SUBMISSION TO AUSTRALIA'S FUTURE TAX SYSTEM REVIEW

Introduction

The Architecture paper identifies that only 10 of the 260 taxes in Australia collect 90% of tax revenue. The other 250 taxes collect the remaining 10% (page xiii). It is self-evident that simplifying the tax system must involve the abolition of the majority of the 250 taxes that raise only 10% of revenue. It has been well documented that many of the taxes are nuisance taxes that raise little more revenue than the cost to industry of administering their calculation and payment. They have been introduced as an ad hoc measure to raise revenue in difficult times without reference to their place in the broader tax system, or their unintended negative consequences on the economy. Attempting to simplify a tax system of 260 taxes without abolishing most of them is a self-defeating process. Once the remaining taxes have been identified, they can be addressed to ensure fairness.

> ***Terms of Reference 2:*** *Raising revenue should be done so as to do least harm to economic efficiency, provide equity (horizontal, vertical and inter-generational), and minimise complexity for taxpayers and the community.*

Recommendations

1. **The threshold for immediate tax write-off for items of plant and equipment be adjusted annually to allow for inflation.**

   The Uniform Capital Allowance was introduced in March 1991 at $300 without provision for annual indexing for inflation and is now the equivalent of approximately $190. Had it been adjusted for CPI increases, the allowance would now be in the order of $470. The failure to increase the allowance with CPI increases has resulted in a creeping decrease in deductibility and consequent increase in taxable income.

2. **The limit on depreciating luxury cars, $57,128 for the 2008-09 tax year, should not apply to luxury cars which are used exclusively for generating assessable income.**

   The measure was introduced to limit the subsidization of luxury cars used by company executives. However, it also applies to luxury cars which are used exclusively for generating assessable income. Stretched vehicles play an important role in the transportation of visitors and operators of such vehicles are discriminated against by the imposition of the luxury car tax.

3. **Luxury car tax be refundable for all vehicles which are used exclusively for generating assessable income.**

   The reasoning for this recommendation is the same as in point 2 above.

4. **Landscaping and outdoor recreation facilities integral to the tourism experience be eligible for depreciation.**

   Landscaping and outdoor recreation facilities are a necessary part of a complete project, essential for the generation of assessable income. It follows that the standard depreciation provisions should apply to these costs in the same manner that the buildings, swimming pools and paved tennis courts are eligible for depreciation.

5. **Fringe Benefits Tax be removed from "benefits" provided for health and safety reasons that are compulsory conditions of employment under an award or enterprise agreement and cannot be cashed out.**

   It is inequitable that expenses compulsorily incurred by an employer, either through the need to comply with legislation or in order to meet award conditions or enterprise agreements, should be subject to FBT.

6. **The Energy Grants Credits Scheme be expanded to include eco friendly businesses.**

   One of the objectives of the scheme is to reduce the impact of industry and commerce on the environment. The existing demarcation line is generally between primary producers on the one hand and everything else on the other. It is inconsistent to provide energy grants to primary producers that cause considerable degradation to the environment, while excluding tourist operators engaged in whale watching, eco exploring and other environmentally sensitive activities.

7. **That depreciation of furniture, fittings and equipment used in tourist facilities be permitted over five years rather than seven years.**

   Tax Ruling 2008/4 sets effective useful lives of depreciating assets. The ruling fails to recognise the true rate of wear and tear in a 24/7 business. Most furniture, fittings and equipment have an assigned life of seven years when from three to five years is the norm. Examples include carpets, freestanding indoor furniture, beds and mattresses, washing machines and clothes dryers (all seven years) and bar refrigerators (10 Years).

8. **That the Passenger Movement Charge, visa charges, aircraft noise levies and other government charges be examined to ensure transparency, and that the current charges are based on genuine cost recovery rather than revenue generation.**

   More and more participants in the tourism industry, providers and consumers alike, are being confronted with a range of user charges under the "user pays" philosophy. While acknowledging the reason for such charges, there is concern that the magnitude of increases in existing charges bears no relation to the increases in the cost of providing such services. There is also concern at the eagerness of governments at all three levels to introduce new charges without a whole-of-government view of the effect of these charges on Australia's competitiveness as an international tourist destination. The lack of transparency with some of these charges prevents tourist operators and consumers from verifying the reasonableness of the charges in a cost recovery context.

9. **While GST is not within the scope of this review, it is worth noting the anti-competitive effect of double GST on strata title tourist accommodation that is entirely for short-stay purposes and cannot be converted to other use(s).**

   Foreign investment policy for strata titled hotels is as follows:

   > "*Foreign acquisitions of strata-titled hotel rooms in designated hotels do not require separate foreign investment approval. For a hotel to be designated under this category, it must satisfy the following criteria:*
   >
   > *• the hotel must provide a full range of in house facilities (such as food and beverage services and room service) consistent with industry accepted hotel features;*
   >
   > *• all the rooms within the hotel must be subject to a long-term (10 years or more) hotel management agreement;*

• the hotel management agreement must provide that the owners' rights are restricted to receipt of an income stream, not occupancy. In addition, owners must not have the right to opt out of the management agreement; and

• ownership rights to the common property within the hotel must be held by the hotel manager"[1].

The policy is designed to ensure that the hotel is used as a hotel in the same manner as single-owner hotels. GST on strata titled hotels is charged twice: firstly on the sale of the strata unit by the developer to the end owner, and secondly on the rental of rooms and sale of food, beverage, telephone, laundry and other goods and services normally associated with hotel operations. GST on the sale of the strata units is to protect tax revenue in the event that strata titled accommodation establishments are converted to non-tourist uses, as has happened in many instances in Australia. However, the controls and restrictions provided by the foreign investment policy on hotel operations enable the GST on the sale of the units in qualifying hotels to be exempted, thus eliminating double GST taxation and the consequent non-competitiveness of strata titled hotels with single-owner hotels. The Australian Securities and Investments Commission Managed Investments Act also contain similar controls and restraints.

Terms of Reference 4.1: *The review should make coherent recommendations to enhance overall economic, social and environmental wellbeing, with a particular focus on ensuring there are appropriate incentives for workforce participation and skill formation.*

The National Long Term Tourism Strategy and the Indigenous Economic Strategy are two significant national policy documents currently being prepared, the latter of which is primarily designed to facilitate partnerships between indigenous people, government and the private sector. The recommendations to this Tax Review below will also impact upon these strategies.

Recommendations

10. Invest in Workforce Participation, particularly Aboriginal Tourism Enterprises

Incentives are needed for business generally to encourage sustainable employment, but are urgently needed for private sector organisations to invest in and nurture Aboriginal tourism enterprises. One suitable scheme, the Indigenous Economic Development Scheme, has been developed by a former Macquarie Bank executive and is worthy of examination[2]. Its proposed incentives consist of:

- A tax credit on initial start up investment with the initial investment capital treated as expenses for tax purposes in that financial year.
- Initial capital cost i.e. all start up expenses will be subject to a 150% tax credit, paid in the year in which they are incurred.
- Operating losses for the first 5 years will be subject to a 150% tax credit, paid in the year in which they are incurred.
- To gain the tax credit the approval process would need to have clearly defined eligibility criteria including the use of Accredited Managers with a proven record in the area of community development and a minimum of three years' experience.
- Any project must be undertaken with the community's engagement and agreement, not imposed upon them by an individual, family or group.

[1] Foreign investment policy dated March 2008, paragraph 12, at http://www.firb.gov.au/content/_downloads/ITR%20&%20Strata_Title_Hotel_policy%20march%202008.pdf
[2] Published by Gunya Australia, GPO Box 603 NSW 2001, August 2007

- Those seeking the tax credit must be prepared to provide expertise and support to the development of the project.
- An incentive to enter a welfare-to-work program to be implemented, to encourage residents of indigenous communities to work. This incorporates an elevated tax free threshold to offset current abolition and changes to Community Development Employment Program (CDEP).

A successful Aboriginal tourism enterprise can deliver:

- Creation of meaningful and sustainable employment opportunities
- On the job training and education opportunities
- An equity level to the community of 50%
- Community representation and engagement at a senior management level, including board membership
- A business that is culturally and environmentally accepted by the community
- A business that supports and incubates the development other enterprise within the community
- Exposure of the community to commercial enterprise
- A vehicle for community unity
- A valuing of education by the community
- Enhanced community confidence
- Increased individual and community self esteem
- Passive learning through exposure to peoples from around the world

11. Support employer strategies to increase skill formation

The Australian Tourism industry is currently suffering from a chronic skills shortage. Employers are attempting numerous strategies to retain existing staff, including education and training. It is critical that employers are encouraged to do this.

As a high employment, low return industry, the tourism industry would benefit significantly from a new incentive scheme that would:

- encourage Australian companies to increase their investment in employee training.
- aid the government's broader visions for Australia's "knowledge economy" and "education revolution".
- be a major boost to the declining domestic business events sector
- encourage companies to hold their conferences and related programs onshore rather than overseas.

Additionally, conferences, congresses, seminars and workshops all play an important part in adult education in the workforce. The introduction of an incentive to employers to train their staff would encourage more events to Australia. An education and training tax incentive for approved training would encourage companies to provide staff training and boost the tourism sector with an anticipated increase in off-site seminars, courses and professional conferences. This would also address the issue of Australia losing domestic corporate business events to offshore destinations, providing a tax incentive to stay onshore.

The eligibility of "training" for the tax incentive should be based on strict guidelines. In the case of conferences or seminars, the programs would need to have clearly established objectives and outcomes, be devised by qualified "trainers," and added to an approved listing.

12. Introduce tax averaging for rural and remote tourism operators

Seasonal work often involves extended hours in peak periods, followed by long down times. The introduction of tax averaging would offer both employers and employees greater flexibility, and would encourage business growth, employee retention, and investment.

Tax averaging enables individuals to even out income and tax payable to allow for seasonal and yearly fluctuation in income. This ensures their tax paid over a number of years is akin with taxpayers on comparable but steady incomes. Primary producers have been provided with the benefit of tax averaging for many years. As with farming, fluctuating prices, rising costs, drought, floods, fire and other natural disasters all have a major impact on regional and rural tourism performance. Both state and federal governments have announced a raft of measures to safeguard primary producers, including income support and subsidies, yet no comparable measures have been introduced for tourism businesses. This means tourism businesses are disadvantaged compared to other sectors subject to similar external impacts.

The National Tourism Investment Strategy (NTIS) recommended that: *"the Australian Government introduce tax averaging arrangements for rural and remote tourism operators, similar to arrangements available to primary producers, to ensure the tax paid by these operators in comparable to tax paid by those on similar but regular incomes"*[3]. The same recommendation was made by the Standing Committee on Employment, Workplace Relations and Workforces Participation when it handed down its report *Current Vacancies: Workforce challenges facing the Australian tourism sector*.

To conclude, it is timely to state the findings of Ranjith Ihalanayake and Sarath Divisekera of the School of Applied Economics, Victoria University, Melbourne, in their article "The Tourism Tax Burden: Evidence from Australia":

> "*To summarize, the evidence assembled and analysed above lends support to the view, widely held in tourism industry circles, that the Australian tourism sector has been subject to disproportionately high levels of taxes, and that the tax burden is increasing. In particular, following the tax reforms of 2000, the tourism sector has been subject to increased and disproportionate taxation. High levels of taxes inevitably discourage consumption (demand) and could have significant implications on the profitability of and investment in the industry (supply)".*[4]

[3] Australian Government Response to the National Tourism Investment Strategy, Department of Industry, Tourism and Resources, January 2007, pg 48.

[4] Tourism Economics, 2006, 12 (2), 247–262