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Executive Summary

Tourism is an important part of the Australian economy.

- Tourism contributes almost $34 billion, or 2.6%, to Australia's GDP;
- Tourism generates almost $23 billion in export earnings – representing 9% of total exports;
- Tourism makes a valuable contribution to regional Australia, with 46 cents in every dollar of tourism expenditure being spent in regional Australia;
- Tourism employs over 500,000 Australians directly and over 320,000 indirectly – with direct employment accounting for 4.5% of total employment;
- Tourism related employment in regional areas generated over 220,000 jobs;
- Tourism provides more jobs in Australia than mining and agriculture, forestry, and fishing.

The Federal Government's *National Long Term Tourism Strategy* has recognised a number of critical supply side issues facing Australian tourism. A key objective of the Strategy is to facilitate investment that will ensure Australian tourism product remains competitive in a global marketplace. Fundamental to achieving this is the removal of unnecessary barriers to investment arising from taxation or regulatory regimes.

In the area of taxation reform, the key priorities for the National Tourism Alliance and the tourism sector are:

1. Removing impediments to investment in tourism and accommodation
2. Reducing taxes on Australian and international travellers
3. Reducing the impact of payroll taxes on tourism and other labour intensive businesses
4. Reducing the complexity of the FBT regime
5. A fairer and more efficient approach to taxing land.

About the National Tourism Alliance

The National Tourism Alliance (NTA) provides a single voice to Federal Government on issues of common interest for Australian tourism and hospitality. Our membership comprises the major associations within tourism including the Australian Tourism Export Council, AAA Tourism, Australian Federation of Travel Agents, the Victorian Employers Chamber of Commerce and Industry, Business Events Council of Australia, Restaurant & Catering Australia, Accommodation Association of Australia, Board of Airline Representatives, Bus Industry Confederation, Australasian Casinos Association, Caravan, RV & Accommodation Association of Australia, Tourism & Transport Forum, Tourism Accommodation Australia, Winemakers' Federation of Australia, the Australian Regional Tourism Network, as well as all of the state Tourism Industry Councils who represent the almost 60,000 tourism businesses across Australia.

Removing impediments to investment in tourism and accommodation

A 50 per cent capital works deduction bonus, with a remaining balance spread over 12.5 years at 4%, be made available to stimulate new accommodation development.

Short term accommodation is a key part of value chain and tourist experience. Accommodation constitutes 11% of visitor spend, employs 14.3% of people in tourism and is the third largest component of the tourism sector after restaurants and retail[1].

However, Australia's tourism industry suffers from a lack of investment in new short-term tourism accommodation. A combination of market factors and distortions arising from taxation and regulation regimes has resulted in clear disincentives to investment in short-term accommodation.

Occupancy rates and revenue per available room (RevPar) continue to grow at a much faster rate than the stock of short-term accommodation. Typically, it would be expected that hotel room stock would rise in line with hotel occupancy rates. This however has not occurred in a number of capital cities, most notably Sydney but also in Perth and Brisbane. This trend suggests that there are strong regulatory or market factors that are impeding increased investment in short-term accommodation.

Over the past decade, the Australian tourism sector has experienced declines in:

- share of global international arrivals
- tourism's balance of trade
- share of total Australian exports
- share of total capital investment in Australia

The National Long Term Tourism Strategy has recognised that addressing a number of significant supply side issues will help to support a competitive Australian tourism sector. Tourism Australia's 2020 Tourism Industry Potential estimates that between 40,000 and 70,000 additional rooms are required in order for Australia's international tourism growth potential to be met. To achieve this target requires significant government action to address taxation and regulatory distortions affecting the accommodation sector.

As part of the National Long Term Tourism Strategy, the Tourism Ministers' Council established the Investment and Regulatory Review Working Group (IIRWG) who commissioned work to identify regulatory impediments to investment in tourism, and to recommend reform.

[1] Tourism Satellite Account 2009/10, Australian Bureau of Statistics.

The resulting report, 'Tourism Investment and Regulation Review' (TIIR), identified a number of key impediments to investment in tourism, including:

- High levels of cyclicality and seasonality
- Fragmented tourism value chain.
- Land use planning and building regulations
- Taxation treatment, including capital allowance and land tax.

Tourism accommodation faces a particular challenge due to its relative disadvantage compared to residential and agricultural development under Commonwealth and State taxation regimes. This differential treatment impacts on the sector's ability to compete for scarce land (particularly in inner-urban and high-amenity areas) and scarce capital.

The treatment of short term accommodation under capital allowance arrangements has been identified as a potential area of reform. The NTA (NTA) believes that capital allowance arrangements should be enhanced and streamlined to ensure effective rates more closely match rates of economic depreciation.

Unlike commercial buildings, hotels and short-term accommodation are in continuous use, rather than across a limited number of hours per day. As a result, hotels depreciate much faster than other properties and require more regular upgrading. The current 4% per annum capital allowance (suggesting a useful life of 25 years) does not reflect the commercial operation of a hotel.

A 50 percent capital works deduction bonus, with the remaining 50 percent spread over 12.5 years at 4 percent, should be made available to stimulate investment in new development as well as refurbishments, for a short-term (3 years) incentive for tourist accommodation development. The short term for the incentive limits the government's outlay and helps prevent a supply bubble.

The economic modelling undertaken by L.E.K. Consulting (TIIR s 4.3) for the IIRWG demonstrates that for minimal government outlay this reform will increase incentives for investment in new, as well as improvement of existing, tourist accommodation.

Reducing taxes on Australian and international travellers

Review the Passenger Movement Charge applied for Customs, immigration, quarantine and security activities undertaken at the border to ensure the burden of costs is shared by those to whom the benefits of these activities accrue.

"With improvements in technology making it easier to communicate, travel and do business all over the world, businesses have much more flexibility in where they choose to locate."[2]

The global tourism industry has grown rapidly over the last thirty years, as global incomes and wealth have increased, advances in transportation and greater globalisation. This rapid growth in international tourism was reflected in the growth of the Australian tourism industry, particularly during the 1980s and 1990s.

The tourism industry is highly exposed to global economic factors, including shifts in the exchange rate and the impact of the global economic downturn in established in-bound markets, in particular the United States and Europe and geopolitical events.

Tourism is an open economy industry, with production and consumption being highly mobile and subject largely to consumer preferences. Insofar as leisure tourism is a discretionary consumer service, a significant part of the tourism sector is dependent on a highly price-sensitive market. Additional costs imposed on tourists have a significant impact on the competitiveness of Australia's tourism sector. Tourism exports are particularly impacted by narrow-based taxes on key tourism services, especially the Passenger Movement Charge (PMC) and Visa Fees.

The PMC is of particular ongoing concern to the tourism sector. According to the Federal Government, the PMC is "designed to recover some of the costs of a range of Customs, immigration, quarantine and security activities undertaken at the border."[3] The PMC was classified as a tax in the 2005-06 Mid-Year Economic and Fiscal Outlook; PMC collections are not retained by Customs and Border Protection Service for the delivery of passenger facilitation services, but are paid into Consolidated Revenue, as are other taxation receipts.

Previous KPMG-Econtech analysis for the NTA in 2003 demonstrated that the PMC (in its form at the time), resulted in a significant over-collection of revenue for the costs it purports to cover and had a significant impact on travel volumes for Australian and international travellers.[4]

In line with recommendation 81 of the 'Australia's Future Tax System Review', the NTA supports the Government undertaking "a systematic review of existing and potential user charges and minor taxes against the principles set out in [the] report."

[2] Taxation Summit Discussion Paper, Federal Government (2011)
[3] Correspondence from the Minister for Home Affairs (2011)
[4] *Analysis of the Taxes and Assistance Impacting the Tourism Industry*, KPMG Econtech (2003)

The PMC was identified in the AFTS Report as an example of one of the "charges that purport to recover the costs of regulation [but] do so imperfectly." Further, "as the PMC does not provide meaningful price signals related to the costs or risks associated with border protection, and is on a relatively narrow base, other sources of tax revenue would be more efficient."[5]

The NTA agrees with this assessment of the PMC. Whilst the benefits of airport-based border protection accrue to all Australians (and the benefits of quarantine services accrue primarily to the primary industry sector), the burden of cost recovery falls primarily on travellers, including business, academic and cultural visitors, leisure tourists (both Australian and foreign) and international students. The NTA believes that a review of this tax is required immediately to ensure a closer alignment between benefits and costs and to remove this significant impediment to the competiveness of the Australian tourism industry.

Reducing the impact of payroll taxes on tourism and other labour intensive businesses

Payroll taxes should be removed and replaced with a broad-based tax. As an interim measure, payroll tax rates and exemption levels should be aligned across jurisdictions.

Payroll taxes reduce the competitiveness of highly labour intensive businesses such as tourism and hospitality. The service sector (now 82% of employment) bears the brunt of the payroll tax burden. A number of significant industries within the tourism sector are highly labour-intensive, including accommodation and cafes and restaurants. Businesses within these industries more quickly reach the thresholds in place, relative to business turnover. As Tourism and Transport Forum argued in their submission to the Australia's Future Tax System Review Panel:

The particular reliance on payroll tax for state revenue has distorted economic activity away from service industries to non service industries that are already well supported with Government tax incentives, exemptions, and expenditures.

In addition, payroll taxes impose additional administrative burdens on business operators, particularly labour-intensive small and medium enterprises that have payroll over the exemption threshold. Business operators with operations located in different states and territories face unnecessary compliance costs due to differential rates and exemptions thresholds.

[5] Australia's Future Tax System Review, *Report to the Treasurer, Part Two: detailed analysis.*

Reducing the complexity of the FBT regime

Business entertainment expenses should be removed from fringe benefits coverage and made non assessable in employees' hand and non deductible to employers.

The fringe benefits tax regime is incredibly complex, particularly for small and medium enterprises. As the PriceWaterhouse Coopers report *Small and Medium Enterprises Total Tax Contribution Report* found, "the heaviest compliance surtax incurred by business in Australia relates to FBT. The mean FBT surtax for the SME sample is 31.2%."[6] Further the AFTS Report notes that, "the complexity of Australia's FBT system is exacerbated by the taxation of fringe benefits in the hands of employers, which has required the introduction of a large number of supplementary rules to ensure that fringe benefits are factored into means tests in the tax and transfer systems."

Of particular interest to the tourism and hospitality sectors is the removal of business entertainment expenses from the FBT regime, in line with recommendation 5.2 of the Ralph Review of Business Taxation, *A Tax System Redesigned (1999)*:

> **5.2 Business entertainment expenses**
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> Non deductibility of business entertainment expenses so that business entertainment expenses incurred by taxable employers be removed from fringe benefits coverage and made non assessable in employees' hands and non deductible to employers as from, and including, the 2002–03 income year.[7]

A fairer and more efficient approach to taxing land

A broad based land tax, including all land, should be introduced to replace conveyancing stamp duty.

As discussed above, the development of short term accommodation product is inhibited by regulatory and taxation regimes that discriminate against land use and development for tourism and accommodation purposes.

The NTA supports a review of current land tax and conveyancing stamp duty regimes and their replacement with a broad-based land tax.

[6] Small Medium Enterprises Total Tax Contribution Report (December 2009), PriceWaterhouse Coopers (December 2009).
[7] A Tax System Redesigned, Ralph Review of Business Taxation (1999).