



The peak body for the Australian **Accommodation** Industry

17 October 2008

Dr Ken Henry AC
Chair, Australia's Future Tax System Review
AFTS Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600

By e-mail: AFTSubmissions@treasury.gov.au

Dear Dr Henry

**AFTS REVIEW – A SUBMISSION BY HMAA
ON BEHALF OF THE AUSTRALIAN ACCOMMODATION INDUSTRY**

It is my pleasure, on behalf of the Board and membership of the Hotel Motel & Accommodation Association, to make this submission in response to the call for written submissions to the Australia's Future Tax System (AFTS) review. This submission represents the views, needs and concerns of HMAA's membership and the wider Australian accommodation industry.

HMAA and its Membership

The Hotel Motel & Accommodation Association (HMAA) is the peak national body for the Australian accommodation industry.

HMAA represents a range of accommodation establishments including 5, 4 and 3 star hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and time share establishments, combining a membership base of over 2,000 properties and 60,000 guest rooms.

Over 90% of these businesses are SMEs, and all are part of Australia's dominant services sector which represents over 80% of our national economy. HMAA is the only organisation representing this full range of accommodation types and interests nationally, and in rural, regional and metropolitan Australia as well as the major cities.

Hotel Motel & Accommodation Association

Hotels ♦ Motels ♦ Motor Inns ♦ Motor Lodges ♦ Apartments ♦ Resorts ♦ Time Share ♦ Private Hotels ♦ Backpackers ♦ Holiday Farms ♦ B&B

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HMAA's Submission

HMAA has considered the AFTS review's terms of reference and framing questions, and Treasury's architecture paper, in formulating this response. This submission does not, however, attempt to address the detail of those inputs. Rather, this document provides a simple outline of the key areas of concern for Australia's accommodation business operators.

HMAA's sectoral interests reside in the broad tourism sector and this submission therefore focuses on those aspects of the tax system of most direct impact upon tourism, with a key focus on accommodation. It should be noted that all references to "accommodation" in this document should be taken as referring to tourist accommodation.

HMAA's Information Sources

This HMAA submission has been informed by data and information from a number of public sector, private sector and industry sources, including:

- the Australian Bureau of Statistics;
- Tourism Australia, including Tourism Research Australia;
- the Sustainable Tourism CRC;
- various state and territory Tourism Commissions; and
- the National Tourism Alliance and various state and territory Tourism Industry Councils and Alliances.

Additionally, HMAA has utilised information from a number of internal sources including:

- the 2007 and 2008 Annual Surveys of HMAA Membership;
- other HMAA Member and Industry surveys; and
- general documentary and anecdotal information from HMAA members.

The Tourism Sector and the Accommodation Industry

Tourism is worth \$85 billion annually to Australia; it earns Australia more than \$22 billion in exports (adding over \$9 billion to GDP). Over 75% of the tourism industry is accounted for by domestic tourism.

Tourism is different to most industries: 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" and expenditure of the consumer; it operates in a highly complex environment requiring significant compliance skills and costs.

Accommodation accounts for over 10% of the tourism industry, making it a \$10 billion industry in its own right. Accommodation is clearly a vital and integral part of the tourism market. Indeed, accommodation and travel are the two unavoidable components of tourism.

Tourism is more labour intensive than most industries, providing over 550,000 direct jobs including 14,000 new jobs in the last financial year. Tourism is the point of entry for many entrants to the job market and provides significant numbers of jobs in regional communities as well as capitals cities and tourist centres. Accommodation accounts for well over 120,000 direct jobs in the sector.

In recent years, local consumers have reduced discretionary spending due to high fuel prices and rising interest rates. Additionally, research from Tourism Research Australia suggests that tourism is losing its share of this spend to other expenditures: travel's "share of wallet" has declined from over 16% to 13% in the last decade.

The tourism industry, due to its diverse nature and high proportion of SMEs, is exposed to the full gamut of taxation policies and approaches, business and other legislation, regulation and policy of all three tiers of government. The capacity of these small businesses to deal with the cost and skill requirements of compliance is low and the consequences costly (and, for some, fatal).

Taxation Concerns for Accommodation Businesses

Key issues of concern to the accommodation industry within the Commonwealth's taxation sphere include:

- the unfair and arbitrary application of tax rulings across service industries, with little or no consultation and no understanding of the operational realities in the services context (the most recent example being the ATO's ruling regarding the application of GST to deposits);
- the undue and unfair impact of FBT on tourism and hospitality sector customers, against those of any other industry sector; and
- the requirement for small business operators to pay FBT for staff business meals outside the workplace (increasingly commonplace in a labour short environment for jobs requiring long and unusual hours of work), a cost not borne by large employers with in-house facilities.

There are also a number of concerns regarding state and local taxation:

- the lack of transparency, inconsistent application, and unfairness of the application of land taxes which are levied differently based on types of property holdings, but are effectively carried by the business operating on the property; and
- the lack of action by some states to meet GST commitments on payroll taxes, which disproportionately harm the labour-intensive service industries.

HMAA believes that the Federal, State and Territory Governments must work together both to remove taxation hurdles unfairly impacting on accommodation (and other tourism) businesses as against other industries, and also to achieve significantly greater national harmonisation of the tax regime impacting on businesses operating within a genuinely national (and global) market such as tourism.

The Investment Climate for Accommodation Businesses

Whilst all business investment decisions are made on the basis of many factors, the key financial measure is return on investment. Major tourist accommodation properties require significant financial investments with longer break-even periods than many other capital investment options, making investment (and reinvestment) in tourist accommodation a relatively unattractive option in the current climate.

A relatively unstable global travel market (due to factors such as terrorism, fuel costs and disease epidemics), compounded by the decline in domestic travel and (until recently) minerals-boosted dollar, add to the unpredictability and relative unattractiveness of this investment option.

Any unpredictability or inconsistency in the application of charges, taxes and fees to the sector adds to this problem, and is one area which HMAA believes should be addressed by all Australian Governments. In addition, consideration should be given to introducing industry-specific measures to improve the viability and attractiveness of investment and reinvestment in tourist accommodation such as income averaging, accelerated depreciation allowances and modifications to the application of fringe benefits tax.

Tax Measures Unfairly Targeting Tourism Businesses

The tourism industry, and the accommodation businesses within it, have historically been an “easy target” for revenue-raising tax increases, on the basis apparently that tourists do not vote, and that these are therefore “victimless taxes”.

For example, the 2008-09 Federal Budget as delivered (but since softened through amendment), included the following retrograde tax changes targeting tourism:

- the Passenger Movement Charge increased by \$9 to \$47, raising nearly \$460 Million over four years, and adding a serious new burden to an already struggling inbound tourism sector;
- the visa application charge for tourist visas increased by \$25 to \$100, at a time when many regional and global competitor destinations are lowering or scrapping visa fees; and
- the luxury car tax increase which disproportionately impacted (in its original form) tourism operators requiring four wheel drives and other large, expensive vehicles.

These increases are unwarranted and unjustified and would not be targeted against a less fragmented industry. HMAA believes that a general requirement for future Budget Bills should be a clear Industry Impact Statement, and requirement for industry consultation, where any tax proposal unduly impacts any one industry above others.

It should also be noted that tourism remains the only export industry which is fully exposed to GST payment. Despite the promises made to the industry at the GST implementation phase, every inbound tourist pays GST on all purchases, and the systems in place to reclaim these payments appear to be deliberately difficult, administratively complex, and obfuscatory.

Whilst this may appear, to the Government and ATO, as another “victimless tax”, in reality it is a ten percent penalty on the Australian tourism industry in the massively globally competitive tourism market.

It is also, of course, an unfair cost burden on tourism businesses which makes them less competitive against Australian export businesses in other sectors.

The Labour and Skills Shortage

The most immediate operational issue facing many businesses in the accommodation sector is the difficulty in attracting and retaining appropriate staff. This problem occurs not simply for skilled occupations in limited supply; increasingly, the problem is striking across the full range of positions required in an accommodation business, including semi and unskilled jobs.

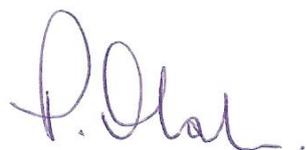
For many workers, tourism is the “job of entry” into the workforce and therefore, in an environment where new workers are an increasingly scarce resource, tourism is likely to be amongst the most drastically impacted sectors. This is an especially complex problem requiring a number of policy and legislative settings - especially taxation settings at Federal and State level - to appropriately address it.

One major issue in both recruitment and retention is the cost of living for staff in some of the more remote and regional tourism locations. Whilst employers are able to partially address this through measures such as subsidised housing, meals and travel, such measures incur significant taxation penalties which make them unattractive or unfeasible for smaller accommodation employers.

These impediments should be removed, and consideration should be given to tourism industry-specific taxation concessions to assist in the provision of subsidised employee accommodation, meals and travel.

Thank you again for this opportunity to represent our members and industry. Please do not hesitate to contact me should you require further information or clarification of any matter raised in this submission.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'P. Olah'.

Peter Olah
National Affairs Manager