13.
19. Consistent with this, the Association’s submission contains taxation policy proposals that would result in less government revenue, as well as proposals that may generate additional government revenue.
20. Where possible, the Association has employed this fiscal discipline to the proposals it is bringing forward for consideration.

Refurbishment of Tourism Accommodation

21. One of the principal challenges facing Australia’s tourism accommodation sector is return on investment when refurbishing room stock.
22. While accommodation rooms within Australia are, by and large, of a high standard in comparison to other countries, continual refurbishment is required for businesses and the broader industry for it to remain globally competitive.
23. The stagnation in the number of overseas visitor arrivals in the second half of the last decade, together with the drop in domestic tourism has created a difficult trading environment for accommodation businesses, notably those in locations outside Australia’s capital cities.
24. The returns for many investors in accommodation businesses have not been adequate enough for them to make major commitments to capital expenditure on upgrading existing rooms and other parts of their businesses (restaurants, function rooms, meeting/convention space, leisure facilities).

25. In this environment, it is the submission of the Accommodation Association that there should be tax incentives as a way of promoting refurbishment in tourism accommodation businesses.

26. Such incentives should include:

    - Refurbishments to tourism accommodation businesses should be eligible for tax relief through deductions/exemptions;
    - Exemptions should be available up front, instead of the current system where taxes are imposed (GST) and incurred then offset through input credits;
    - The introduction of a major refurbishment allowance to promote reinvestment in fixtures, furnishings and equipment every 5-7 years. Such an allowance could be claimed once in each cycle on a "per room" or a "per square metre" basis up to a specified level; and/or
    - The introduction of a short-term 50 per cent capital works deduction bonus so that investment in accommodation businesses could be written off over 12.5 years, instead of the current 25 years.

NEW TOURISM ACCOMMODATION

27. 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.

28. 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.

29. 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.

30. It is critical that any increases in room inventory are not overly detrimental to existing tourism accommodation businesses.

31. 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.

32. Similar to creating incentives for refurbishment, consideration should be given to attracting greater investment in new tourism accommodation properties by introducing:

    - Up-front tax exemptions, instead of incurring taxes and then having them offset through input credits; and/or

- A short-term 50 per cent capital works deduction bonus so that investment in accommodation businesses could be written off over 12.5 years, instead of the current 25 years.

Payroll Tax Harmonisation

33. Since payroll tax powers were granted to state governments in 1971, larger accommodation businesses – in particular, major hotel and motel chains which have multiple sites – have faced increasing additional “red tape” costs due to the different rates and thresholds for payroll tax that exist in each Australian state/territory.
34. Current payroll tax rates and thresholds are as follows:

	% Rate	Threshold
ACT	6.85	$1.5 million
NSW	5.45	$678,000
NT	5.5	$1.5 million
QLD	4.75	$1 million
SA	4.95	$600,000
TAS	6.1	$1.01 million
VIC	4.9	$550,000
WA	5.5	$750,000

35. The administration of applying these different tax rates to employees represents significant costs to accommodation businesses (as well as other businesses which have a presence in multiple states and territories).
36. The Accommodation Association advocates a process of harmonisation of payroll tax rates across Australia, either through the Council of Australian Governments or another appropriate forum.

Passenger Movement Charge (PMC)

37. The Accommodation Association is fundamentally opposed to the Passenger Movement Charge (which replaced departure tax in 1995) because it is a virtual tax on tourism.
38. 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.
39. 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.

40. Since 2008, the number of outbound passengers has outstripped the number of inbound visitors and this is a gap that continues to widen.

41. 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.

42. In this context, if the PMC is to remain, then the Accommodation Association submits that its focus should be on outbound travellers.

43. 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. This is due to the high Australian dollar, the relatively low cost of overseas destinations and a range of other factors.

44. 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.

45. 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).

46. 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.

47. In addition, if there is to be additional revenue raised by recalibrating the PMC, then this extra funding could be used to fund proposed tax relief on refurbishment and/or development of tourism accommodation properties in Australia.

GST on Deposits

48. A ruling made by the Australian Taxation Office in 2007 about GST on deposits has created unnecessary confusion and cost for accommodation businesses.

49. The 2007 determination overturned the practice of GST payments on deposits being made when the service for which the deposit has been paid has been delivered, so that when payments are accepted as a security deposit, GST must be paid on the total amount of the supply, not the amount that has been paid as a deposit.

50. For accommodation businesses, which regularly accept deposits for room bookings and function/event bookings, this has meant a significant negative impact on cash flow.

51. The Accommodation Association submits that the 2007 ruling be overturned immediately.

CONCLUSION

52. The Accommodation Association looks forward to further engagement with the Commonwealth Government, including The Treasury, on these policy issues which are of significant importance to Australia's accommodation industry.

Date: 30 September 2011