



# Australian Hotels Association

## Pre Budget Submission 2017-2018

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## **1 ABOUT AHA**

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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

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.

## **2 ENERGY EFFICIENCY AND SECURITY**

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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.

Ahead of the Commonwealth Government’s 2017 Review of climate change policies, it is important that Government acknowledges that policies to reduce emissions should complement policies aimed at increasing energy affordability and reliability.

AHA supports the work of the COAG Energy Council in reforming the NEM to support energy security, affordability and reliability. 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.

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

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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.

<b>Year</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
<b>Financial Impact</b>	<i>-400 million</i>	<i>-500 million</i>	<i>-800 million</i>	<i>-950 million</i>

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 to 25 per cent by the 2026-2027 financial year.

## 4 ALCOHOL TAXATION

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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** 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.

## 5 GOODS AND SERVICES TAX (GST)

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### 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.

## 6 FRINGE BENEFITS TAX (FBT)

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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.

## 7 THE DIGITAL & UNREGULATED ECONOMY

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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.

### **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 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

**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.