



Submission to
**Australia's Future Tax
System**

October 2008

Serving regional aviation, and through it, the people and businesses of regional Australia

Unit 11, 26-28 Winchcombe Court, Mitchell ACT 2911

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The Regional Aviation Association of Australia (RAAA) Submission to Australia's Future Tax System

The RAAA and its Members

The Regional Aviation Association of Australia (RAAA) was formed in 1980 as the Regional Airlines Association of Australia to protect, represent and promote the combined interests of its regional airline members and regional aviation throughout Australia.

The Association changed its name in July 2001 to the Regional Aviation Association of Australia and widened its charter to include a range of membership, including regional airlines, charter and aerial work operators, and the businesses that support them.

The RAAA has 26 Ordinary Members (Air Operator Certificate holders (AOC)) and 48 Associate/Affiliate Members. The RAAA's AOC members directly employ over 2,500 Australians, many in regional areas. On an annual basis, the RAAA's AOC members jointly turnover more than \$700M, carry well in excess of 2 million passengers and move over 23 million kilograms of freight.

RAAA members operate in all States and Territories and include airlines, airports, engineering and flight training companies, finance, fuel and insurance companies and government entities. Many of the RAAA's members operate successful and growing businesses providing employment and economic sustainability within regional areas.

Some examples of RAAA members' significant presence in regional Australia is the REX hub in Wagga Wagga, Sharp Aviation in Hamilton, Airlink in Dubbo, Airnorth in Darwin, Skywest Airlines in Perth and Skytrans in Cairns to name just a few.

Many of the fly in/fly out operations for the mining sector are flown by RAAA members such as Alliance Airlines and Jetcraft Aviation as examples. These members are providing a vital service to an industry sector that is driving the Australian economy.

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Members such as Basair, Sharp Aviation, Rex and Brindabella Airlines have established flying schools to cater for rapidly increasing demand for commercial pilots. Other members, such as Alliance Airlines, are continuously developing their engineering training courses to ensure that their new engineers receive up to the minute training.

RAAA Charter

The RAAA's Charter is to promote a viable regional aviation industry. To meet this goal the RAAA:

- promotes the regional aviation industry and its benefits to Australian transport, tourism and the economy among government and regulatory policy makers;
- advocates on behalf of the regional aviation industry and its members;
- contributes to government and regulatory authority policy processes and formulation to enable its members gain input into policies and decisions that may affect their businesses;
- encourages high standards of professional conduct by its members; and
- provides a forum for formal and informal professional development and information sharing.

The RAAA provides wide representation for the regional aviation industry through discussions with Ministers and senior officials, through parliamentary submissions, personal contact and by ongoing, active participation in a number of consultative forums.

Regional Aviation and the Tax Transfer System

As highlighted in the forward of “Architecture of Australia's tax and transfer system”, Australia faces significant economic, social and environmental challenges. It is the RAAA view that any taxation system, existing or proposed, needs to take into consideration the broader impact across all areas of the initiative and not solely from a revenue collection standpoint. It is also felt that current taxes, estimated at 125 separate taxes paid by Australians every year, needs to be reviewed and simplified to provide substantial incentives for Australian individuals and businesses to invest in a sustainable future for Australia.

The ABS defines taxes as “compulsory, unrequited transfers to the general government sector” and taxation revenue as “revenue raised by compulsory levies imposed by government”. Although at an initial glance you would automatically list items such as income tax, capital gains tax, medicare levy & surcharge, fringe benefits tax, goods and services tax, excise duty, etc, not so obvious items that may also be included within the definition that affect the regional aviation industry would be non service related charges imposed by the Department of Infrastructure, Transport, Regional Development and Local Government both directly and through its agencies (the Civil Aviation Safety Authority and Airservices Australia). It is our understanding that the intended revenue received through the Carbon Pollution Reduction Scheme (CPRS) will be deposited directly into consolidated revenue and no new service will be delivered by the Government. This is a new tax being anticipated by the regional aviation industry.

Direct Issues

Depreciation

The current depreciation rates for aircraft are far less favourable than those that the industry has enjoyed historically. This is further compounded by the narrow definition of aviation depreciation. The acknowledgement that an aircraft is a composite asset to the extent of the body and the engine does not go far enough. Therefore, the current policy of viewing aircraft as a simple composite entity needs further exploration.

It is important for the Government to understand that the useful life of an aircraft is affected by many factors including, but not restricted to, the purpose it is used for (charter, regular passenger transport, cargo, etc.), the type of aircraft in question (piston, turboprop, or jet) and the terrain that it is operating in (major airports, regional airports, country strips, etc). Furthermore the composite make-up of an aircraft is again greater than that implied in the current legislation and rulings. It should be noted that we do agree that when looking at the composite composition of an aircraft the micro level would be too extreme, however a major component based approach should be taken into consideration. The major components may include airframe, engine, furnishings, avionic equipment, and hydraulics.

By having the legislation reflect the true state of deterioration and obsolescence of aircraft components will provide the industry with greater ability and incentive to expand and upgrade aircraft fleets potentially leading to;

- increased employment within the industry
- the ability to upgrade inefficient and obsolete aircraft and/or components which are more efficient and less polluting in line with the Government's endeavours to reduce carbon emissions.

Capital and non-capital leasehold improvements

A number of regional operators have experienced severe difficulties in recent years when renegotiating their leases with airport owners.

A typical example is an operator who is offered a 15 year lease at a major airport. The operator plans to upgrade his building or construct a new building worth \$2.6m which is depreciated at 2.5%/annum. The only type of lease being offered is a 'reversionary' lease which states that all infrastructure erected during the terms of the lease reverts to the airport owner on termination of the lease, realising a windfall gain of \$1.6m for the airport owner and a no value loss to the regional airline. The airline has no option but to operate from the airfield and has little option but to accept the terms.

If the regional airline was able to depreciate the asset over the period of the lease, a much fairer position would be available to both parties re the infrastructure at the end of the lease.

The RAAA would strongly support a re-examination of depreciation rates with respect to infrastructure improvements made on land covered by airport leases.

Capital Gains Tax (CGT)

The RAAA understands and agrees with the principals and purpose of the capital gains tax legislation. However, taking into consideration the Government's policies on carbon emissions reduction the RAAA is of the opinion that where an aircraft is disposed of for the purpose of upgrading to a more efficient type of aircraft that will have an anticipated reduced carbon footprint the capital gains tax implication could be, at the election of the operator, covered by new rollover provisions in the Act, deferring the CGT event to the CGT date associated to the replacement aircraft. This would allow regional operators considerably greater incentive and ability to upgrade their fleet and subsequently reduce the carbon footprint being emitted by their operations.

Other Direct Incentives

The Government has announced its intention to cease the current enroute subsidy scheme available to areas of regional Australia as it feels the challenges the industry faced after 2001 are reduced. The RAAA argues that this not the case for regional and remote areas. This was confirmed in the Bureau of Infrastructure, Transport, and Regional Economics (BTRE) Report 115, Air transport services in regional Australia: trends and access. The report highlights that between 1984 and 2005 there was a decrease of 1.5% in passenger numbers to smaller regional centres or non-tourist destination regional areas of Australia. The report also highlighted that it is anticipated that this trend will continue into the foreseeable future. During the same period major trunk and tourist routes experienced annual passengers growth rates of 4-8%.

If it is the government's intention to remove the current enroute subsidy scheme it needs to look at alternatives to assure regional Australia access to regular air transport at a compatible cost to their city counterparts. The tax system is a possible means of doing this by offering rebates to operators who are supplying regular public transport to routes that would otherwise be unviable without the rebate in place. This could be done by having remote routes servicing cost assessed and if an operator's return from the route is less than the assessed cost of maintaining the route, the difference between the return and the assessed amount is credited to the operator as a rebate in their annual tax return. Of course, if the return to the operator is greater than the assessed rate the amount of return above the assessed rate is included as assessable income in the operator's annual tax return. This is only one possibility of how government could take co-responsibility with the regional aviation industry in ensuring that people living in all of regional Australia have air transport access at a similar cost to their city counterparts.

Indirect Issues

Carbon Pollution Reduction Scheme (CPRS)

CPRS is being implemented by the Government as a means for combating CO₂ emissions that are a possible cause of adverse climate change. The aviation industry historically has been at the forefront of reducing CO₂ and noise emissions. Aircraft designers, engineers and operators are doing everything possible to improve airframe, engine and fuel efficiency. In addition, the extraordinary developments in GNSS over the past 15 years have allowed new, more accurate routes to be planned. These gains have also been matched by significant improvements in air traffic control management systems, shortening flight times and reducing holding.

The RAAA and its members, like all people across industry, are interested in ensuring that Australia strives for a cleaner natural environment. However, the current CPRS adds more cost to an industry that contributes around one percent to domestic carbon emissions.

Additionally, there does not seem to be an understanding or acknowledgement that road and rail transport require enormous infrastructure where large amounts of land have to be cleared or removed from agriculture to make way for the tracks and the asphalt. This is not a criticism of rail and road but highlights the need for Government to do the analysis and acknowledge the different carbon footprints left by different industries.

If the Government is serious about assisting regional aviation become even cleaner, as opposed to using the carbon issue as an excuse to raise further funds for consolidated revenue, it needs to look at measures that provide real incentives for participants in the industry to reduce carbon emissions.

Depreciation and capital gains tax require urgent review so that operators may accelerate the purchase of newer, more efficient and safer aircraft.

Conclusion

Regional aviation should be seen in the same infrastructure light as health, education, telecommunications, rail, port and road services, that is, essential parts of national infrastructure. For this view to become reality governments, federal and state, need to understand the essential economic and community support role played by regional aviation. The RAAA has been advocating on this issue for many years and sees the taxation review as an important opportunity to give incentive to growth in regional and remote Australia