Tourism and Transport Forum (TTF) is a national member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian transport, property, tourism & infrastructure sectors.

Tourism & Transport Forum

Submission to the Australia's Future Tax System Review Panel

October 2008

Contact

Kary Petersen
Tourism & Transport Forum

P | (02) 9240 2000
E | kpetersen@ttf.org.au

TTF AUSTRALIA Tourism & Transport Forum

CONTENTS

Summary of Recommendations

General reforms

- Harmonise tax regimes across state and territory jurisdictions
- Synchronise the CPRS with the tax system to ensure the objectives of the CPRS can be realised

Tourism

- Reform payroll tax, land tax, and stamp duty systems such that the labour and property intensive tourism industry is not disadvantaged by other non-labour intensive and tax exempt investments
- Introduce an incentive for businesses to train staff, similar to an R&D incentive, with tax deductibility of 125% on all eligible training to encourage ongoing job training
- Investigate tax averaging to provide horizontal equity to tourism operators and investors
- Revise the tax schedules covering assets such as hotel furniture and fittings to reflect the economic life of these assets
- Gambling taxes should reflect a level-playing field with other directly taxed industries
- Introduce green depreciation to help fund green refurbishments of Australia's current non-residential building stock

Aviation

- The Passenger Movement Charge should be measured at cost
- Remove Stamp Duty on Insurance
- Consider accelerated aircraft depreciation to support investment in new infrastructure

Transport

- Amend Fringe Benefit Tax legislation to end horizontal inequity between private and public transport
- Amend vehicle stamp duty and import duties to encourage purchase of more energy efficient road vehicles, and provide rebates for research and development of energy efficient transport technologies
- Provide incentives for investment and distribution of alternative fuels including consideration of the removal of excise
- Provide a level playing field for public transport and rail freight in the CPRS

1. Tourism & Transport Forum

Tourism & Transport Forum (TTF) is the peak industry group for the Australian tourism, transport, aviation and investment sectors. A national, Member-funded CEO forum, TTF advocates the public policy interests of the 200 most prestigious corporations and institutions in these sectors.

TTF's membership comprises the most significant players within the aviation, transport and tourism sectors. TTF's membership consists of representatives from:

Accommodation & Gaming
- Resorts & Hotel Chains
- Owners & Investors
- Timeshare
- Serviced Apartments
- Casinos

Tourism Infrastructure
- Precinct Managers
- Institutional Investors
- Infrastructure Owners
- Ports
- Airports

Transport & Aviation
- Airlines
- Rental Cars
- Buses and Coaches
- Passenger Rail
- Cruise Lines

Marketing & Attractions
- Theme Parks
- Cultural Attractions
- National & Marine Parks
- Tourism Marketing Organisations

Major Events, Retail & Hospitality
- Convention & Exhibition Centres
- Restaurants & Wineries
- Travel & Tourism Retailers
- Venues

Professional Services
- Legal & Accounting
- Advertising & Public Relations
- Research & Education
- Technology & Solutions

2. Introduction

The tax system impacts the lives of all Australians and those that visit here. It affects the choices people and businesses make in relation to consumption, investment and work – ultimately influencing the lifestyle Australians enjoy.

Australia is in the midst of an international financial crisis, a world oil crisis, escalating food prices, and an emerging carbon constrained economy. Ongoing and emerging issues like the ageing population, social equity, congestion in cities, and housing affordability are of major concern to all Australians. The tax system will dictate the capacity for Australia to deal with these issues and to meet the challenges of the future.

The *Australia's Future Tax System* review provides the framework for how the tax system will address these emerging economic, social, and environmental challenges and ultimately shape Australia's future prosperity. The review has already provided the foundations for robust debate through the *Architecture of Australia's tax and transfer system* paper and TTF welcomes the opportunity to add to this debate through this submission.

Currently Australia's tax system is in need of reform. It involves three tiers of Government, over 125 different taxes, and multiple regulatory bodies and departments tasked with collection and compliance. Rather than providing Australians with transparency, efficiency, and equity, the tax system has fostered complexity leading to a situation whereby "*many taxes are levied on essentially similar transactions by different Australian governments with little consistency across jurisdictions.*"[1]

Despite the vast array of taxes and level of complexity, 90 per cent of total tax revenue for all Governments is sourced from just 10 taxes. The bulk of this (40 per cent) is acquired from direct taxes on labour like income tax and payroll tax, while capital income tax, such as capital gains tax, and consumption tax, such as the GST, make up the remaining 33 per cent and 27 per cent respectively.[2]

This bias towards labour taxes is of particular concern to TTF as it creates horizontal inequity between service and non-service industries, the former being heavily reliant on labour for efficiency, innovation, and development. Such bias encourages investment away from service industries negatively impacting their ability to grow.

TTF will address just some of the crucial areas needed for a better tax system. Primarily this submission will focus on the Tourism, Aviation and Transport sectors emphasising the need for horizontal equity and the need to reduce complexity.

Australia must have an internationally competitive taxation system if it is to meet the challenges of today and in the future. Only with co-operation from all tiers of Government will imperative amendments come to fruition.

[1] Treasury, *Architecture of Australia's tax and transfer system*, August 2008 pxiii
[2] Ibid, pxii

3. General reforms

There are a number of general reforms that can be made to ensure the tax system provides the capacity for economic growth, while minimising negative impacts and compliance costs.

Primarily the number of taxes in the current tax system needs to be addressed. This could be achieved by broadening the tax base of a select number of taxes and abandoning inefficient taxes. While this argument is not new it needs to be considered in the context of robust debate to provide Governments with the impetus for change. While the main concern would be a loss of revenue, arguably a broad based approach would ensure revenue streams continue and provide much needed horizontal equity to the current approach.

For service industries like tourism, the current system falls well short of providing the benefits the industry provides to the economy and wider community. Although it has the largest share of Australia's total exports it is significantly hindered by the current tax systems heavy reliance on direct taxes on labour.

To illustrate, two of the top five revenue generating taxes, Federal income tax and State payroll tax, produced $132 billion of the $320 billion collected in total in 2006-07. For labour intensive industries such as the tourism sector, workforce is the lifeblood of operation – if not for economic growth generally. The tax system must seek to maximise workplace participation by providing financial incentives. It should be utilised to address industry skills shortages with added targeted financial incentives.

At present the heavily reliance on direct taxes on labour and lack of targeted tax expenditure is negatively impacting Australia's international competitiveness across service industries. 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.

Besides specific industry based tax reforms, there are some general reforms that can be made to ensure a fairer tax system for the future - harmonising state tax regimes and synchronization of the carbon pollution reduction scheme.

3.1. State taxes

Recommendation – Harmonise state tax regimes and remove inefficient taxes.

State based taxes are particularly cumbersome. Although federally it appears 125 taxes are in operation, once similar taxes in state jurisdictions are separated, essential in order to recognise the different regimes and different thresholds for each of these taxes, nationally there up to 259 taxes.[3]

[3] Ibid, p32

To illustrate, the table below shows the differing payroll tax regimes across the country:

	NSW	VIC	QLD	WA	SA	TAS	NT	ACT
Rate	6.00%	4.95%	4.75%	5.5%	5.0%	6.1%	5.9%	6.85%
Threshold	$623,000	$550,000	$1 million*	$750,000	$552,000	$1.01 million	$1.25 million	$1.5 million

**First $1 million exempt. For payrolls up to $5 million, a $1 million deduction reducing by $1 for every $4 payroll exceeds $1 million. No deduction for payrolls of $5 million or more.*

While recognising such differences in tax regimes allows for differences in the specific economic and social conditions of different states, a business operating in each state and territory would have to contend with each of these regimes independently. This inefficiency has created unnecessary costs, shifting scarce resources away from industry innovation and development and into regulatory compliance. TTF submits there is a necessity to investigate areas of harmonisation between these regimes with a goal of standardisation.

Further issues arise with the heavy reliance of state taxes on transactions, such as stamp duty. Such taxes impose a levy every time a transaction takes place effectively reducing economic efficiency by discouraging turnover. Moreover, such taxes also expose States to negative impacts in periods of slow economic activity such as the present housing downturn - indeed the tax perpetuates the situation.

The specific impact of payroll tax, stamp duty, and land tax on services industries, like tourism, are discussed in more detail in the Tourism and Taxes section.

3.2. Carbon Pollution Reduction Scheme

Recommendation – Synchronise the CPRS with the tax system to ensure the objectives of the CPRS can be realised.

It is important that the review of Australia's tax system is not seen in isolation to other government policy, and in particular the Australian Government's Carbon Pollution Reduction Scheme Green Paper process.

Like the rest of the economy, the Carbon Pollution Reduction Scheme (CPRS) will impact service industries like tourism. However, the Australian tax system provides an excellent opportunity to help these industries prepare for the implementation of the CPRS and adjust once it is place.

For the tourism industry, aside from airlines, most businesses are relatively small emitters and obligations under the CPRS will be upstream at electricity generators and fuel suppliers. Tourism will pay for emissions through higher input prices. The scheme will therefore push up costs for the tourism industry and the overall effect could make Australia disproportionately more expensive as a tourism destination than our competitors.

While the CPRS is likely to have a significant economic impact on service industries, the impact can be lessened with support from Government in preparation and following the introduction of the CPRS.

Changes to the Australian tax system in particular, provide avenues which would assist the CPRS meet its objectives and help the tourism industry lessen the cost of reducing emissions. It is important that such measures are considered and implemented in the lead up to the commencement of the CPRS in 2010. Details of TTF's recommendations can be found in their respective sections under Tourism, Aviation and Transport.

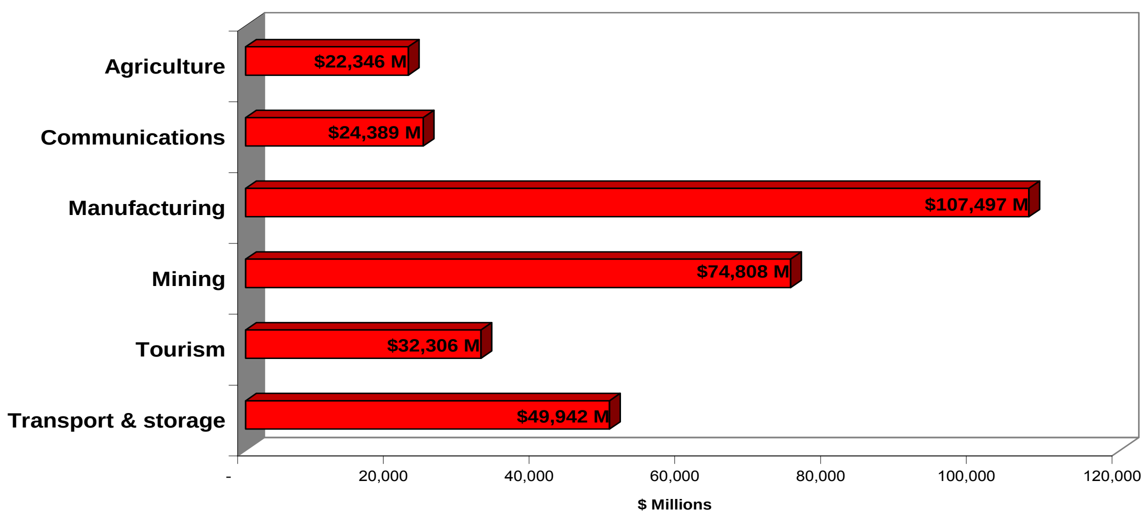
4. Tourism and the Tax System

In 2006-07 international and domestic tourism consumption in Australia was $85 Billion. This tourism consumption:

- Generated $22,350 million in **export** earnings - 10.4% of total Australian exports.[4]
- Employed 482,000 people - 4.7% of total **employment**.[5]
- Contributed $38,935 million to **gross domestic product** (GDP) – 3.7% of GDP.[6]
- Dispersed visitor expenditure to **regional** destinations and creating 5.3% of all regional, and 5.7% of all rural, employment.[7]
- Created significant employment and economic value for **indigenous** Australians.
- Raised approximately $7,733 million in net **taxation revenue** for governments.[8]

The tourism sector's Gross Value Added (GVA) exceeds that of: communication services; agriculture, forestry and fishing; electricity, gas and water supply; accommodation, cafes and restaurants; personal and other services; and cultural and recreational services.[9]

Industry Gross Value Added

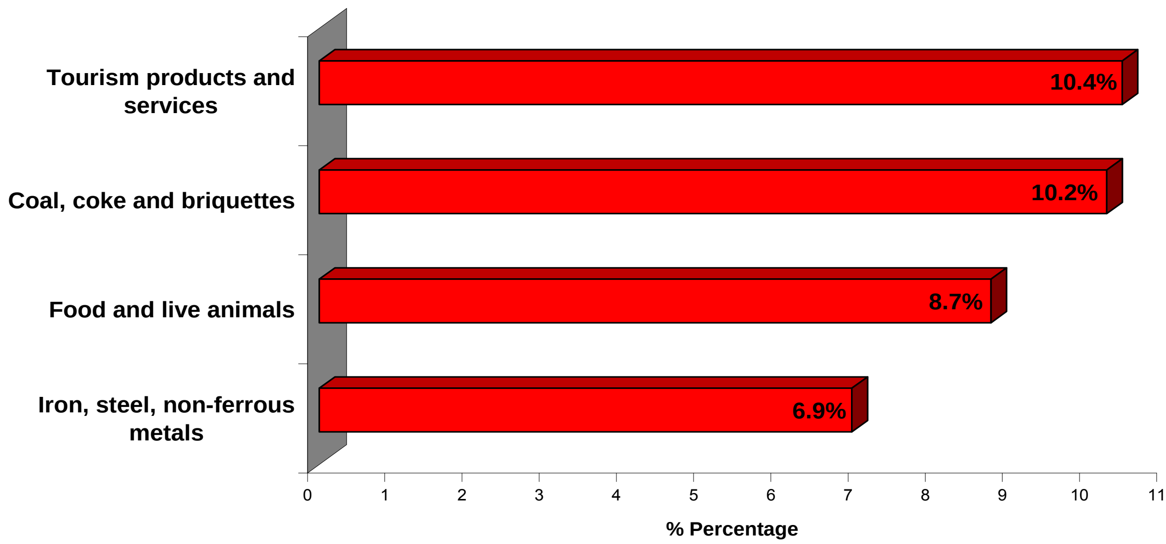


International visitors to Australia spent $22,350 million in 2006-07. Tourism exports exceed that of many traditional export goods such as coal, food, iron, wool and wheat. In terms of significance to the Australian economy, Tourism's exports are on a

[4] ABS 5249, Tourism Satellite Account 2006-07
[5] ABS 5249, Tourism Satellite Account 2006-07
[6] ABS 5249, Tourism Satellite Account 2006-07
[7] TTF Australia, Australian National Tourism Employment Atlas 2008
[8] Calculation based on tax revenue of 9.1% of tourism expenditure in STCRC, State and Federal Taxes on Tourism in Australia: estimates for 2003/04, applied to ABS 5249, Tourism Satellite Account 2006-07
[9] ABS 5240 Australian System of National Accounts 2006-07

par with the combined export value of all rural goods[10] - which includes meat, cereals and wool.

Share of Total Australian Exports 2006-07



The Australian tourism industry is heavily taxed.

For every $100 of tourism expenditure, $9.10 is paid to federal state or local governments,[11] equating to $7.7 billion in net taxation revenue in 2006-07.[12] This taxation revenue is unusually high because consumption by international visitors within Australia attracts the Goods and Services Tax (GST), unlike export goods and commodities. These GST receipts are slightly ameliorated by the operation of the Tourism Refund Scheme.[13]

In 2003-04 tourism taxation accounted for 19.6% of tourism GDP and amounted to a total of $6,922 million in net taxation. This net taxation is made up of: net state taxes (8.8%), federal taxes (26.4%) and the GST (64.8%).[14]

Tourism characteristic and connected industries are predominantly property based (e.g. hotels, resorts and attractions) and are highly labour intensive (hotels, food services, tour operators). The burden of state taxation on tourism arises primarily from property and payroll taxes. State and federal taxation subsidies are primarily focused on long distance transportation.

[10] ABS 5368 International Trade in Goods and Services 2006-7
[11] STCRC, State and Federal Taxes on Tourism in Australia: estimates for 2003/04. 2007
[12] TTF calculation based on tax revenue of 9.1% of tourism expenditure identified in STCRC, State and Federal Taxes on Tourism in Australia: estimates for 2003/04, applied to tourism consumption in ABS 5249, Tourism Satellite Account 2006-07
[13] The Tourism Refund Scheme enables refund claims, subject to certain conditions, of the GST and wine equalisation tax paid on goods bought in Australia.
[14] STCRC, State and Federal Taxes on Tourism in Australia: estimates for 2003/04. 2007

Taxes on tourism exports continue to strongly outweigh subsidies and assistance for export promotion. Tourism remains one of only two export industries which continues to be subject to the GST (the other is education).

4.1. Payroll Tax

Recommendation – Reform payroll tax to ensure the labour intensive tourism industry is not disadvantaged by other non labour intensive investments.

Tourism accounts for 3.7% of Australia's gross value added but 4.7% of total employment. As stated in ATSA, *"The tourism share of total employment is higher than the tourism share of industry gross value added. This is because tourism tends to be more labour intensive than other forms of economic activity."*[15]

As a labour intensive industry, tourism bears a disproportionate burden of state taxation through the payroll tax system. This burden essentially encourages investment away from tourism into alternate economic activities that are less labour intensive, and impedes growth and innovation in the industry.

Tourism is disadvantaged when competing for investment dollars due to its labour intensive nature and payroll tax free thresholds. As an example residential use of property does not attract payroll tax and although office and retail property does, the burden is transferred to tenants at no cost to the investor. Additionally this payroll tax can then be split over multiple tenants, each utilising the payroll tax free threshold. On the other hand, hotel property owners attract payroll tax for their labour intensive hotel operations and can only have just the one payroll tax free threshold. This illustrates how the payroll tax system favours residential and office investment over tourism as it is less reliant on labour to achieve a return on investment.

Furthermore, payroll tax systems are impeding tourism innovation, efficiency, and growth through payroll tax groupings of consolidated enterprises. Tourism operators would achieve greater economic efficiency by consolidating related small tourism product operations through centralised marketing, distribution and product development. However, such consolidated enterprises are grouped for payroll tax purposes thus disadvantaging any small tourism operation seeking to improve its efficiency and encouraging ongoing inefficient practices.

These inequities caused by the payroll tax free threshold and grouping of related businesses by revenue offices, have distorted the market to prevent the centralisation of product marketing and distribution which is desperately needed to grow tourism economic activity.

4.2. Land Tax

Recommendation – Remove horizontal inequities by providing a level-playing field across all industries.

[15] ABS Cat. No. 5249.0, Tourism Satellite Account, 2006-07

Hotels and Accommodation

Tourism is primarily property based. Tourism and leisure property includes hotels, motels, resorts, caravan parks, theme parks, attractions and hospitality and retail outlets. Land tax typically applies to these properties and tourism does not benefit from land tax exemptions.

As tourism is essentially a combination of (labour intensive) personal service and value-added improvement to property, the tourism industry bears a disproportionate burden of state taxation from land tax as well as payroll tax.

Similar to payroll tax, the primary impact of land tax on tourism is to discourage economic activity and investment away from tourism to goods and services whose value does not lie in property, such as information technology.

Land tax systems further disadvantage tourism property investment through the provision of exemptions on permanent use. Residential property is a primary competitor to tourism for land use and such exemptions increase returns for the development of residential properties over tourism.

To minimise risk and generate a more immediate return on investment, tourism investors are increasingly turning to strata title apartment development. These developments add to the stock of accommodation which are available for a mixed use of residential housing and/or managed serviced tourism apartments. The horizontal inequity of the application of land tax is readily apparent in the situation where adjacent apartments will have differing land tax burdens due to the residential exemption to land tax.

Broadening the land tax base by eliminating exemptions will remove the horizontal inequity, tap into tourism demand for accommodation and lead to enhanced development of the overall stock of apartments. Alternatively, extending the residential exemption to all accommodation would also increase the supply of apartments that can be flexibly applied to either affordable housing or serviced apartments as the market needs.

Nature Based Tourism

Nature Based Tourism attractions and experiences, particularly in National Parks, are a key driver of domestic and international tourism to Australia. Visiting national parks is the 4th most popular activity for international visitors to Australia after "eating out", "shopping", and "visiting the beach".[16]

Nature Based tourism generates around $8.2 billion and employs almost 60,000 people in NSW alone.[17] It is estimated that overnight visitors who included nature-based activities in their visit to NSW spend $3.8 billion per annum (2003 estimate) with international tourist expenditure adding a further $3.6 billion.[18]

TTF Australia's Natural Tourism Partnerships Action Plan[19] demonstrates the economic and environmental value and market demand for new nature-based

[16] Tourism Research Australia, *International Visitor Survey*, 2006.
[17] Tourism New South Wales, *Understanding nature-based tourism – No 5*, p1.
[18] Tourism New South Wales, *Understanding nature-based tourism – No 5*, p1.
[19] TTF Australia, *Natural Tourism Partnerships Action Plan*, July 2007.

tourism (NBT) product and infrastructure, such as eco-resorts. This NBT investment is critical to attracting visitors to National Parks and leveraging parks economic value.

Due to current government policy, as well as economic and environmental considerations, this NBT development is favoured to occur on land adjacent (rather than within) parks and protected areas. Apart from State Forests, land adjacent to parks is typically used for residential or primary production. Both of these land uses are exempt from land tax unlike tourism.

Land used for primary production in regional Australia has the potential to support more sustainable, viable and high-yielding tourism products such as Farmstays and NBT experiences. These initiatives provide regional areas with an alternative land use to struggling agricultural activities, with the prospect of attracting different forms of investment in the region.

TTF Australia contends that in order to make business investment more attractive at a regional level, an exemption to allow Nature-based tourism including farm-stays to act as an alternative use for farm-land and pastoral leases should be considered. This would match current arrangements provided to farmers, exempting them from land tax.

Caravan and Camping

The caravan and camping industry is one of Australia's fastest growing tourism markets. As the industry provides a low cost holiday experience, it mostly attracts retirees, families and lower income earners.

Caravan and camping has traditionally been one of the great Australian family holidays due to the location of parks, family focused environment and the affordable nature of these types of holidays.

The caravan and camping sectors are also critical to the success of the Australian tourism industry. The most popular activity for both international and domestic caravan and camping visitors is eating out at restaurants/cafes while 88% of international visitors will shop for pleasure.

Caravan and camping tourists spent $6.5 billion within Australia during 2006. Caravan and campers will also spend longer at a destination than other tourists.[20]

Over the past 5 years there have been around 50 park closures in NSW alone and very few new parks have been established over the past 10 years. The cost of maintaining and establishing new parks does not offer a potential operator any real incentive to invest in parks due to land tax and other hurdles created by some State, Territory and local governments.

State/Territory	Caravan Parks
New South Wales	No exemption*
Victoria	Exempt
Western Australia	Exempt/Concession
Queensland	Exempt**

[20] TA Snapshot 2006

South Australia	Exempt
Tasmania	No exemption
Australian Capital Territory	No exemption
Northern Territory	n/a

** Exemption for long term for persons over 55 years on approved sites.*
** Conditions apply*

Where parks are not able to remain viable, owners have sold or developed the site. There is more return on the development of the land, than to maintain the park as many are located on prime real estate that is attractive to developers.

The consequences of park closures:

- It is estimated that an average of 22 families per park[21] would be displaced and other alternative accommodation would need to be found;
- The local community would lose valuable tourism income;
- The loss of income to the Australian economy;
- The reduced number of visitor nights; and
- Unemployment for park staff

Many caravan parks are located in regional areas where tourism is one of the key employers; however according to statistics from the Australian Bureau of Statistics there has been a decrease in the employment numbers across the State in caravan parks from 3377 jobs to a loss of 3281 jobs since 2005.

Caravan parks are in many cases located on prime real estate, especially in coastal areas. The valuation of the land is based on land sales in the area. Some park owners have seen a 50% increase from one year to the next. One operator, who saw a 50% increase their Land Tax bill, calculated that the park site would need to recover an extra $240 per site per year just to cover the Land Tax burden.

A West Australian Ministerial task force investigation into the '*Impact of Combining Tourist and Permanent Residential Accommodation on Tourist Zoned Land an the Impact of the Strata Titling'* found that;

"the effect of rapidly increasing land tax in some regional areas has had a disproportionate effect on low-cost forms of tourist accommodation and has increased redevelopment pressure on these sites through the necessity to achieve greater income-earning potential"

and:

"The application of the land tax system to tourist accommodation development does not take into account the wide community benefit of tourism investment, the need to retain strategic sites, including low-cost tourist accommodation facilities, or inequities associated with the current taxing of developments subject to strata schemes.

The Taskforce's recommendation was for the Government to consider:

[21] Caravan and Camping Industry Association

"that the current land tax framework is considered to have a negative impact on a considerable portion of low key tourist accommodation sites, and as such work against the State Government's objectives for tourism development and the retention of a variety of tourist accommodation."

The Land Tax burden drastically increases park operating costs. The market rate of park site fees has not increased to the degree to cover this cost; as such the cost has to be absorbed by the park making the business less viable or unviable in some cases.

4.3. Stamp Duty

Recommendation – Remove horizontal inequities imposed on the tourism industry by providing stamp duty exemptions for hotels and caravan parks.

Hotels and accommodation

Stamp duty or transfer duty is payable on the transfer of ownership of real property (such as land and buildings) and of non-real property (such as copyrights, goodwill, patents, partnership interests, options to purchase and units in a trust).

In practice, 93% of transfers are of property and the remaining 7% of transfers involve non-real property. This narrow tax base discriminates against those industries, such as tourism / accommodation, whose value add lies in property and property improvements, by reducing consumption of tourism products for no discernable market failure reason.

More fundamentally, stamp duty is highly inefficient and the dead weight cost of stamp duty is the lost innovation in the tourism sector *"Since conveyance duties fall on property only when it is sold, it has the effect of locking-in the use of property in less productive uses and the tax acts as a brake on change, innovation and productivity growth."*[22]

Stamp duty is a significant impediment to investment and innovation in the tourism industry. Conveyance duty rates and additional premiums on business transactions inhibit tourism product development and innovation and as such adversely impacts on the attractiveness of Australia as an investment market.

For example, a major '5 star' hotel in the Sydney CBD would sell for up to $200 million. This transfer of ownership would attract stamp duty at a rate of almost 5.5%. Stamp duty would therefore add over an additional $10.9 million to the cost of the transaction.[23] An investor would only purchase such a hotel if they could extract greater value from the property asset than the value the current owner extracts (which is reflected in the sales price). This greater value is achieved through enhanced productivity and innovation which is desperately needed in a competitive hotel market facing labour shortages.

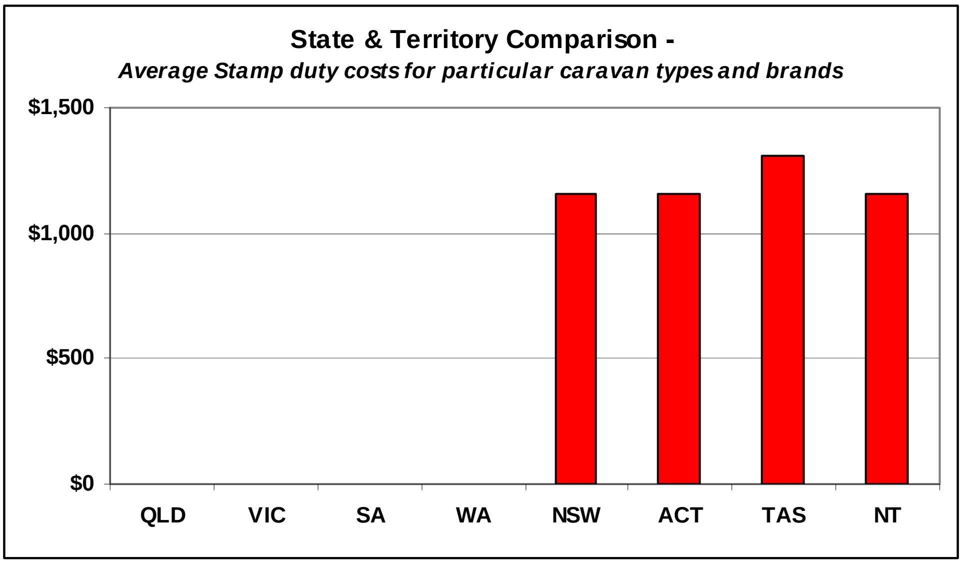
[22] John Freebairn, *A Comparison of Alternative Tax Bases,* The University of Melbourne, August 2005
[23] The Office of State Revenue (NSW Treasury), Transfer of Land or Business Calculator, accessed 20 November 2007, http://www.osr.nsw.gov.au/erevenue/calculators/landsalesimple.php.

However, the new owner must be able to extract greater value than the first $10.9 million which will be lost to stamp duty. Investors seek to balance transactional cost against investment gain and if cost outweighs gain, then opportunity is lost. This is particularly relevant to the tourism sector which is recognised as having a greater operational risk compared to other industries. In essence stamp duty inhibits the first 5.5% of productivity improvement opportunities from ever occurring.

Caravan and Camping

Caravans and campers are essential to low cost tourism in NSW. According to Tourism Research Australia, the caravan and camping industry is one of the fastest growing tourism markets across Australia.[24] Registrations of caravans and campers have increased along with the tourism market trend in this sector.

As in the case of land tax, Stamp duty on caravans and campers differs between jurisdictions with some imposing no Stamp Duty.



**Data provided by CCIA*

According to the Recreational Vehicle Manufacturers Association of Australia (RVMAA), from January 2007 to September 2007, 12,477 caravans and trailers have been sold across Australia with 2,600 from NSW.

For those jurisdictions imposing Stamp Duty retail competitiveness with neighbouring states is reduced - CCIA members have reported a 15% loss in yearly sales to dealers outside NSW – as well as employment and market growth.

Stamp Duty creates a lack of horizontal equity with competing industries such as boating. Caravans and campers are similar to recreational boats. However consumers are not required to pay Stamp Duty on the purchase of a boat [25] for recreational use in some jurisdictions despite the fact they provide a similar low cost holiday experience - especially for retirees and families.

---

[24] Tourism Research Australia, A profile of travellers who used caravan or camping accommodation in Australia in 2003/04 p. 5, http://www.tra.australia.com/content/documents/Niche%20reports/Niche%206%20Caravan%20and%20Camping.pdf

[25] Boating Industry Association

The caravan and camping industry is about 'affordability'. Stamp Duty effects Vertical Equity in imposing jurisdictions as it places an extra burden on those who are already on lower fixed incomes.

4.4. Tax reform for Business Events

Recommendation – Ensure full tax deductibility of attendees of business events and investigate burdensome obligations of GST compliance

A review of tax legislation relevant to the Business Events (BE) industry is also required. Current taxes directly affect the price competitiveness of Australia as a BE destination. If some of these can be alleviated the BE sector in Australia will become more competitive than many current outperforming destinations.

With domestic tourism and BE activity sluggish, we need tax incentives to boost the domestic market.

Tax deductibility of attendees to business events
The single most important tax policy for the domestic BE sector is the tax deductibility of delegates' attendance at conferences, seminars, meetings, and exhibitions which are directly related to their income generation. Currently this does not apply in the case of pure corporate incentives which attract FBT. Allowing full tax deductibility would encourage more business event activity through increased participation rates and stimulate sector growth.

GST issues
While GST is not within the scope of this review, as an indication of the additional concerns the industry already contends with in the tax system, it is worth noting two specific impacts of the GST.

Firstly, the obligation to pay GST on the total estimated account when paying a deposit is adding confusion and complexity for BE organisers. This is especially the case when considering booking event venues and securing that booking with a nominal deposit can occur years in advance. Secondly, requesting a GST rebate after an event has also proven confusing and burdensome for overseas delegates and business events organisers.

TTF submits the panel review should investigate the burdensome requirements of GST compliance in these circumstances and need for clearer rulings and guidelines.

4.5. Tax incentives for innovation and investment

Recommendations -
Introduce an incentive for businesses to train staff, similar to an R&D incentive, with tax deductibility of 125% on all eligible training;

Introduce tax averaging arrangements for rural and remote tourism operators; and

Revise the tax schedules covering assets such as hotel furniture and fittings to reflect the economic life of these assets.

As a labour intensive industry tourism innovation, research, and development, is largely created through improvements to labour efficiency. However, the nature of the tax system impedes such efficiency gains due to the bias on income from direct taxes on labour. Notwithstanding industrial relations barriers, state based payroll taxes on top of Federal withholding taxes mean service businesses have limited scope for research, innovation, and development.

In effect, such imbalances discourage investment away from service industries and into non-service industries, where returns are greater due to the smaller tax burden. To this end, TTF submits this review to investigate the impact of this tax bias on the service industries like tourism and the wider labour intensive industries. In addition, tax averaging for rural and remote tourism operators and accelerated depreciation of fixtures and fittings should also be considered.

Education and Training

The Australian Tourism industry is currently suffering from a chronic skills shortage. Employers large and small are attempting many strategies to retain existing staff.

Potential employees recognise this and are driving remuneration to levels that do not match their skills. This in turn hinders the professionalism of the industry and impacts its reputation. The industry believes employers should be looking at education and training as a means of maintaining staff as opposed to paying ever-higher wages for unskilled labour. In fact it is critical that employers are encouraged to do this.

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 flat domestic business events sector (refer to the "Performance" section of this report).
- 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 vital importance of education and ongoing training of the workforce needs to be recognised. The development of this resource is important for Australia's overall growth and should be viewed in a similar light to the tax break given to research and development funds.

The eligibility of "training" for the tax incentive could 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. This would prevent system rorting.

An education and training tax incentive would send a clear message to business that government supports ongoing training of the workforce as part of its education revolution, and is prepared to assist with a tax break.

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 over a maximum of five years, 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. Essentially, when average income is less than taxable income (excluding capital gains), the individual receives an averaging tax offset. When average income is more than taxable income (excluding any capital gains), the individual must pay an averaging tax surcharge. The amount of the averaging tax offset or tax surcharge is calculated automatically.

Furthermore, TTF notes that primary producers are provided the benefit of tax averaging. As with farming, fluctuating prices, rising costs and drought all have a major impact on regional and rural tourism sector 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"*.[26] 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*.

For the purposes of horizontal equity and in acknowledgment of the seasonal nature and impact of the Tourism industry this should be extended to rural and remote tourism operators.

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

Accelerated depreciation on furniture, fittings, and equipment

Australia cannot compete internationally, or meet tourism growth, with ageing product. The quality of Australia's accommodation product directly impacts on visitor experience and is in turn critical to growing tourism demand. Resort, hotel and other accommodation product is a combination of guest services and furniture, fittings and equipment (FF&E).

Accommodation product is unique and FF&E is not merely a factor of production, but essential to the product's appeal. In a 24 hour tourist accommodation FF&E assets rapidly wear out, however replacement of FF&E is not driven by the 'effective life' of the asset but competition and consumer preferences. FF&E must be frequently upgraded to ensure Australia offers innovative tourism product. Tax schedules effectively set FF&E replacement policy. Current schedules typically have an 'effective life' of seven years for most FF&E. However the 'economic life' of these assets is really three to four years to maintain product innovation and competitiveness. TTF submits the depreciation on FFEs be amended to reflect this.

4.6. Gambling and Gaming Taxes

Recommendation – Gambling taxes should be on an equal basis with other taxed industries.

Gambling provides $184 million gross value add to the total tourism gross value add of $3.9 billion. Horse racing events, such as the Melbourne Cup and other Group one races, are major tourism drawcards and attract visitors from around the world.

Casinos are also important components of Australia's Tourism export infrastructure underpinning other services such as conference venues, retail, and entertainment venues.

TTF submits for a level-playing field to encourage economic efficiency and realise the full value-add of the gambling sector on tourism and the greater economy. Gambling taxes should be imposed on an equal basis with other directly taxed industries and not considered a luxury item.

4.7. Carbon Pollution Reduction Scheme

Recommendation – Introduce green depreciation to help fund green refurbishments of Australia's current non-residential building stock.

TTF is concerned that the Green Paper provides little scope or incentive for reductions in greenhouse gas emissions from the hotel and accommodation sector.

The Australian Sustainable Built Environment Council estimate that the Australian non-residential building sector accounts for 23 per cent of Australia's greenhouse gas emissions which could be reduced by between 30-35 per cent through energy efficiency measures.[27]

TTF acknowledges that the CPRS will place a cost on carbon, providing a price signal for Australian consumers and industry to change behaviour and encourage, where possible, investment in low emissions technology.

However there is uncertainty amongst TTF's Hotel CEOs regarding how customer behaviour will change when staying in a hotel compared with their normal home behaviour when the CPRS comes into force.

This is a particular concern at the higher end of the market, where consumers pay a premium for the experience and facilities they don't ordinarily enjoy, for instance spa baths and swimming pools which are energy intensive to provide.

There are a number of energy efficiency measures available to the hotel sector which, if implemented, would provide significant abatement and are considered to be cost positive.[28] Despite this, uptake has been very limited due to a number of non-price barriers.

Reducing emissions from the hotel sector will therefore depend on the 'greening' of the current building stock. However, in a sector that is dominated by older, inefficient buildings, with no new investment and development of large accommodation in prospect, this will be a challenge.

It is not enough to encourage the building of new green buildings as The Centre of International Economics highlight that new buildings account for between 1-3 per cent of the building stock at anyone time; therefore it would take decades to make a substantive change to energy efficiency if measures are limited to new buildings.[29]

Moreover applying an economy wide price signal would not be sufficient to encourage refurbishment of current buildings, as noted by the Task Group on Emissions Trading:

> *It appears there are significant non-price barriers including lack of information, information asymmetries, split incentives, and other behavioural factors (Stern 2006). This suggests a role for well-targeted energy efficiency policies that would complement the introduction of an emission trading scheme.*[30]

The Property Council of Australia (PCA) has proposed using green depreciation to provide incentives to invest in making existing buildings more energy efficient. Green depreciation is accelerated depreciation for capital expenditure on refurbishing existing buildings to meet a specified environmental standard, such as the green star rating.

Green depreciation is designed to encourage building owners to undertake 'green' refurbishments and accelerate the 'greening' of Australia's building stock, as owners bring forward refurbishment to take advantage of the benefits of the scheme.11

[27] CIE (2007) *Green depreciation: A preliminary analysis*, Draft Report, pg. 5
[28] McKinsey & Company (2008) An Australian Cost Curve for Greenhouse Gas Reduction.
[29] op cit. CIE (2007) pg. 5.
[30] ibid. pg. 11.

Details of a green depreciation scheme would need to be determined by Government and industry.

5. Aviation and the Tax System

Growth in demand for air travel (both business and leisure) has been considerable over the past decade at around four percent per year. At that level of growth, it is expanding faster than the economy as a whole.

Given the importance of airports and air services growth to tourism, TTF commissioned a report assessing their economic impact, undertaken by consulting firm URS.

The report estimated that the level of turnover (gross output) for airport and air service activity in 2005-06 was more than $43 billion. If that is growing at four percent annually, the level of airport and air services growth would be increasing by $1.7 billion per year.

The economic benefits of this growth are significant. TTF's report estimated that airport and air services activity would generate around:

- $4.7 billion of gross output;
- $2.15 billion of value added; and
- $1.18 billion of wage and salary income to 24,000 workers for each $1.7 billion in annual growth.

In addition, airport and air service activity will generate around $80 billion of gross output by 2020 – almost doubling the present level. This makes airport and air services a leading growth sector with an increasing share of the national economy.

5.1. Passenger Movement Charge

Recommendation – The Passenger Movement Charge should be measured at cost.

TTF representations on this important issue has been significant, as demonstrated by submissions to the Commonwealth Government's Exports and Infrastructure Inquiry, National Tourism Investment Strategy, the Regulation Taskforce, the Legal and Constitutional Affairs Senate Standing Committee's review of the *Passenger Movement Charge Amendment Bill 2008*, and the past three Commonwealth Budgets.

In TTF's view, recent increases in the PMC (of almost 25 percent) combined with already high levels of taxation will reduce Australia's international competitiveness as a tourist destination, by negatively impacting air travel demand. TTF is concerned the burden of increases in the PMC will impact leisure holiday travellers the most – especially families who have to account for the increased impost as part of their low cost travelling budget.

Further aspects of the PMC concern TTF, namely:
- The PMC continues to over-collect in relation to the costs it purports to recover;

- There is a lack of transparency about the details of the costs the PMC purports to recover;
- The PMC began as a cost recovery charge, but has since increased to now include an unjustified component in the order of $159 million this year alone.
- A recent shift in policy that increases the scope of the PMC beyond border facilitation-related issues; and
- Australia's major gateways continue to experience significant delays particularly at peak periods and at the secondary line (associated with quarantine inspection).

In addition, TTF believes it is unjustified for the PMC to act as a cost recovery mechanism for increased spending in airline security. Improvements in security are necessary for the public good at large and funding should therefore be found from consolidated tax revenue.

On this basis TTF strongly rejects any increases in the PMC and urges the Taxation Review Panel to ensure the PMC is measured at cost. Historically high fuel prices and the emergence of potential trade barriers on long haul travel from the EU are already having a detrimental effect on airline travel.

5.2. Stamp Duty on Insurance

Recommendation – Stamp Duty on Insurance should be removed completely.

Stamp duty on airline insurance is a major cost imposition for the tourism industry and is effectively another tax on air travel. TTF recently commissioned a report into the *Economic Impacts of Aviation Stamp Duties*, copies of which can be located at www.ttf.org.au. The report was undertaken by the Sustainable Tourism Cooperative Research Centre.

The key findings of the report demonstrated that:

- Stamp duty on airline insurance is effectively a tax on air travel;
- This tax will reduce inbound and outbound tourism expenditure, although the impact of the tax will be greater in reducing inbound tourism;
- On balance, the net effect of increased tax revenue and reduced tourism expenditure will be negative;
- The tax will lower Gross State Product;
- States and territories must determine whether any increases in tax revenue are worth the cost in reduced economic activity;
- Retaliation by other countries whose airlines suffer as a result of states and territories imposing the tax remains a real possibility; and

- These findings do not factor in the costs associated with retaliation, which would only worsen the impact of the tax for Australia and the states and territories.

Stamp duty on insurance was not one of the taxes meant to be replaced by the GST as part of the 1999 *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations*. However, the Royal Commission into the failure of HIH Insurance Group did recommend states and territories abolish stamp duty on general insurance products.

TTF therefore recommends the Taxation Review Panel consider the removal of stamp duty on airline insurance imposed by states and territories.

5.3. Carbon Pollution Reduction Scheme

Recommendation – The Australian Government should consider accelerated aircraft depreciation in order to support aviation

Australia's airlines are investing significant amounts of capital in new fuel efficient aircraft. Qantas, for example, has a $35 billion fleet renewal program. In the context of addressing aviation emissions it is vital Government policy support this.

As a complementary measure TTF strongly supports accelerated aircraft depreciation in order to encourage the use of newer aircraft.

Currently, Australia's aircraft depreciation rules allow airlines to write-off the value of aircraft over ten years. Regional competitors however are able to update their fleet more regularly.

Notwithstanding issues of competitive neutrality, accelerated aircraft depreciation would provide financial incentives to Australian carriers to reinvest in new aircraft.

6. Transport and the Tax System

Transport plays a vital role in supporting economic growth and community needs. Australia's urban transport networks are particularly important to maintaining our prosperity. Between 2000 and 2006, our eight capital cities provided 78 per cent of national economic growth. Increasing urban transport congestion, however, is a major national issue - choking our cities and putting the brakes on productivity. It is estimated that the social cost of urban congestion will reach $20 billion by 2020 if left unchecked,[31] notwithstanding the social isolation and exclusion that comes with poorly operated and serviced transport systems.

Forecast growth in the freight and passenger transport task over the next two decades will further exacerbate congestion. The road freight task is projected to grow at 3.6 % per annum between 2000 and 2020 (doubling over this period).[32] Faster growth (4% per annum) is projected for the inter-capital corridors.[33]

The passenger transport task is forecast to grow with an average increase of 33% in car traffic in Australian capital cities (close to the Sydney and Melbourne levels of growth, with the highest growth projected in Brisbane/South East Queensland, because of its high population growth). Even with a proportion of this growth occurring at the city fringes, this still implies substantial increases in the (unconstrained) level of car traffic on our current city networks.[34]

The tax system provides an avenue for the Federal Government to influence commuter demand in order to reduce carbon emissions and the impact of traffic congestion.

6.1. Fringe Benefit Tax

Recommendation – Fringe Benefit Tax legislation must be amended to end the horizontal inequity between private and public transport

Encouraging people to leave their cars at home is one way in which the NSW Government can reduce transport-related greenhouse gas emissions. The Federal Fringe Benefits Tax (FBT) regime, however, acts as an incentive for people to drive more by salary packaging their cars.

A 2006 study by Ernst and Young, commissioned by the NSW Government, found *"a bias exists within the tax system, specifically within the FBT regime, which favours private over public transport"* and that *"this 'FBT bias' may encourage commuters to drive rather than use public transport".*[35]

The study illustrated an important fact. Individuals who own a car and drive to work are better off than those who own a car yet take public transport to work, once all on-

[31] Bureau of Transport and Regional Economics, *Estimating urban traffic and congestion cost trends for Australian cities – working paper 71*, 2007 p109.
[32] Bureau of Transport and Regional Economics. The BTRE (2002b) estimate of 4.0 per cent was based on an earlier economic growth assumption of 3.05 per cent a year.
[33] *An overview of the Australian Domestic Road Freight Transport Industry.* Working Paper 60. BTRE.
[34] Cosgrove, Dr David & Gargett, Dr David. *Predicting traffic growth in Australia's cities*. BTRE.
[35] Ernst and Young (2006) *NSW Ministry of Transport: Tax Incentives for Public Transport Users*, p7.

road costs are considered.[36] In addition, an individual who decides to salary package that car and drive to work is even better off. This emerges as FBT for salary packaged cars is influenced by the number of kilometres driven, therefore an individual's take-home cash amount is maximised the more that individual drives.

There is a general chorus of support behind amending the FBT legislation to close the horizontal tax disparity. Encouraging excessive use of motor vehicles plays a role in increasing congestion, and thus greenhouse gas emissions. Commuters who use sustainable public transport should be rewarded for doing so, and the FBT system provides an opportunity to do this. The NSW Government has been very vocal in its support of amending FBT laws, as has the Council of Capital City Lord Mayors.

The application of the statutory formula to car fringe benefits cost the Federal Government approximately $1.5 billion in 2006-07 and is one of the largest Government tax expenditures.[37]

TTF urges the review panel to consider amending the current taxation legislation to better support sustainable transport alternatives such as:

- An equal FBT exemption to salary-packaged cars for public transport users; and/or
- A tax deduction for the cost of public transport on an individual's income; and/or
- A tax rebate for an individual's public transport costs; and/or
- Abolish the FBT exemption for salary packaged cars to promote a level playing field for sustainable transport modes.

6.2. Vehicle duties

Recommendation – Stamp duty and import duties should encourage energy efficient road vehicles, and rebates should be given for research and development of energy efficient transport technologies.

As Australian Governments progress towards a low carbon economy, the transport sector will require a significant shift towards energy efficiency. The tax system can be a valuable tool utilised to provide incentives for private motorists to purchase energy efficient vehicles.

At the outset, it is important that any amendments and rebates consider all the impacts of promoting the purchase of energy efficient vehicles. The Bureau of Transport and Regional Economics found in 2007 that urban congestion was costing the Australian economy $9.4 billion in 2005.[38] Governments would have to ensure any support for the purchase of energy efficient vehicles is complemented by an education campaign on effective driving practices.

Vehicle stamp and import duties in the tax system can be the tax tool to support the take up of energy efficient vehicles. At present, energy efficiency has no bearing on

[36] Ernst and Young (2006) *NSW Ministry of Transport: Tax Incentives for Public Transport Users*, p28-29
[37] Treasury, *Architecture of Australia's tax and transfer system*, August 2008 p33
[38] Bureau of Transport and Regional Economics, *Estimating urban traffic and congestion cost trends for Australian cities*, pxv.

either duty. In fact current exemptions encourage energy inefficiency, such as the exemptions for SUVs. A series of amendments to the stamp duty imposed by states and territories and import duties imposed by the Federal Government in combination with tax incentives in the form of rebates will provide a framework to alter the demand for energy efficient vehicles.

A good model for amendments to both duties is found in the recently commenced ACT *"Green Vehicles Duty Scheme"* whereby all new light vehicles are given a Green Vehicle Rating on which stamp duty rates are applied. Essentially the better the rating the less stamp duty is paid. The ratings are based on a combination of the greenhouse rating and the air pollution rating from the Commonwealth Green Vehicle Guide. The tax transfer system should encourage such incentives in other States and Territories, paying particular attention to the fact that any increases in the current base rate of vehicle stamp duty could be viewed as revenue raising and defeat the purpose of the scheme.

The Government could also complement any changes to import and stamp duties by providing tax rebates for investment in research and development of energy efficient vehicles. Such a scheme would require clear targets and direction to ensure this investment does not flow to outdated technologies.

6.3. Fuels

Recommendation – Provide incentives for investment and distribution of alternate fuels including consideration of the removal of excise.

Corresponding incentives for the purchase of energy efficient vehicles should be incentives for alternative fuels. This will be necessary to ensure infrastructure is in place to cater for the increase in demand for energy efficient fuels.

The tax system can provide these incentives through the removal or reduction of fuel excise on alternative fuels such as bio-diesel and natural gas. In addition tax rebates for producers and distributors of alternate fuels would ensure drivers have adequate access to these fuels on the road.

TTF notes the Federal Government's current Vehicle Fuel Efficiency review and will provide a detailed submission.

6.4. Carbon Pollution Reduction Scheme

Recommendation – Provide equal tax offsets for public transport and rail freight as given to private road users

TTF is extremely concerned the green paper proposal will actually serve to **increase** the level of transport-related carbon pollution, rather than reduce it. Road transport accounted for 88% of total transport emissions in 2005, 62% of this was from passenger cars.[39] If Australia is to reduce transport-related greenhouse gas

[39] Department of Climate Change, *Transport Sector Greenhouse Gas Emissions Projection 2007*, February 2008 p17

emissions, it is essential that more of the transport task is taken up by less polluting modes, such as public transport, rail freight, cycling and walking. Similarly, more sustainable practices such as car-sharing, should be encouraged.

A key feature of the green paper is the provision of offsets to private road transport, reviewed after three years, and road freight, reviewed after one year. The offsets essentially shield road users in the short term and beyond from any additional fuel price increases resulting from the CPRS. No corresponding offset is proposed for costs on public transport or rail freight operations. This is despite the Green Paper identifying that sustained price increases lead to reductions in car fuel consumption.[40]

In essence these fuel offsets have several apparent shortcomings:

a. **They act in direct contradiction to the goal of carbon pollution reduction.** As the price for other transport modes, in particular modes designed for mass transit, increase as a result of the CPRS the underlying price advantage for road users will detrimentally effect perceptions and use of environmentally friendly transport alternatives - those which directly aid carbon pollution reduction. To that extent, they create a market distortion that encourages commuters to continue carbon emitting practices.
b. **They fail to recognise public transport and rail freight as key carbon reduction operations.** Both are essential for reducing traffic congestion by taking cars and trucks off the road network, reducing road pollution, and encouraging environmentally sustainable practices.

TTF recommends the Government withdraw the proposed fuel offset for private road vehicles. If the Government elects to retain the offset, a similar subsidy must be extended to public transport users.

[40] Department of Climate Change, *Carbon Pollution Reduction Scheme: Green paper*, July 2008, p101

7. Conclusion

As the country braces for an international financial crisis, a world oil crisis, escalating food prices, and an emerging carbon constrained economy, it is imperative our future tax system is able to weather the storm, while remaining internationally competitive and capable of meeting the challenges of the future.

For TTF Australia's future tax system must be able to harness the full potential of Australia's Tourism export, and in doing so create incentives for Aviation and Transport innovation and investment.

For labour intensive service industries like tourism, the current tax system perpetuates horizontal inequities discouraging growth of Australia's second most lucrative export market and impeding innovation, efficiency and development. For transport operators, the bias towards private car use infringes on the ability for Government to tackle issues of urban congestion and runs contrary to the goal of carbon reduction.

The *Australia's Future Tax System* review provides the opportunity to correct these current imbalances.

TTF Australia Ltd | PO Box R1804 | Royal Exchange NSW 1225
8th Floor | 8-10 Loftus Street | Sydney NSW 2000
T 02 9240 2000 | **F** 02 9240 2020 | **E** contact@ttf.org.au |
W **www.ttf.org.au**