



**AUSTRALIAN HOTELS
ASSOCIATION SUBMISSION –
AUSTRALIA’S FUTURE
TAX SYSTEM
2009**



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SUBMISSION OF AUSTRALIAN HOTELS ASSOCIATION

1. INTRODUCTION

- 1.1 On behalf of the hotel industry in Australia, the Australian Hotels Association (“AHA”) is pleased to provide a submission to be considered as part of the review of Australia’s tax system (“the review”).
- 1.2 In May, 2008, the Australian Government announced a comprehensive review of Australia’s tax system. The review will examine and make recommendations for Australia’s future tax system. The recommendations of Australia’s future tax structure are designed to enhance Australia’s economic and social outcomes.
- 1.3 A review panel is overseeing this process. The panel is chaired by the Secretary to the Treasury, Dr Ken Henry AC.
- 1.4 The review is taking place at a time when most parts of the developed world – including Australia – are experiencing a severe economic downturn. While the review must take the impact of the global financial crisis into account, its major focus must be on the longer term. The design of our nation’s tax system must enable Australia to play a leading role in what is a rapidly developing service economy in the Asia Pacific region.
- 1.5 Submissions received as part of the first round of the review came from many different sources and covered a variety of areas. With the hotel industry being one of Australia’s most important business sectors, the AHA anticipates the

review will recommend the establishment of systems and processes that ensure government tax revenue is collected in a fair and efficient manner. This remains a challenge given Australia's three-tiered system of government.

1.6 The AHA is keen for the review to put forward options to improve general and business taxation. Hence, this submission is primarily focused on areas related to hotels (as well as the broader tourism and hospitality sector).

2. HOTEL INDUSTRY PROFILE

2.1 Australia's hotel industry is extremely diverse. Businesses that are part of our industry include small country pubs, metropolitan pubs and taverns, city bars, international standard accommodation hotels and resorts. Hotels that focus on the provision of accommodation are dominant players in the tourism industry in Australia.

2.2 Australia's hotel industry operates 24 hours a day, seven days per week and is a labour-intensive service industry.

2.3 Key facts about Australian hotels are as follows:

- There are 6807 hotels in Australia;¹
- Australian hotels employ 258,386 people;²
- The total industry value added by pubs, taverns and bars in Australia is

¹ Australian Hotels Association 2007

² Australian Hotels Association 2009/Australian Bureau of Statistics – Tourist Accommodation, 26 March, 2009

\$4,394,000,000 or 0.5% of Australia's gross domestic product.³

2.4 Key facts about Australian hotels that specialise in the provision of accommodation are as follows:

- There are 1280 licensed hotels in Australia with five or more accommodation rooms;
- There are a total of 86,646 rooms for accommodation in Australian hotels;
- There are a total of 227,001 bed spaces in Australian hotels;⁴
- In the financial year ending June, 2008, there were 21,551,200 room nights occupied in Australian hotels;
- In the financial year ending June, 2008, there were 15,801,500 guest arrivals in Australian hotels;⁵ and
- The total industry value added of Australia's accommodation businesses is \$4,774,900,000 or 0.5% of Australia's gross domestic product.⁶

2.5 Therefore, the total industry value added of Australia's entire hotel industry is 1% of Australia's gross domestic product.

2.6 These statistics show the hotel industry is an integral component of Australia's service economy and is a vital part of the nation's economy as a whole.

2.7 The AHA represents and protects the commercial interests of hotels throughout

³ Australian Bureau of Statistics – Clubs, Pubs, Taverns and Bars 2004/2005

⁴ Australian Bureau of Statistics – Tourist Accommodation, 26 March, 2009

⁵ Australian Bureau of Statistics – Tourism Accommodation, 26 September, 2008

⁶ Australian Bureau of Statistics – Accommodation Services, 25 June, 2008

Australia. In excess of 75% of hotels in Australia are financial members of the AHA.

2.8 An important component of the AHA's membership is the AHA Accommodation Division. Hotels that generate the majority of, or a significant amount of, their income from the provision of accommodation are part of the AHA Accommodation Division. AHA Accommodation Division members include hotels run by international companies and independent accommodation hotels. They are key elements of Australia's tourism industry.

3. EXECUTIVE SUMMARY

3.1 The AHA recommends that the review establishes a mechanism whereby the Australian community can regularly evaluate the total level of government income and outlays benchmarked against other comparable nations.

3.2 The AHA's submission focuses on how the tax system interacts with three major areas that are relevant to hotels – the products we sell, the people we employ and the properties we operate.

3.3 The AHA supports differential excise rates for low, mid-strength and bulk alcohol products that are served on licensed premises.

3.4 An integral part of this is ensuring the differential rates of excise that exist for draught beer (keg beer served on licensed premises) are retained.

3.5 Fringe Benefits Tax (FBT) on meals and entertainment unfairly penalises the hotel industry (and indeed, the entire hospitality sector) and increases compliance

costs for business. The AHA seeks the restoration of reasonable entertainment expenses as a tax deduction and the removal of FBT on staff business meals.

- 3.6 The AHA believes that gaming and wagering are State/Territory responsibilities and State/Territory governments should continue to have sole responsibility for taxation in their respective jurisdictions in these areas.
- 3.7 A recent ruling by the Australian Taxation Office (ATO) on Goods and Services Tax (GST) payable on security deposits has overturned accepted industry practice as to when the GST is payable. This needs to be addressed to provide the hotel industry (and tourism in general) with greater certainty.
- 3.8 Payroll tax must be removed or reduced. Hotels are labour-intensive businesses where customer service is of the utmost importance. AHA members are major employers and believe payroll tax is a tax on jobs and a tax on employment growth.
- 3.9 AHA members own and/or manage significant property portfolios. Land tax, local government charges, investment allowances and depreciation arrangements need to be reviewed to provide greater long-term certainty in the property market and encourage investment in hotels, if anticipated demand is to be met.
- 3.10 The AHA is calling for greater scrutiny of residential properties that are providing short-stay accommodation (non-permanent residential accommodation). All properties providing this service must charge GST.

4. PROMOTING AN EFFICIENT TAX SYSTEM

4.1 The AHA believes more information should be made available to Australians about how much money is collected by governments and how it is spent. Our Association, therefore, recommends that a key outcome of the review is the establishment of a simple benchmarking system that allows the community to compare tax collections and government expenditure with comparable countries.

5. TAX ON PRODUCTS – CORE AHA POSITION RE TAX ON ALCOHOL

5.1 The AHA is strongly supportive of differential (lower) excise rates for low, mid-strength and bulk alcohol products that are served on licensed premises, such as hotels. Central to this, is maintaining the differential excise rates on draught beer (keg beer) served on licensed premises.

5.2 Any change to the current method of taxing drinks consumed on licensed premises will see a drop in income for hotels and will reduce the number of people who are employed in Australian hotels (currently 258,386).

5.3 Around 60% of revenue in hotels is generated by the sale of liquor and other beverages.⁷ Any change to existing market arrangements will impact on the viability of hotels, the number of people employed in our industry, the overall level of tax revenue delivered to governments and the effective promotion of responsible service of alcohol.

5.4 The hotel industry is strongly committed to promoting responsible consumption

⁷ Australian Bureau of Statistics – Clubs, Pubs, Taverns and Bars 2004/2005

of alcohol. On behalf of the industry, the AHA believes this is best achieved by promoting responsible service practices in supervised licensed venues.

5.5 The AHA supports reduced tax rates for products with lower alcohol content, but believes increased taxation on mainstream products will generally lead to a substitution of other alcohol products or illicit substances.

5.6 The increasing concentration of the Australian alcohol market means there is a disproportionate capacity for businesses in the liquor industry to respond to any price change due to an increase in taxation. The nature of the market means that some alcohol retailers – such as smaller country hotels – have a diminished capacity to absorb these changes.

6. TAX ON PRODUCTS – EXCISE DIFFERENTIAL ON DRAUGHT BEER

6.1 The AHA recommends that the differential rates of excise that exist for draught beer (keg beer served on licensed premises) be preserved.

6.2 The background to these differential rates is that ahead of the introduction of the GST in 2000, the Federal Government made a commitment that the price customers pay for beer in hotels would not increase due to the introduction of the GST. To achieve this, it was determined that a lesser rate of excise would be imposed on draught beer (keg beer served on licensed premises) from packaged beer (take-away beer).

6.3 The differential rates mean the excise on tap beer served at a hotel is less than the excise on a bottle of beer that is sold for consumption away from a hotel (take-

away beer).

- 6.4 The differential rates offset the additional costs to business of serving tap beer on a licensed premise (in comparison to take-away beer) that are necessary in providing a regulated and supervised environment for responsible service of alcohol. Additional costs include staff wages, staff training, glassware, equipment (such as beer taps), power and other utilities, and security (such as security staff and closed-circuit television cameras).
- 6.5 The differential rates also ensure that draught beer – with a combined higher GST plus excise tax – is not priced out of the market. Using a comparison of one unit of 285mL full-strength beer, the combined amount of excise tax plus GST on a draught beer is \$0.63, while for the equivalent unit size of a take-away beer, this combined tax amount would be \$0.54.⁸
- 6.6 In the event that the excise on draught beer was to be lifted so that it is equivalent to excise on take-away beer, excise tax (and GST) would become a virtual payroll tax for the Federal Government. Such a scenario would inevitably lead to a drop in the level of employment in the hotel industry.

7. TAX ON PRODUCTS – ENTERTAINMENT AND FBT

- 7.1 Since being introduced in 1986, FBT has been an enormous impost for business, with business meals at hotels attracting FBT at a rate of 46.5%.
- 7.2 FBT on entertainment and meals unfairly penalises the hotel industry (and the

⁸ Appendix 1

wider hospitality sector) and increases compliance costs for business. It is the AHA's submission that reasonable entertainment expenses as a tax deduction should be restored, while FBT on staff business meals should be removed.

7.3 The fact that meals which are genuinely for business purposes attract FBT adversely affects both the hotel industry and the broader business community, and this is why the AHA is calling for this tax to be abolished or a reasonable deduction threshold introduced.

7.4 For businesses in general, it increases the cost of entertainment or holding meetings over breakfast, lunch or dinner at a hotel, thereby deterring companies from holding business meals at hotels. Therefore, our industry suffers as a result of this.

7.5 Economic modelling conducted by Econtech shows that for every \$1.00 spent on a business meal, an additional 80c in tax is being collected than if the same meal was treated more like a business expense (no FBT).⁹

7.6 There is also a gross inequity in that meals for business purposes held within workplaces – such as boardroom lunches – do not attract FBT. This is generally applicable to large businesses and is unfair to small operators.

7.7 Changes to FBT on meals and entertainment would benefit the entire business community, see an increase in the number of business meals in Australian hotels (and create jobs in the hotel industry) and by extension, provide a boost to the Australian economy.

⁹ Analysis of Reforms to Tax Legislation Relating to Business Meals, Econtech, 11 February, 2005 (note: the rate of FBT in 2005 was 48.5%)

7.8 The AHA acknowledges that recommending the full abolition of FBT on entertainment and business meals may be a challenging proposition for this review. Therefore, the AHA would welcome the opportunity to work with the Treasury to examine how change can be implemented in this area so that it is a positive multiplier for the community. As an example, one of the things that could be considered is a standard deductions threshold for small operators.

8. TAX ON PRODUCTS – GAMING MACHINES TAX

8.1 Wagering and gaming are important sources of income for Australian hotels. Without them, many hotels would be unprofitable and therefore, they would be forced to close.

8.2 Wagering and gaming machines are also subject to significant taxes – Australia’s gaming industry pays State and Territory governments \$3 billion in gaming tax on an annual basis.¹⁰

8.3 The Productivity Commission is currently undertaking a fresh inquiry into gambling in Australia (including gaming and the social impact of gaming machines). There are many Australians who do not regularly play gaming machines, but still benefit from them because of the revenue for States and Territories that is generated by them, which goes towards hospitals, schools, public transport and many other State/Territory government-funded agencies.

8.4 Legislative responsibilities for wagering and gaming have always been the

¹⁰ Australian Hotels Association, Submission to the Productivity Commission Inquiry into Gambling, March, 2009, Page 28

domain of Australia's States/Territories.

- 8.5 The AHA believes that the regime for regulating gaming and wagering is unique to each individual State/Territory and hence they should retain sole responsibility for taxation on gaming machines and wagering in their respective jurisdictions.

9. TAX ON PRODUCTS – GST ON DEPOSITS

- 9.1 Since the GST started on 1 July, 2000, the ATO has allowed GST payments on deposits to be made when the service has been delivered. This is important for hotels which take small deposits at the time of booking a function, meeting or convention in advance.
- 9.2 In 2007, the ATO issued a ruling that overturned this accepted practice, ruling 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.
- 9.3 The AHA has made formal representations to the ATO to change the interpretation of how GST is charged on deposits (other tourism and hospitality industry associations have made similar requests). The ATO has ruled against these appeals on every occasion.
- 9.4 The AHA requests the review committee recommend changes to the current interpretation of how GST is charged on deposits, so that it does not continue to impose a significant and unfair cash-flow impact on hotels.

10. TAX ON PEOPLE – PAYROLL TAX

- 10.1 With a view to funding a national scheme for child endowment, payroll tax was first levied by the Commonwealth Government in 1941 at a rate of 2.5% on payrolls. In 1971, payroll tax powers were passed on to State governments.
- 10.2 Since then, payroll tax rates have changed and exemptions to this tax were also introduced so that businesses that do not reach a specified payroll threshold do not have to be slugged by payroll tax.
- 10.3 In 2009, payroll tax is levied at eight different rates across Australia's eight States and Territories.
- 10.4 Similarly, there are eight different exemption thresholds.
- 10.5 Current payroll tax rates across Australia's eight States and Territories and current exemption thresholds (per annum) across Australia's eight States and Territories are as follows:

ACT	6.85%	\$1.5 million
NSW	5.75%	\$623,000
NT	5.9%	\$1.25 million
QLD	4.75%	\$1 million
SA	5%	\$552,000
TAS	6.1%	\$1.01 million
VIC	4.95%	\$550,000
WA	5.50%	\$750,000 ¹¹

¹¹ Payroll Tax Discussion Paper, Canberra Business Council and Kindred Organisations, April, 2009

10.6 It is the AHA's submission that payroll tax must be removed or reduced.

10.7 The reasons for this include:

10.7.1 Payroll tax is a tax on jobs. For business, it is a disincentive to grow in size by taking on more staff, thereby restricting employment growth and economic growth in general.

10.7.2 The cost to business of complying with payroll tax is significant.

10.7.3 Payroll tax discourages business investment.

10.7.4 For hotels, payroll tax bites harder than numerous other sectors because as an industry where customer service is an integral part of doing business, hotels have to employ disproportionately more people.

10.7.5 Owners and operators with multiple hotels that are located in different States and Territories face unnecessary compliance costs due to the different rates of payroll tax and the different exemption thresholds.

11. TAX ON PROPERTY – GENERAL

11.1 Property taxes adversely impact on hotel operators because of the size of hotel property footprints required to conduct business and the revenue generated per square metre (in comparison to other land use).

11.2 And as far as the application of property taxes is concerned, a developer planning to build a new hotel must pay land tax well before the doors of such a hotel open for business. Therefore, land tax poses a serious impediment to tourism

development.

- 11.3 Wildly fluctuating land tax bills that cause wide variations in the amount of land tax paid by hotels is another major problem. There must be more certainty for business when it comes to valuations for land tax purposes.
- 11.4 Tourism Australia has estimated that Australia needs 32 new luxury hotels (approximately an additional 16,000 hotel rooms) if it is to meet anticipated demand for overseas visitors over the next decade.¹² In the past decade, very few – around 10 – new luxury hotels have been built in major cities. The current commercial return from luxury hotels is less than other property classes, therefore it is hard to justify investment in them.
- 11.5 In addition, luxury hotels require regular refurbishment to maintain their competitive edge. Depreciation allowances and local government charges must reflect this reality.
- 11.6 Accommodation hotels are a pivotal part of Australia's tourism industry. Property and general business taxation levels (and potential concessions for hotels) must therefore be seen in the context of the role hotels play in generating tourism dollars.

12. TAX ON PROPERTY – GST ON HOTEL ROOM RATES

- 12.1 Room rates for guests staying in hotel rooms are regarded as a service, therefore the room rate attracts GST.

¹² Australian Financial Review, 21 April, 2007

12.2 However, there are examples where owners of apartment-style properties are engaging in illegal conduct on either of two fronts, or both:

- Persons staying in such properties are not being charged GST on the rate they pay to stay there; and
- Such properties have been zoned for residential use only, yet persons are using rooms within these properties for short-stay (or hotel-style) accommodation.

12.3 Member hotels have made the AHA aware of instances where the ATO has not been enforcing the requirement that such properties must charge GST as stringently as it should be. Specifically, member hotels have informed the AHA the ATO is being vigilant in this area with some properties, but not others. Such discrepancies must not be allowed to occur under any circumstances.

13. OTHER TAX ISSUES

13.1 The AHA has concerns with the seemingly ever-increasing number of taxes that are being imposed by State/Territory governments. These are given names such as levies, charges, user-pays fees and co-payments to name just a few. These are simply taxes under another guise.

13.2 For example, in Queensland in the past 12 months, licensed premises have been hit with mandatory charges which have been linked to trading hours, notably late-night trading hours. This has ripped in the vicinity of \$40 million from the

hotel industry in that State.

- 13.3 It is imperative that throughout this review, the presiding panel is mindful that one of the anticipated major consequences resulting from the introduction of the GST was that with the additional revenue from the tax flowing to States/Territories, it would enable them to eliminate or reduce many existing taxes. By and large, this hasn't eventuated.

14. CONCLUSION

- 14.1 The AHA would welcome the opportunity to provide a verbal presentation of our submission to either the review committee and/or a relevant staff member from the Treasury.

Date: 8 May, 2009

APPENDIX 1

ANALYSIS OF TAX ON BEER



ALTHOUGH DRAUGHT BEER ATTRACTS A LOWER RATE OF EXCISE, THE TOTAL AMOUNT OF TAX PAID ON A DRAUGHT BEER IS MORE THAN THE TOTAL AMOUNT OF TAX PAID ON A PACKAGED BEER



Total Tax	285mL On-Premise Full-Strength Draught Beer (Based on a price of \$3.50/70% margin)	285mL Off-Premise Full-Strength Packaged Beer (Based on case price of \$35, if it was made up of 285mL bottles = price of \$1.11/20% margin)	Total Tax
Excise \$0.31	Excise \$0.31	Excise \$0.44	Excise \$0.44
GST \$0.32	Wholesale Price \$0.42	Wholesale Price \$0.35	GST \$0.10
\$0.63	Average Margin Required to Cover Costs \$2.45	Average Margin Required to Cover Costs \$0.22	\$0.54
	\$3.18	\$1.01	
	GST \$0.32	GST \$0.10	
	Total \$3.50	Total \$1.11	