



15 December 2017

Budget Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Prebudgetsubs@treasury.gov.au

Dear Sir/Madam,

Pre-Budget Submission 2018-2019

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 group

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

1 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 the following improvement in indicators related to alcohol consumption, e.g.

- Alcohol consumption in Australia has fallen 25% over the last 40 years

- Just 6% of Australians drink daily – down from 9% a decade ago
- A shift to low and mid strength beers means that low and mid strength beer now accounts for 24% of all beer sales in Australia

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 a moratorium on 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.

2 ENERGY PRICING AND RELIABILITY

The AHA recognises the government's National Energy Guarantee. In setting complementary energy and emissions reductions policies in the national interest, AHA recommends that the Government remain cognisant that investment, employment and productivity growth are equally in the national interest.

Energy is one of the most important inputs for hoteliers, significantly affecting the price of electricity, laundry and repairs. The hotel industry requires access to secure and affordable energy every hour of every day.

Without energy affordability and reliability, operating margins diminish and operating conditions become more precarious. Energy affordability and reliability is fundamental to achieving sustainable investment, employment and productivity growth in the hotel sector.

Retail electricity prices for hotel operators have increased substantially in the last decade, Domestic gas prices have risen considerably as gas supplies available for domestic consumption have tightened. Energy security has decreased as reliance on the National Electricity Market (NEM) has fallen.

The AHA recommends the Government:

- Introduces no new taxes, levies or charges that increase the cost of energy
- Implements policies aimed at decreasing the cost of energy
- Ensures the secure supply of energy

3 ENTERPRISE TAX PLAN

The AHA supports the Government’s progressive reduction in the corporate tax rate to 25 per cent by the 2026-27 financial year. The progressive reduction in the corporate tax rate will cost \$2.65 billion over the forward estimates to 2019-20.

Business investment results in greater, more efficient economic output. Because it increases business revenues, profits, taxes, employment and ultimately wages, business investment is central to economic growth and prosperity. It is widely recognised that an internationally competitive corporate tax rate is one of the most direct and effective policy levers for incentivising business investment across the whole economy.

Australia has a comparatively high corporate tax rate that is internationally uncompetitive and discourages international investment. Australia’s corporate tax rate of 30 per cent is one third higher than the Asia average of 22 per cent.

The AHA recommends that the Government proceed with the entirety of its Enterprise Tax Plan to reduce the corporate rate of tax 25 per cent by the 2026-2027 financial year.

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 TOURISM ACCOMMODATION AUSTRALIA

AHA notes that Tourism Accommodation Australia (TAA) has lodged a Pre-Budget submission. TAA is a division of the AHA and the AHA supports the TAA submission.

- Unregulated accommodation (Capital Gains Tax and GST)
- Regional tourism
- Tourism Australia funding
- Labour skills and shortages

AHA supports the issues and submissions raised by TAA.



STEPHEN FERGUSON
NATIONAL CEO