



Australian Hotels Association

Pre Budget Submission 2016-2017

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5 February 2016

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1 ABOUT AHA

The Australian Hotels Association (AHA) is an organisation of employers in the hotel and hospitality industry registered under the *Fair Work (Registered Organisations) Act 2009*. Its diverse membership of more than 5,000 licensed hotel businesses includes pub-style hotels plus three, four and five-star international accommodation hotels located in each state and territory. The size and scope of the Australian hotel industry includes:

- Over 5,000 businesses
- Generating over \$12,000,000,000 economic benefit
- Providing over 270,000 jobs
- Supporting over 50,000 community groups

2 GOODS AND SERVICES TAX (GST)

GST generally

On the proviso that costs, excises and taxes in other areas were reduced and simplified, and that gambling tax neutrality was retained, the AHA would engage in further discussion as to broadening and/or increasing the GST. The AHA suggests that taxes with particularly high costs to economic growth are company tax and stamp duties. The benefits of reducing the economic costs of taxation are spread throughout the economy, including to workers through higher wages". The list of taxes that inhibit economic growth includes e.g.:

- Payroll tax
- Liquor licence fees
- Application fees
- Fire levies
- Land tax
- Municipal rates
- Stamp duty on conveyances, insurance and motor vehicles

The AHA proposes that the removal of various regressive taxes should be included as compensatory measures for increases to the GST.

GST and gambling

The introduction of GST was formalised in 1999 by the Federal and State/Territory governments in and "Intergovernmental Agreement on GST". In that agreement, it was agreed that the state and territory governments would adjust their gambling tax arrangements to take account of the impact of GST on gambling operators. The rationale for the treatment of gaming is based on:

- GST is a tax on consumers – not business
- GST is a Federal tax intended to replace state taxes e.g. gambling taxes

The AHA proposes in the event of any increase to the GST, that the current principle of neutrality on gambling be retained.

3 SEASONAL WORKING HOLIDAY MAKERS TAXATION

In the 2015–16 Budget, the Government resolved to change the tax status of temporary working holiday makers from that of “resident”, to that of “non-resident”, from 1 July 2016. This change acts as a disincentive to young international visitors from coming to visit and work in Australia. This change was not discussed with the tourism and accommodation industry prior to the budget. The industry was surprised by the change, especially given that the last study into the economic impact of working holiday makers was in 2008.

Labour mobility and supply is one of the major issues facing hospitality and accommodation businesses. Given the relative immobility of Australian workers, this is especially the case in areas with seasonal employment needs, e.g. Northern Territory. The recent decision to tax working holiday makers is causing concern for operators in seasonal jurisdictions. Seasonal operators fear an unintended consequence of the new tax arrangements may result in an under supply of workers.

The working holiday maker visa program allows persons aged 18 to 30 years from eligible partner countries to work in Australia while having an extended holiday. Work in Australia must not be the main purpose of the visa holder’s visit. This is a cultural exchange programme which enables young travellers to have an extended holiday and earn money through short-term employment. Working holiday makers are an important source of labour for the hotel industry. In particular, working holiday makers are willing to fill jobs in regional areas during seasonal periods.

Australia competes globally for backpackers who make a dual economic contribution, filling labour shortages and spending approximately \$13,000 per visitor during their stay. An example of a working holiday maker that earns \$13,000 is set out below

Category	Income	Tax rate	Tax
Resident tax status	\$13,000	0%	\$0
Non-resident tax status	\$13,000	32.5%	\$4,225

Backpackers are more likely to visit and work in regional areas. Importantly, the money earned by backpackers usually is spent in the region they are working. Especially, in the more isolated regions, this spend directly assists the local economy, rather than diverting money to the Federal Government. There is also a concern that such a change will simply drive backpackers to the cash economy.

The AHA proposes that the 2015 decision to abolish the tax free threshold for working holiday makers be reversed so as to encourage more backpacker tourism and assist with the supply of labour in seasonal areas particularly

4 FRINGE BENEFITS TAX (FBT)

Fringe Benefit Tax (FBT) is a regressive tax that discourages expenditure and consumption, thus leading to underemployment. FBT on entertainment and meals unfairly penalises the hospitality industry and increases compliance costs for business. Therefore, the AHA seeks the restoration of reasonable entertainment expenses as a tax deduction and the removal of FBT on staff business meals.

Since being introduced in 1986, FBT has been an enormous impost for business. The fact that meals that are genuinely for business purposes attract FBT hurts the hotel industry and the broader business community. The AHA calls for this tax to be abolished or a reasonable deduction threshold introduced.

The AHA understands that FBT has simply driven much business hospitality “underground” with many large firms now conducting lunches “in house”, where the FBT is not incurred. Generally only large businesses can afford this luxury and it is consequently unfair to smaller operators. Reducing or abolishing the FBT would stimulate increased business meals at hotels, thus creating more jobs and benefit to the Australian economy.

Despite the positive economic multiplier effects, the AHA understands that its proposal regarding FBT would present challenges to the government. However, the AHA believes that amending the FBT will stimulate business activity and indirectly create many positive social and economic multiplier benefits; the most important of which is increasing social inclusion and living standards through workforce participation.

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

5 DEPRECIATION

The AHA supports the recent decision for small business to provide accelerated depreciation up to amounts of \$20,000 and decrease company tax to 28.5%. The same stimulatory arguments applying to small business applies to all business sizes.

The AHA proposes that the recent accelerated and depreciation and reduced company tax rates be available to businesses of all sizes.

6 THE DIGITAL & UNREGULATED ECONOMY

The changing global environment and rise of the digital economy is creating challenges for the tax system and business generally. The government is encouraged to recognise that the “new economy” now encompasses a two tier economy:

Type	Environment
“Bricks and mortar economy”	Often bound or licensed by state or council regulation
“Digital” and “Unregulated”	Often operating via the internet and beyond the reach of federal, state or council regulation

As much as businesses are encouraged to become “agile”, doing so is more difficult for “bricks and mortar” businesses. This is because “bricks and mortar” businesses (such as hotels) are captured under the regulations of state government and local councils, whereas the digital economy can often escape such regulation. Examples of where regulated businesses are competing with unregulated businesses include e.g., accommodation, taxis, gambling.

Many of these new digital enterprises are based on providing products to consumers more cheaply than is possible in the bricks and mortar economy. These lower costs are often achieved by avoiding

taxes such as GST, income tax, company tax, capital gains tax, council rates and licence fees. In the case of multinationals, this also includes shifting jobs and profit off shore.

The AHA recommends that the government ensures that it modernises the tax system to ensure it maximises tax revenue from the digital and unregulated economy, as paid by “bricks and mortar” businesses

7 UNREGULATED ACCOMMODATION

The bricks and mortar accommodation industry is bound by regulation, whereas the “share economy” is not. For example, the regulated accommodation economy is (rightly) bound and tightly administered by regulations including e.g.

- Fire safety regulations
- Disabled access ratios
- Zoning laws
- Commercial insurance
- Taxation including GST
- Application fees

Governments and Councils regulate accommodation for a reason. However, the unregulated “share economy” is able to avoid all the above. This gives the unregulated accommodation economy a price competitive advantage over hotels. Unfortunately, this is at the expense of:

- Little or no adherence to legislated patron safety standards
- Decreased community amenity due to ignoring strata agreements and zoning laws
- A black economy escaping contributing to government revenue

Tourism Accommodation Australia (a division of AHA) advises that the taxation of unregulated accommodation is presently being explored by governments around the world. The New York State Attorney General, for example, has found that New York City was likely owed \$US33 million in unpaid taxes from short-term rentals.

The AHA recommends that the Federal Government take action to ensure that the “unregulated share accommodation economy” adheres to the same regulatory regimes and taxation as the regulated accommodation industry.

8 ILLEGAL WAGERING

Hotels conduct wagering by means of “Pub Tabs”. State and territory governments charge taxes on wagering. About \$600 million was paid by TABs and bookmakers to state governments last year. Digital technology has now enabled Australian punters to place bets with “pirate bookmakers” operating in overseas jurisdictions that pay no taxes or fees to federal/state/territory governments. Current estimates are about \$2 billion gross sales is leaking to illegal offshore bookmakers. If this leakage could be stopped, the result would be:

- A more level playing field for Pub Tabs and other wagering operators
- Increased tax revenue for states and territories

The AHA understands there are various legal and political complexities surrounding increasing enforcement. However, we understand the options to increase enforcement include, e.g.

- Blocking ISP/websites for illegal operators
- Point of consumption tax
- Financial transaction blocking for illegal operators (as occurs in some US jurisdictions)
- Penalties for banks and financial institutions that process transaction with illegal operators
- Advising illegal operators they are on the “movement list” denying access to an Australian visa
- Penalties for the advertising of illegal services to Australian residents through digital platforms e.g. Google, mobile phone apps, Facebook
- Adopting similar laws to the *Copyright Amendment (Online Infringement) Act 2015*

The AHA recommends that the Federal Government take action to prohibit wagering with illegal offshore wagering operators so as to retain leaked wagering revenue within Australia

9 ALCOHOL TAXATION

The current excise taxation of alcohol provides a differential in excise for draught beer. Even with the excise differential, draught beer still contributes more in taxes than the same strength beer sold in a liquor store or for takeaway. This is due to the compounding effect of GST.

The AHA understands the legitimate concerns about the misuse of alcohol in the community; this is especially the case in unregulated environments. The hotel industry shares many of these concerns and acknowledges its responsibility to serve alcohol responsibly to minimise misuse. The AHA notes:

- Only 19% of alcohol is consumed in pubs, bars and taverns, which are heavily regulated
- The remaining 81% of alcohol is consumed in unregulated environments

The AHA also notes the positive social and economic effects when comparing the consumption of alcohol at licensed venues compared to alcohol consumed in unregulated environments. The positive social benefits include:

- Trained staff enforcing the Responsible Service of Alcohol (RSA)
- A safer environment in which to consume alcohol, e.g. security, lighting, CCTV
- Increased social interaction and capacity to support community groups
- Increased social inclusion through workforce participation
- Provision of entertainment, e.g. live music

Business activity in hotels creates positive economic multiplier benefits that do not exist in unregulated environments, e.g.

- Payment of staff wages, training, WorkCover insurance, superannuation, etc
- Purchase of equipment e.g. beer taps, cold rooms, air conditioning, glassware
- Purchase of furniture, floor coverings, CCTV, televisions, sound systems
- Expenditure on building construction, improvements and maintenance
- Expenditure on power, utilities and consumables

In the event that the excise differential on draught beer was not retained, the increased combination of excise and GST would act as a virtual payroll tax for the federal government and would inevitably lead to a drop in employment and other economic activity.

The AHA strongly advocates retaining the existing differential rates for low, mid strength and draught beer.

The AHA believes that the introduction of differential excise rates for wine and spirits consumed on premise would provide positive stimulatory social and economic benefits, as distinct from consumption in unregulated environments. The most positive of these is increased business activity creating social inclusion and living standards through workforce participation.

The AHA proposes that the government consider introducing differential excise rates for wine and spirit bulk alcohol products consumed on premise.

10 CONCLUSION

In conclusion, the AHA believes the goals of the federal budget should include:

- Taxes that are lower, simpler, and fairer
 - Stimulates the Australian economy
 - Address the inequities between the “digital” and “bricks and mortar” economies
 - Increases social inclusion and improving living standards through workforce participation
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