



31 January 2020

Budget Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Prebudgetsubs@treasury.gov.au

Dear Sir/Madam,

Pre-Budget Submission FY21

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 includes pub-style hotels, bars, taverns, restaurants 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

COVID-19

The AHA believes a key goal of this federal budget should be ensuring that businesses bearing the brunt of the COVID-19 pandemic are provided with short-term relief and medium-term stimulus to assist in paying back their accrued debts and employing more people. In the last 74 days alone, nearly 10 million Australians have been locked down in the following regions, with consequent economic loss, employment loss and social harm:

- South Australia (1.7m population)
- Sydney Northern Beaches (0.25m population)
- Greater Brisbane (2.6m population)
- Perth and surrounds (2.1m population)

In regard to strategies to assist recovery from COVID-19, the AHA proposes:

- Short term relief – wage subsidy for businesses still impacted by government restrictions
- Medium term stimulus – suspend FBT for three years

TAA and ACCI submissions

- AHA notes that Tourism Accommodation Australia (TAA) has also made a submission. TAA is a division of the AHA representing the specific needs and interests of the owners and operators of Australia's accommodation industry. The AHA supports the TAA submission.
- AHA is a member of the Australian Chamber of Commerce (ACCI), which has made a submission. The AHA supports the ACCI submission.

1 SOUTH AUSTRALIA CASE STUDY

Set out below is an extract from a report prepared by the South Australian Centre for Economic Studies, University of Adelaide (**attached**). The report examines the heavily adverse impact of the lockdown of South Australia on 18 November 2020.

“The broad characteristics of AHA members and employment in the SA hotel industry are:

- *15,750 employed in the 280 metropolitan venues*
- *10,500 employed in the 351 non-metropolitan venues*

For the initial lockdown period:

- *employment is estimated to have dropped by some 79 per cent or 20,000 per day between Thursday 19 November and Wednesday 25 November. This was equivalent to 2.4 per cent of South Australia’s employment prior to the lockdown;*
- *all types of workers were affected. Around 30 per cent of hotels responding to the survey reported over 80 per cent of permanent employees were put off and over half of their casual employees, which comprise some 61 per cent of total employment in South Australian hotels, lost employment; and*
- *some \$7 million to \$10 million of food, alcohol etc was wasted by having to be disposed of quickly. 40 per cent of survey respondents reported that with more notice they could have reduced this waste by between 76 per cent and 100 per cent.*

Despite the lockdown being later reduced to three days, ... other severe restrictions remained in place. The resulting cancellations or disruptions to planned functions; limited dining and drinking capacity; and heightened uncertainty about what new restrictions could be quickly imposed without consultation with industry sharply reduced business activity, turnover, purchases and employment in the following weeks through to 31 December:

- *employment is estimated to have, on average, been 12,500 lower per day through the period 26 November to 31 December than would have otherwise been the case if the new COVID-19 restrictions had not been in place;*
- *turnover is estimated to have been lower by some \$100 million, or between a quarter and a third, in the five weeks to 31 December;*
- *spending on food and produce is estimated to have been lower by between \$21 million and \$30 million.*
- *42.7 per cent of respondents to the survey reported a reduction of purchases of between \$10,000 and \$50,000;*
- *spending on services that would have otherwise been provided by subcontractors or tradespeople is estimated to be down by between \$11 million and \$15 million;*
- *total accommodation revenue lost for the 30 days following the lockdown is estimated at between \$4.7 and \$15.5 million.”*

The case study above is demonstrative of the economic and social harm caused to employers and workers as a direct result of hotels being locked down to save Australian lives. It is not unreasonable that the hospitality and accommodation industries seek relief and stimulus to assist in their recovery.

2 WAGE SUBSIDY (SHORT TERM RELIEF)

The AHA supports the Pre-Budget Submission of the Australian Chamber of Commerce as it relates to support for businesses still affected by government-imposed trading restrictions arising from the COVID-19 pandemic.

The essence of the ACCI submission is repeated below. It proposes that the best support for business post March 2021 is:

- certainty in the way State & Territory governments respond to COVID cases in accordance with the national framework;
- a clear path to reopening international travel that appropriately manages the health risk, and
- effective roll out of vaccine and as a consequence easing of restrictions.

Any financial support beyond March 2021 should be targeted to those businesses:

- that were successful economic contributors and job generators prior to COVID;
- that as a result of government restrictions and through no fault of their own are still being significantly impacted, and
- which would be of high value to the economic opportunities that arise as Australia and the world come out of the crisis - in other words we are preserving future jobs.

The AHA supports the ACCI submission that a new program operate from 1 April 2021 to support businesses that are still highly impacted by restrictions imposed by Government with the policy objective of preserving future jobs and skills. It is proposed that the following conditions would apply:

- The wage subsidy support would operate via payroll but in addition to a reduction in turnover, the business confirms they operate within a business that is still highly impacted by restrictions imposed by Government to manage COVID19
- Two turnover thresholds, one at a one third reduction in turnover and one at a two thirds reduction compared to either the same quarter in 2019 or 2020
- Needs to continue for as long as restrictions are in place and these businesses are still experiencing this level of revenue impact
- IR flexibilities retained
- Eligibility tested quarterly
- The subsidy would be \$450 per week per Tier 1 eligible employee for business one third down and \$700 per week for businesses two thirds down (employees less than 20 hours per week would be proportionately less)
- Eligible staff are those employed on or before 1 January 2021

3 FRINGE BENEFIT TAX (MEDIUM TERM STIMULUS)

Recommendation

The AHA recommends the Government enable taxpayers who carry on a business, for the next three years:

- Be allowed to claim a tax deduction and GST inputs on accommodation, meal entertainment and beverages (excluding alcohol)
- Together with allowing a credit for the related GST and not requiring any FBT for the business owner or their employees.

Rationale

The hospitality industry has been particularly affected by the restrictions implemented due to COVID-19. The Federal Government has provided significant assistance to business such as the Cash Boost Scheme and JobKeeper – and we thank the Government for all its efforts and leadership.

However, accommodation occupancy and hospitality revenue for many regions such as Sydney CBD, Melbourne CBD and Far North Queensland are still down by more than 50%. There is continued uncertainty regarding domestic travel, bans on international travel, and a slow move back to work in many office precincts.

Those businesses that are now trading back at near or above normal levels have accrued significant debt due to government-imposed lockdowns and trading restrictions. Debts that accrued for example include deferred interest and rent payments plus a range of other charges such as electricity, taxes and rates.

EY modelling summary

Suspending FBT on meals and accommodation will provide a much-needed medium term stimulus creating instant jobs. Economic modelling conducted by EY (draft report **attached**) shows that suspending FBT would have the following positive impacts per annum over three years:

- Impact on GDP – ranging from \$239m to \$500m
- Impact on employment FTE – ranging from 1,703 to 2,474
- GDP per dollar of cost to government – ranging from \$1.89 to \$3.81

The AHA notes that the GDP per dollar cost to government is similar to that enabled by the Home Builder scheme, which has delivered significant investment to the building industry

Inequity

The arguments against suspending FBT are often based on the “equity principle”. Unfortunately, the equity principle of FBT has been circumvented largely by those who it was intended to capture. Many large-scale firms provide in house benefits that would otherwise attract FBT, e.g., childcare, gymnasiums, and board room lunches. Thus, they have successfully circumvented the payment of FBT. This circumvention gives those firms with the scale to avoid FBT an unfair advantage over smaller to medium enterprises who do not have the required scale or capacity.

Two scenarios

EY modelled two scenarios of a three-year suspension of FBT expenses for accommodation and meal expenses.

- Scenario 1: all sized businesses
- Scenario 2: small to medium enterprises only

Summary of potential direct costs to Government by scenario		
Year	Scenario 1 (all sized businesses)	Scenario 2 (SME only)
2020/21	\$167m	\$113m
2021/22	\$152m	\$99mm
2022/23	\$154m	\$100

If the Government chose not to exempt large businesses, just exempting SME businesses would put SME businesses on the same FBT footing that larger businesses have successfully enjoyed.

Economic benefit

In 2017/18. The EY report shows that a temporary suspension of FBT in both the below options has a positive economic benefit. In FY22 and FY23, the economic returns range from 3.25x to 3.81x.

Scenario summary potential results by financial year			
		Scenario 1	Scenario 2
Impact on sector output, \$m	2020/21	\$125	\$95
	2021/22	\$307	\$232
	2022/23	\$310	\$235
Impact on GDP, \$m	2020/21	\$315	\$239
	2021/22	\$497	\$377
	2022/23	\$500	\$379
Impact on employment, FTE	2020/21	2,249	1,703
	2021/22	2,462	1,865
	2022/23	2,474	1,874
GDP per dollar of cost to government	2020/21	\$1.89	\$2.11
	2021/22	\$3.26	\$3.81
	2022/23	\$3.25	\$3.79

Industry need

Due to COVID-19, the accommodation and food services sector were locked down to solve a public health crisis. The lockdown caused businesses to be unable to trade for months and saw a widespread layoff of workers. The sector has been the worst affected during the Covid-19 crisis, e.g.

- 84% of businesses reported decreased revenue, with 53% reporting revenue decreases of 50% or greater (N.B. this is the highest proportion of any industry to report revenue decreases in this range)
- 15% of businesses reported that their operations could be supported by less than a month through currently available cash at hand (N.B. once again the highest of any industry)

Over 98,000 establishments participate in the sector, employing over 900,000 people:

- Female workforce participation is well above the national average (60% of accommodation workers and 54% of F&B workers are female - Australian average is 48%)
- High levels of employment for younger Australians (47% of workers are under the age of 25 years)
- Approximately 67% of businesses in the sector indicate that JobKeeper has influenced their employment decisions.

AHA research estimates:

- A national decline of 71% in turnover for pubs in the March to June 2020 period from last year
- A national average fall in accommodation hotel room revenue of 77% and a fall in occupancy rates of 66% (forward looking data shows occupancy rates below 50% of capacity based on current bookings over the 90-day period from 15 June to 12 September)

Conclusion

The hospitality and accommodation sectors play a vital role in providing jobs, especially to females and younger Australians. The sector was the hardest hit during the COVID-19 pandemic, and remains under government mandated ongoing restrictions. Whilst many businesses are recovering, and some businesses are doing extremely well, unfortunately many businesses are still likely to be severely financially distressed.

Suspending FBT will increase economic activity in the sector, remove inequity between businesses of different size, increase GDP, increase employment, and stimulate the wider economy – saving businesses and thousands of jobs.

The AHA recommends the Government enable taxpayers who carry on a business, for the next three years:

- Be allowed to claim a tax deduction and GST inputs on meal and beverage entertainment
- Together with allowing a credit for the related GST and not requiring any FBT for the business owner or their employees.

4 ALCOHOL EXCISE

The AHA is concerned that the six-monthly CPI increase on beer and spirits acts as a virtual payroll tax for the federal government, forcing up the cost of living, and will inevitably lead to a drop in employment and other economic activity. 1 February just gone saw the 71st six monthly excise increase.

- For the last 35 years - every February and August - liquor excise tax increases by CPI
- It is a hidden tax

This is about Easing cost of living pressures and supporting jobs. Australians pay amongst the highest excise rates in the world.

- 42% of the retail price on a carton of beer is tax
- 57% of the retail price on a bottle of whisky or gin is tax
- Australia pays the third highest liquor taxes in the world

We must do everything possible to enable recovery through consumer activity.

- The freeze would also support local craft brewers and distillers, many of whom are located in regional and remote locations.
- Those with cellar door operations often play a key role in the tourism industry in those regional destinations, and
- All have been severely impacted by the COVID-19 social distancing measures.

The cost to the federal budget would be about \$77 million. Current rates of excise are:

- Keg (full strength) - \$36.14 per litre of alcohol
- Packaged - \$51.31 per litre of alcohol
- Whiskey or gin - \$86.90 per litre of alcohol

The AHA advocates a moratorium on CPI increases for all excise rates for beer and bottled spirits.



STEPHEN FERGUSON
NATIONAL CEO



GOVERNMENT SUPPORT FOR BUSINESS BEYOND MARCH 2021

ACCI Proposal relating to support for businesses highly impacted by Government restrictions

Principles that underpin policy proposal

The proposed scheme which should be implemented post March 2021 is put forward in the context of two overriding principles which are as follows:

1. The best support for business post March 2021 is that there is:
 - certainty in the way state and territory governments respond to COVID cases in accordance with the national framework;
 - a clear path to reopening international travel that appropriately manages the health risk, and
 - effective roll out of vaccine and as a consequence easing of restrictions.

2. Any financial support beyond March 2021 is targeted to those businesses:
 - that were successful economic contributors and job generators prior to COVID;
 - that as a result of government restrictions and **through no fault of their own** are still being significantly impacted, and
 - which would be of high value to the economic opportunities that arise as Australia and the world come out of the crisis - in other words we are preserving future jobs.

The government restrictions that have been most debilitating for effective business recovery have been those that have limited international travel, movement across state and territory borders and restrictions on large gatherings. Their impact has been broader than tourism, and include those businesses that work in major events, business events, arts and entertainment, and other sectors where larger gatherings were common place. Excluded from our proposal would be those government restrictions that relate to most businesses including 1.5 m social distancing and use of protective equipment as required.

By way of example, businesses most impacted include airlines, airports, travel agents, accommodation and hospitality particularly in the CBDs, event venues and suppliers, inbound tour operators and others. The businesses that have been impacted are not limited by geography or sector but have been affected by restrictions on the size of their customer groups or by the inability of customers to travel into and out of Australia and across borders.

Proposal

It is proposed that a new program operate from 1 April 2021 to support businesses that are still highly impacted by restrictions imposed by Government with the policy objective of preserving future jobs and skills.



It is proposed that the following conditions would apply:

- ***The wage subsidy support would operate via payroll but in addition to a reduction in turnover, the business confirms they operate within a business that is still highly impacted by restrictions imposed by Government to manage COVID19**;***
- ***Two turnover thresholds, one at a one third reduction in turnover and one at a two thirds reduction compared to either the same quarter in 2019 or 2020;***
- ***Needs to continue for as long as restrictions are in place and these businesses are still experiencing this level of revenue impact;***
- ***IR flexibilities retained;***
- ***Eligibility tested quarterly;***
- ***The subsidy would be \$450 per week per Tier 1 eligible employee for business one third down and \$700 per week for businesses two thirds down (employees less than 20 hrs/wk would be proportionately less), and***
- ***Eligible staff are those employed on or before 1 January 2021.***

Why this proposal should be implemented:

1. It is fair on businesses who have been impacted, and the right thing to do to support them. These businesses are experiencing major turnover reductions through no fault of their own.
2. It is targeted at specific industries and enterprises where Australia sees a strong future and excludes zombie businesses that are operating in industries that generally are not currently being impacted by government restrictions.
3. The red tape allows for targeting but is not as complex as a full grants program.**
4. It fulfils the government's commitment to discontinue JobKeeper but enables businesses that need support to survive through problems that are not of their own making.
5. Keeping the payment as a wage subsidy is a known mechanism which enables the employment connection to continue and promotes the retention of skills in the enterprise.
6. Allows for some of the unknowns to become more known, such as impact of the vaccination program locally and globally.
7. Businesses able to continue to access IR flexibilities which have been vital to ensuring businesses and their staff can pivot and be retained.

** To be eligible businesses would need to provide evidence that the turnover reduction was due to government restrictions arising from COVID19. To reduce the red tape in businesses meeting the eligibility criteria, businesses operating in industry sectors that are specifically named in public health orders as having restrictions imposed on them or those predominantly servicing international tourists may be able to pre-qualify their eligibility. ACCI recognises this aspect of the proposal is the most challenging in terms of program design, but it is essential to the targeted nature of the scheme.

Economic impacts of stimulus for the Accommodation and Food Services sector

Report to the Australian
Hotels Association

17 February 2021

NOTICE

Ernst & Young was engaged on the instructions of the Australian Hotels Association ("Client", "AHA") to provide an assessment of the potential economic impacts of selected stimulus measures on the Accommodation and Food Services sector in Australia during the incidence of the COVID-19 downturn ("Project"), using pre-existing data and assumptions, in accordance with the engagement agreement dated 20 January 2021.

The results of Ernst & Young's work, including the assumptions and qualifications made in preparing the report, are set out in Ernst & Young's report dated 17 February 2021 ("Report"). The Report should be read in its entirety including the transmittal letter, the applicable scope of the work and any limitations. A reference to the Report includes any part of the Report.

Ernst & Young prepared the Report for the benefit of the Client and considered only the interests of the Client. Ernst & Young has not been engaged to act, and has not acted, as advisor to any other party. Accordingly, Ernst & Young makes no representations as to the appropriateness, accuracy or completeness of the Report for any other party's purposes.

Any references made to the impact of COVID-19 (SARS-CoV-2) ("Coronavirus" or "Virus") on AHA in the Report are based on preliminary enquiries and are not to be interpreted as a complete commentary or as an accurate assessment of the full impact of the Virus. Neither our scope included, nor did we undertake an analysis of the potential impact of the Virus on the accommodation and food services (AFS) sector. Further, as the full impact of the Virus cannot be predicted with any degree of certainty (either for the AFS sector as a whole or individual stakeholders), the potential for unknown ramifications on consumers, supply chains, commercial counterparties (both direct and indirect to the operations of the relevant stakeholders within the AFS sector), future decisions that the relevant stakeholders may make as a result of the evolving Virus situation and potentially adverse geopolitical outcomes, means that the actual results may be further significantly impacted by the Coronavirus. The limitations of the Report should be noted and AHA should make their own determination as to whether the uncertainty of the impact of the Coronavirus would impact your decisions.

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1. Introduction

In June 2020, Ernst & Young (EY) was engaged by the Australian Hotels Association (AHA) to provide an assessment of the potential economic impacts of select stimulus measures on the Accommodation and Food Services (AFS) sector in Australia during the COVID-19 global pandemic. The results of EY's work, including the assumptions and qualifications made in preparing the report, are set out in EY's report dated 20 July 2020. That work commenced on 10 June 2020 and was completed on 20 July 2020.

The July 2020 report assessed the potential economic impacts of selected stimulus measures aimed at the AFS sector during the COVID-19 economic downturn. At that time, two potential options to support the sector through the crisis were proposed by AHA:

- ▶ Suspending Fringe Benefits Tax (FBT) on meal entertainment expenditure for three years.
- ▶ Extending the JobKeeper support program for a period of six-months, from October 2020 to March 2021.

In January 2021, EY was reengaged by AHA to provide an updated report based on the framework, including data and assumptions, developed for our July 2020 report. This updated report, however, measures the potential economic impacts of a three-year suspension of FBT on meal entertainment expenditure, **excluding alcohol**.

In this paper, two scenarios are considered:

- ▶ **Scenario 1:** examines a three-year suspension of FBT expenses for meal entertainment excluding alcohol prescribed for **all** businesses in the sector over the period 2020/21 to 2022/23.
- ▶ **Scenario 2:** examines a three-year suspension of FBT expenses for meal entertainment excluding alcohol prescribed for small to medium enterprises (SMEs) in the sector over the period 2020/21 to 2022/23, where an SME is defined as any business with an annual turnover less than \$50 million.¹

The results of this analysis are presented below.

¹ Following the convention adopted in the Prosperity Advisers report "FBT on Meal Entertainment Hospitality Reignition Study for the AHA", 29/05/2020.

2. Analysis of the AFS sector and the proposed FBT suspension

Australia's AFS sector comprises a wide range of businesses, including accommodation services such as hotels, motels and serviced apartments, as well as restaurants, cafés, takeaways, pubs, bars and clubs. The sector is large and makes a significant contribution to the Australian economy. In the year ending June 2019, the AFS industry directly contributed an estimated \$43 billion of gross value added² and in the year ending June 2020 directly employed around 900,000 people, 800,000 in the food and beverage services industry.³

Fringe Benefits and the AFS sector

A fringe benefit is defined⁴ by the Australian Taxation Office as the provision of a benefit to an employee in a form other than salary or wages. Fringe Benefits Tax on meal entertainment is defined⁵ as:

- ▶ providing entertainment by way of food or drink
- ▶ providing accommodation or travel connected with such entertainment, or
- ▶ paying or reimbursing expenses incurred in obtaining something covered by the above points.

Table 1 shows the taxable value on which FBT is calculated in aggregate for Australia, as well as for meal entertainment (which includes alcohol). In 2017/18, the latest year data is available, the taxable value of meal entertainment was \$397 million out of a total fringe benefits taxable amount of \$8,356 million (4.75%).

Although meal entertainment forms a small portion of the total fringe benefits taxable value, which includes items such as company cars, the taxable amount for meals, which represents the dollar value of expenses subject to FBT, is not insignificant as it approaches \$400 million.

Year	Total fringe benefits	Meal entertainment
2009/10	\$7,625	\$339
2010/11	\$7,951	\$386
2011/12	\$8,050	\$398
2012/13	\$8,677	\$371
2013/14	\$9,117	\$359
2014/15	\$9,155	\$368
2015/16	\$9,146	\$375
2016/17	\$8,767	\$394
2017/18	\$8,356	\$397

² Source: Australian Bureau of Statistics, 5204.0 - Australian System of National Accounts 2018-19, 'Table 5: Gross Value Added (GVA) by Industry', <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5249.0Main+Features12018-19?OpenDocument>. Accessed 30/06/2020.

³ Source: Australian Industry and Skills Committee, 2020, 'Hospitality', <https://nationalindustryinsights.aisc.net.au/industries/tourism-travel-and-hospitality/hospitality>. Accessed 30/06/2020.

⁴ Australian Taxation Office, [https://www.ato.gov.au/General/fringe-benefits-tax-\(fbt\)/](https://www.ato.gov.au/General/fringe-benefits-tax-(fbt)/). Accessed 19/06/2020.

⁵ Source: Australian Taxation Office, available at: <https://www.ato.gov.au/non-profit/your-workers/in-detail/fbt-and-christmas-parties-for-tax-exempt-bodies/?page=3>. Accessed 03/02/2021.

⁶ Taxation statistics, 2009-2018, <https://data.gov.au/data/dataset/taxation-statistics-2016-17/resource/ddf6b851-1a59-4b4f-a2f1-802d26b26db2>. Accessed 19/06/2020.

Scenario design

The Australian Hotels Association is proposing that the Commonwealth Government consider a temporary suspension of FBT for meal entertainment **excluding alcohol**. This option aims to provide short to medium term stimulus as both the domestic economy and international tourism rebounds.

Two scenarios are considered:

- ▶ **Scenario 1:** examines a three-year suspension of FBT expenses for meal entertainment excluding alcohol prescribed for all businesses in the sector over the period 2020/21 to 2022/23.
- ▶ **Scenario 2:** examines a three-year suspension of FBT expenses for meal entertainment excluding alcohol prescribed for SMEs in the sector over the period 2020/21 to 2022/23.

These scenarios are based on the taxable amount for meal entertainment of \$397 million presented in Table 1 above, with two adjustments: to exclude alcohol from the FBT exemption for meal entertainment; and to derive an estimate of meal entertainment attributable to SMEs.

In terms of excluding alcohol from the FBT exemption, there is limited publicly available data on the proportion of alcohol in total meal entertainment fringe benefits tax payable, although the following data was instructive:

- ▶ Industry estimates suggest approximately 50% of meal entertainment FBT payable is alcohol purchases.
- ▶ Historical ABS data⁷ suggests approximately 25.4% of café and restaurant income originates from the sale of alcohol.
- ▶ ABS Australian National Accounts Input-Output tables⁸ indicate approximately 41.5% of industry consumption of food and beverage services is derived from alcohol.

Weighing up these various sources, and the range of estimates of the contribution alcohol is likely to make in the existing meal entertainment, the estimate of 41.5% has been adopted for this exercise.

In terms of estimating the contribution of SMEs to the taxable value of meal entertainment, analysis from Prosperity Advisers QLD estimates 75.74% of meal entertainment FBT collections originate from SMEs.

⁷ Source: 8655.0 Cafes, Restaurants and Catering Services, Australia, Table 4, Australia Bureau of Statistics, 2006-07. Available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8655.02006-07?OpenDocument>, accessed 28/01/2021.

⁸ Source: 5215.0 Australian National Accounts: Input-Output Tables (Product Details), Australian Bureau of Statistics, 2017-18. Available at: <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables-product-details/latest-release>, accessed 29/01/2021.

2.1 Estimated impacts of each scenario

The FBT exemption scenarios for meal entertainment excluding alcohol drive a range of economic impacts through the economy. The FBT exemption scenarios are based on the data presented above in relation to base expenditure on meal entertainment, excluding alcohol, and a detailed methodology presented in Appendix B.

These impacts can be characterised across three key areas:

1. The magnitude of the FBT exemption;
2. The estimated increase in demand for meal entertainment resulting from the reduction in FBT; and
3. The economywide impacts of the increase in demand for AFS as measured by the impact on Gross Domestic Product (GDP) and employment.

The magnitude of the FBT exemption

For economic stimulus purposes the FBT exemption is, by design, aimed at reducing the price of meal entertainment to stimulate demand. On the other hand, the reduction in FBT collected is a direct cost to government.

Table 2 shows the estimated magnitude of the FBT exemption under each of the scenarios considered (year-on-year). The magnitude of the FBT exemption over the period of implementation is around \$230 million under Scenario 1 and \$175 million under Scenario 2 (this figure being lower because of a tightening of the FBT exemption to exclude large businesses).

Year	Scenario 1	Scenario 2
2020/21	\$187	\$142
2021/22	\$230	\$174
2022/23	\$232	\$176

Source: EY estimates

Impact on direct AFS industry output

Each scenario considers the impact of reducing FBT for meal entertainment to stimulate direct economic activity in the AFS sector. This analysis determines that a reduction in FBT reduces the price of meal entertainment, thereby increasing demand. The reduction in price is a function of the estimated magnitude of the FBT exemption, the overall level of expenditure and the price elasticity of demand⁹.

That said, in the short term (year 1 of the exemption) it is assumed that businesses are likely to be less responsive to pure price signals than usual, and to have a stronger focus on the real and perceived safety risks of staff gatherings. As a result, for financial year 2020/21 the stimulatory effects of the FBT exemption have been halved.

The assumed increase in demand for AFS resulting from the FBT exemption is summarised in Table 3 below. The projected increase in demand for AFS is greatest under Scenario 1, reflecting the high

⁹ A key assumption in the analysis is the assumed price elasticity of demand which has been derived from analysis presented in Okrent, Abigail M., and Julian M. Alston. The Demand for Disaggregated Food-Away-From-Home and Food-at-Home Products in the United States, ERR-139, U.S. Department of Agriculture, Economic Research Service, August 2012. Available at https://www.ers.usda.gov/webdocs/publications/45003/30438_err139.pdf?v=5049.9, last accessed 26/6/2020. The assumed price elasticity of demand is 1.34.

level of FBT exemption. Overall, after the initial conservatism in the assumptions around uptake, the increase in AFS activity is estimated to be around \$300 million per annum under Scenario 1 and \$230 million per annum under Scenario 2.

Year	Scenario 1	Scenario 2
2020/21	\$125	\$95
2021/22	\$307	\$232
2022/23	\$310	\$235

Source: EY estimates

Estimated economywide impacts

Direct stimulation of economic activity in the AFS sector also has flow-on impacts to the broader economy, through purchases made from suppliers and wages paid to employees. To capture these impacts at the economywide level we have undertaken computable general equilibrium (CGE) modelling. This model, detailed in Appendix C, measures the net impact of changes on an economy. It is used to measure the net change in response to a given event, such as increased expenditure in the AFS sector. The key economic metrics are expressed in terms of changes to GDP and economywide employment, summarised in Table 4 below.¹⁰

	Year	Scenario 1	Scenario 2
Impact on real GDP, \$m	2020/21	\$315	\$239
	2021/22	\$497	\$377
	2022/23	\$500	\$379
Impact on employment, FTE	2020/21	2,249	1,703
	2021/22	2,462	1,865
	2022/23	2,474	1,874

Source: EY estimates

Taking into account the direct impacts of the FBT exemption on the AFS sector, and the flow on impacts across the economy, there is a projected increase in both real GDP and employment in each year of each scenario. The projected impacts are directly linked to the magnitude of the FBT exemption and the assumed behavioural response. That is, the greater the exemption the higher the estimated economic benefits in terms of increased real GDP and employment (noting the conservative assumptions in the first year of the FBT exemption).

Benefits to outlays

To assess the relative merits of the FBT exemption it is useful to compare the level of government outlay (Table 2) with the projected increase in real GDP (Table 4). The ratio of the increase in real GDP to government outlay is presented in Table 5. These results show that:

- ▶ Each scenario shows economic returns which are greater than the overall cost to Government.
- ▶ Each of the scenarios presented have key timing impacts. The economic returns are lower in the first year of commencement (FY21), before increasing in the remaining two years (FY22

¹⁰ The scenarios identified involve direct costs to government, occurring through reduced FBT revenues. We assumed that the direct costs would be met through the raising of debt, consistent with announcements by the Government on how existing stimulus measures were being financed. Under these financing arrangements, there is no equivalent reduction in government expenditure elsewhere in the economy or increase in aggregate tax takings factored in the analysis.

and FY23). This reflects a likely moderated response by businesses due to social distancing concerns and a general cautiousness on cost control.

- For Scenario 2, limiting the exemption to small and medium enterprises has a lower economic return for the costs incurred by government, reflecting the lower rate of company tax paid by SMEs.

Table 5 summarises the increase in GDP per dollar of total cost to government, noting that the total cost to government differs from the direct FBT cost outlined in Table 2, owing to changes in related tax collections as detailed in the Property Advisers QLD report and summarised in Appendix B. The increase in GDP per dollar of cost to government is as high as \$3.26 for Scenario 1, and \$3.81 for Scenario 2.

	Year	Scenario 1	Scenario 2
GDP per dollar of cost to government	2020/21	\$1.89	\$2.11
	2021/22	\$3.26	\$3.81
	2022/23	\$3.25	\$3.79

Source: EY estimates

A summary of all the above impacts from Table 3 to Table 5 is provided in Table 6 below:

	Year	Scenario 1	Scenario 2
Total cost to government, \$m	2020/21	\$167	\$113
	2021/22	\$152	\$99
	2022/23	\$154	\$100
Impact on sector output, \$m	2020/21	\$125	\$95
	2021/22	\$307	\$232
	2022/23	\$310	\$235
Impact on GDP, \$m	2020/21	\$315	\$239
	2021/22	\$497	\$377
	2022/23	\$500	\$379
Impact on employment, FTE ¹¹	2020/21	2,249	1,703
	2021/22	2,462	1,865
	2022/23	2,474	1,874
GDP per dollar of cost to government	2020/21	\$1.89	\$2.11
	2021/22	\$3.26	\$3.81
	2022/23	\$3.25	\$3.79

Source: EY Estimates

Detailed scenario design methodology can be found in Appendix B, with additional documentation on the EYGEM model provided in Appendix C.

¹¹ Note, the supply of labour, and subsequent employment impacts, is positively influenced by movements in the real wage rate governed by an elasticity of supply. This analysis assumes a perfectly elastic labour supply market.

Appendix A A snapshot of FBT and the AFS sector

Australia's AFS sector comprises a wide range of businesses, including accommodation services such as hotels, motels and serviced apartments, as well as restaurants, cafés, takeaways, pubs, bars and clubs. The sector is large and has a strong impact on the Australian economy – in the year ending June 2019, the AFS industry contributed around \$43 billion of gross value added.¹²

With almost 100,000 establishments and 79,000 enterprises (Table 6), the industry acts as a key source of employment for thousands of people in Australia. In fact, over 900,000 people were directly employed by the sector as at 30 June 2020. This included about 800,000 people working in food and beverage services and a further 100,000 people within the accommodation industry.¹³

Notable occupations include restaurant and hotel managers, bar attendants, baristas, casual waiters, sales assistants and receptionists. As seen in Table 6, many of Australia's AFS businesses are takeaway services, cafes and coffee shops. This is also reflected in the high proportion of workers in fast food establishments and restaurants. Many people working in takeaway stores and restaurants are younger workers, who are often casual employees. This story also rings true for the rest of the industry, with a high proportion of the AFS workforce consisting of casual staff¹⁴.

	Hotels and resorts	Pubs, bars and nightclubs	Social clubs	Restaurants	Cafes and coffee Shops	Fast food and takeaway food	Total
Establishments	1,673	8,578	5,753	22,198	23,689	36,666	98,557
Enterprises	618	6,182	4,846	20,906	21,262	25,527	79,341

Source: IBISWorld, 2020

The AHA is made up of over 5,000 members¹⁵ and the majority of these members are located in New South Wales and Victoria. Much of the food and beverages industry is highly fragmented and consists of smaller owner-operated businesses.

The industry was particularly affected by the restrictions implemented due to COVID-19. The shutdowns in the economy, border closures and social distancing restrictions prompted a number of AFS businesses to temporarily close, both in response to trading conditions and as a mandated requirement.

ABS data¹⁶ from June 2020 highlights the impact of the crisis on the AFS sector:

- ▶ 84% of businesses reported decreased revenue, with 53% reporting revenue decreases of 50% or greater. This was the highest proportion of any industry to report revenue decreases in this range.
- ▶ 73% of businesses changed their operating hours. This was the highest of any industry and over double the economy wide average of 31%.

¹² Source: Australian Bureau of Statistics, 5204.0 - Australian System of National Accounts 2018-19, 'Table 5: Gross Value Added (GVA) by Industry', <https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/5249.0Main+Features12018-19?OpenDocument>. Accessed 30/06/2020.

¹³ Source: Australian Industry and Skills Committee, 2020, 'Hospitality', <https://nationalindustryinsights.aisc.net.au/industries/tourism-travel-and-hospitality/hospitality>. Accessed 30/06/2020.

¹⁴ TableBuilder query. 2016 Census - Employment, Income and Education dataset. Source: <https://www.abs.gov.au/websitedbs/D3310114.nsf/Home/Census?OpenDocument&ref=topBar>

¹⁵ Source: <https://aha.org.au/>

¹⁶ Source: Australian Bureau of Statistics, 5676.0.55.003 - Business Indicators, Business Impacts of COVID-19, June 2020 - <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5676.0.55.003June%202020?OpenDocument>. Accessed 25/06/2020.

- ▶ 54% of businesses changed the types and range of products and services offered, again this was the highest of any industry and over double the economy wide average of 22%.
- ▶ 15% of businesses reported that their operations could be supported by less than a month through currently available cash at hand, once again the highest of any industry.

Appendix B Approach to scenario design

The first step in estimating the economywide impacts was determining the direct impact of each of the measures. A range of data sources and models were drawn upon to develop first round estimates of the potential increase in output for the AFS sector as a result of FBT exemptions. While each scenario drew on similar input data, the specifics of each scenario called for tailored estimation approaches.

Once the direct impacts of each scenario were estimated, the second step was to develop economywide estimates of the impacts using EY's in-house computable general equilibrium (CGE) model, EYGEM. EYGEM is a large scale, dynamic, multi-region, multi-commodity CGE model of the Australian and world economy. CGE models are used extensively by (for example) the Australian Government to assess the economywide impacts of major policy changes and economic developments. The direct outputs of each of the estimation exercises described below were used to calibrate a series of economic 'shocks' that are applied to the EYGEM model. A detailed description of the EYGEM model is presented in Appendix C.

Each of the scenarios called for a three-year suspension of fringe benefits tax on meal entertainment from financial year 2020/21 to financial year 2022/23. Differentiating the scenarios is the scope of the suspension, with Scenario 1 calling for the suspension to be applied to all businesses regardless of size, while Scenario 2 calls for the suspension to be restricted to SME only. In this analysis alcohol is excluded from the temporary exemption.

Limited publicly available data exists on the proportion of alcohol in total meal entertainment fringe benefits tax payable. Three estimates were considered, using three different sources:

1. Industry estimates suggest approximately 50% of meal entertainment FBT payable is alcohol purchases.
2. Historical ABS data¹⁷ suggests approximately 25.4% of café and restaurant income originates from the sale of alcohol.
3. ABS Australian National Accounts Input-Output tables¹⁸ indicate approximately 41.5% of industry consumption of food and beverage services is derived from alcohol.

Given the uncertainty associated with the composition of meal entertainment for FBT, the central estimate of 41.5% is adopted.

Estimation of the direct industry response, the cost to Government, and the economywide impact followed a three step process where we first estimated the existing and forward level of FBT collection, second we estimated the direct behavioural response to the effective tax reduction, and third we applied the increased industry output to the EYGEM model. The detailed approach is as follows:

1. The most recent taxation statistics available from the Australian Taxation Office¹⁹ provided the FBT paid on meal entertainment, at \$387,185,184 for the financial year 2017/18.

¹⁷ Source: 8655.0 Cafes, Restaurants and Catering Services, Australia, Table 4, Australia Bureau of Statistics, 2006-07. Available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8655.02006-07?OpenDocument>, accessed 28/01/2021.

¹⁸ Source: 5215.0 Australian National Accounts: Input-Output Tables (Product Details), Australian Bureau of Statistics, 2017-18. Available at: <https://www.abs.gov.au/statistics/economy/national-accounts/australian-national-accounts-input-output-tables-product-details/latest-release>, accessed 29/01/2021.

¹⁹ Source - Taxation statistics 2016-17 Fringe benefits tax: Selected items by industry and taxable status, 2017-18 FBT return year. Available at https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2016-17/?page=18#Fringe_benefits_tax, last accessed 26/6/2020. Note that while this publication is primarily for financial year 2016/17, selected data including on Fringe Benefits Tax is provided for financial year 2017/18.

2. The most recent national accounts from the Australian Bureau of Statistics²⁰ provided data on total FBT collections on a quarterly basis to March 2020. EY calculations based on this data indicated an increase in total FBT collections of 2.54% from 2017/18 to 2019/20. This increase in FBT takings was used to estimate meal entertainment and accommodation FBT in 2019/20 of \$397,058,203.
3. Weekly revenue data provided by AHA for AusVenueCo²¹ shows the level of revenue decline experienced to June 2020. This data was used to calibrate a projection of meal entertainment and accommodation FBT takings to 2022/23, suggesting reductions in these FBT takings from 2018/19 of 23% in 2019/20, 26% in 2020/21, 11% in 2021/22, and 0% in 2022/23. This FBT profile was used as the base for calculations in Scenario 1 in combination with the non-alcohol percentage described above.
4. The report 'FBT on Meal Entertainment Hospitality Reignition Study for the AHA' dated 29 May 2020 by Prosperity Advisers QLD indicated that 75.74% of meal entertainment and accommodation FBT is collected from SMEs. This proportion was used to reduce the base of FBT takings calculated previously and provides the FBT base for Scenario 2.
5. Own price elasticities for the categories "Food Away from Home and Alcohol" and "Full Service Restaurant" were drawn from Okrent and Alston²², at 0.71 and 1.96 respectively. Noting the wide range in these two elasticities and that the nature of the FBT expenses under investigation is likely to include a combination of these categories we chose a midpoint of 1.335.
6. The own price elasticity is applied to a reduction in the effective tax collection calculated above. We made the assumption that over the short-term business is likely to be less responsive to pure price signals than usual, and to have a stronger focus on the real and perceived safety risks of staff gatherings, and so for financial year 2020/21 we halved the own price elasticities estimated above.
7. The resulting profile of industry output increase was then used as an output shock for the AFS sector in the EYGEM model.
8. The Prosperity Advisers QLD report (refer 4. above) provided estimates of the total direct (that is, before behavioural changes) loss of revenue to government as a result of suspension of FBT, with a total loss of \$1.12 for every \$1 of FBT suspension in Scenario 1, and a total loss of \$1.02 for every \$1 of FBT suspension in Scenario 2, reflecting differences in the rate of corporate tax applied for each entity. Additionally, the report indicated that each additional dollar of expenditure spent on meal entertainment results in an increase in tax revenue of \$0.34. These ratios were applied to the reduced FBT base and the estimated increase in AFS output respectively to calculate the total cost to government.

²⁰ Source - 5206.0 Australian National Accounts: National Income, Expenditure and Product, Table 22. Available at <https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5206.0Mar%202020?OpenDocument>, accessed 26/06/2020.

²¹ AusVenueCo operate 170 pubs, bars and taverns across Australia in all states and territories with the exception of Tasmania.

²² Okrent, Abigail M., and Julian M. Alston. The Demand for Disaggregated Food-Away-From-Home and Food-at-Home Products in the United States, ERR-139, U.S. Department of Agriculture, Economic Research Service, August 2012. Available at https://www.ers.usda.gov/webdocs/publications/45003/30438_err139.pdf?v=5049.9, accessed 26/06/2020.

Appendix C The EYGEM Model

Economic impact analysis measures the net impact of changes on an economy. It is used to measure the net change in response to a given event (e.g. such as the loss of an activity, or increased expenditure in a particular sector). The key economic metrics are expressed in terms of changes to gross domestic product, employment and other macro-economic indicators.

The EYGEM model is a large scale, dynamic, multi-region, multi-commodity CGE model of the world economy. The EYGEM model enjoys significant flexibility both at the regional and sectoral level, including the capability to individually identify subregions of Australia, including (but not limited to) at the SA4 or the LGA level as separate economic regions. This capability to identify subnational regions is also readily extended to other international regions.

EYGEM draws on the global CGE modelling framework developed by the Global Trade Analysis Project (GTAP) based at Purdue University in the United States. Their model is described in Hertel (1997), with its antecedent being the Industry Commission's Salter model (Jomini et al 1991). The GTAP model was greatly enhanced by the Australian Bureau of Agriculture and Resource Economics (ABARE) to incorporate dynamic capabilities. The MEGABARE model (ABARE 1996) and its successor, the Global Trade and Environment Model (Pant 2002), were the fruits of ABARE's efforts.

Our model is implemented in modern data science frameworks, including Python and Pandas, and has a user-friendly Excel interface. Our frameworks are specifically designed to improve auditing a paper trail in modelling exercises, reduce the risk of modelling error, and allow for (for example) systematic sensitivity analysis.

Overview of the modelling framework

EYGEM is based on a substantial body of accepted microeconomic theory. Key assumptions underpinning the model are:

- ▶ The model contains a 'regional consumer' that receives all income from factor payments (labour, capital, land and natural resources), taxes and net foreign income from borrowing (lending).
- ▶ Income is allocated across household consumption, government consumption and savings so as to maximise a Cobb-Douglas utility function.
- ▶ Household consumption for composite goods is determined by minimising expenditure via a CDE (Constant Differences of Elasticities) expenditure function. For most regions, households can source consumption goods only from domestic and imported sources. In the Australian regions, households can also source goods from interstate. In all cases, the choice of commodities by source is determined by a CRESH (Constant Ratios of Elasticities Substitution, Homothetic) utility function.
- ▶ Government consumption for composite goods, and goods from different sources (domestic, imported and interstate), is determined by maximising utility via a Cobb-Douglas utility function.
- ▶ All savings generated in each region are used to purchase bonds whose price movements reflect movements in the price of creating capital.
- ▶ Producers supply goods by combining aggregate intermediate inputs and primary factors in fixed proportions (the Leontief assumption). Composite intermediate inputs are also combined in fixed proportions, whereas individual primary factors are combined using a CES production function.

- ▶ Producers are cost minimisers, and in doing so choose between domestic, imported and interstate intermediate inputs via a CRESH production function.
- ▶ The supply of labour is positively influenced by movements in the real wage rate governed by an elasticity of supply. This is most often assumed to be 0.15 for central case scenarios, and 0.3 for high side scenarios, depending on the employment market conditions for the region under consideration.
- ▶ Investment takes place in a global market and allows for different regions to have different rates of return that reflect different risk profiles and policy impediments to investment. A global investor ranks countries as investment destinations based on two factors: global investment and rates of return in a given region compared with global rates of return.
- ▶ Once aggregate investment is determined in each region, the regional investor constructs capital goods by combining composite investment goods in fixed proportions, and minimises costs by choosing between domestic, imported and interstate sources for these goods via a CRESH production function.
- ▶ Prices are determined via market-clearing conditions that require sectoral output (supply) to equal the amount sold (demand) to final users (households and government), intermediate users (firms and investors), foreigners (international exports), and other Australian regions (interstate exports).
- ▶ For internationally-traded goods (imports and exports), the Armington assumption is applied whereby the same goods produced in different countries are treated as imperfect substitutes. But in relative terms imported goods from different regions are treated as closer substitutes than domestically-produced goods and imported composites. Goods traded interstate within the Australian regions are assumed to be closer substitutes again.
- ▶ The model accounts for greenhouse gas emissions from fossil fuel combustion. Taxes can be applied to emissions, which are converted to good-specific sales taxes that impact on demand. Emission quotas can be set by region and these can be traded, at a value equal to the carbon tax avoided, where a region's emissions fall below or exceed their quota.

Dynamics of EYGEM

EYGEM is a recursive dynamic model that solves year-on-year over a specified timeframe. This has two main advantages. First, dynamics allows a richer specification of the model in that issues such as debt accumulation (which facilitates the ability to model international capital flows) and labour market dynamics are able to be modelled in a more sophisticated manner. Second, scenario analysis using a model such as EYGEM can be greatly enhanced by the ability to alter the baseline, or reference case, to account for key developments or uncertainties.

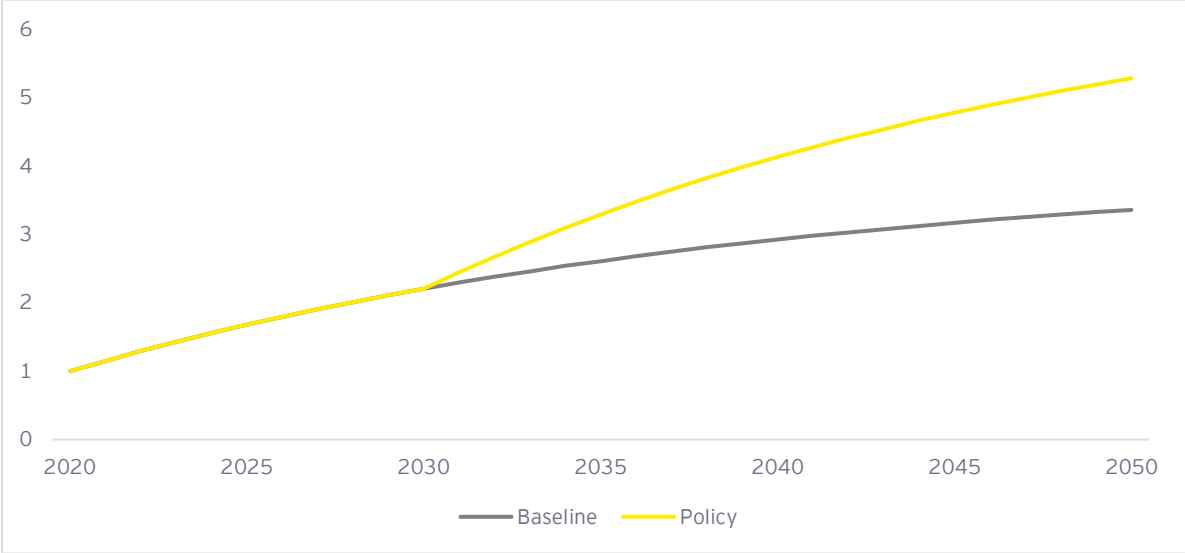
The model is then used to project the relationship between variables under different scenarios, or states, over a pre-defined period. This is illustrated in Figure 1, where a reference case or 'baseline' forms the basis of the analysis undertaken using EYGEM. The model is solved year-by-year from time 0 which reflects the base year of the model (2020) to a predetermined end year (in this case 2050).

The 'Variable' represented in the figure could be one of the hundreds or thousands represented in the model ranging from macroeconomic indicators such as real GDP to sectoral variables such as the exports of iron and steel from Australia. In the figure, the percentage changed in the variables have been converted to an index (= 1.0 in 2020) and is projected to increase by 2050.

Set against this baseline is, in Figure 1, a 'Policy' scenario. This scenario represents the impacts of a policy change or different assumptions about economic development that results in a new projection of the path of the variable over the simulation time period. The impacts of the policy/assumption change are reflected in the differences in the variable at time T. It is important to

note that the differences between the baseline and policy scenario are tracked over the entire timeframe of the simulation.

Figure 1: Dynamic simulation using EYGEM



Detailed interdependencies

The model is underpinned by a detailed, global database. The model’s database is ‘benchmarked’ or ‘calibrated’ so that initial equilibrium solution exists that replicates actual sectoral production, consumption, trade and factor usage. It contains 141 regions and 64 sectors for a base year of 2007, and is the benchmark dataset for applied, global general equilibrium modelling. This database produced by the Global Trade Analysis Project (GTAP) at Purdue University is the most detailed and comprehensive database of its type in the world. Used by some 700 researchers globally, the database is a truly international, collaborative research effort that is fully documented and transparent.

The EYGEM model is primarily based on input-output or social accounting matrices, as a means of describing how economies are linked through production, consumption, trade and investment flows. For example, the model considers:

- ▶ direct linkages between industries and countries through purchases and sales of each other’s goods and services; and
- ▶ indirect linkages through mechanisms such as the collective competition for available resources, such as labour, that operates in an economy-wide or global context.

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