Australian Government

A tax plan for our future
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STATEMENT OF REFORM PRIORITIES

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ORGANISATION

Tourism & Transport Forum

STATEMENT OF PRIORITIES

Industry overview

Australian tourism is a significant component of the Australian economy, directly generating 2.6 per cent of GDP, 9.0 per cent of export earnings and 4.5 per cent of total employment.

Over the years however, the tourism balance of trade has deteriorated from a surplus of $3.6 billion in 2001-02 to a deficit of $5.0 billion in 2009-10. Addressing this will require a significant improvement in the international competitiveness of Australian tourism, and a higher quality and expanded set of tourism product and experiences to target key growth markets in Asia and to stem declining interest from the domestic market.

Tax and the tourism industry

The Australian tourism industry is heavily taxed. Tourism generated approximately $6.9 billion in net federal and state revenue in 2009-10[1], including the GST and other taxes on production, but excluding the Passenger Movement Charge (PMC). These are significant tax imposts on international visitors which directly impact Australia's competitiveness as an international tourism destination.

The results of a recent TTF survey conducted among senior executives of Australian tourism operators, including airlines, hotels, tour operators and attractions, reveal significant concern about the impact of taxes on international travellers, state-based taxes and other taxation measures.[2] TTF believes reform of Australia's tax system could make tourism more competitive and create incentives for investment in new tourism product and the refurbishment of existing product.

While TTF believes there are opportunities for tax reform across a number of areas of relevance to the tourism, aviation and transport sectors, including state-based taxes such as payroll taxes, land taxes and stamp duty and GST issues such as the Tourist Refund Scheme (TRS) and GST-free status on leisure packages, this statement outlines four priorities for reform.

[1] Australian Tourism Satellite Account, cat. no. 5249.0, ABS, 2009-10
[2] TTF-MasterCard Tourism Industry Sentiment Survey, August 2011

1. Short-term Accommodation – Capital Works Deduction & FF&E Depreciation

Capital Works Deduction Incentive

According to the *Tourism Industry Potential,* completed by Tourism Australia, which aims to double overnight expenditure, between 40,000 and 70,000 additional hotel rooms are required across Australia by 2020. Given the existing strong demand for accommodation and the looming shortfall of rooms, particularly in capital cities, an incentive to encourage new accommodation construction is recommended to ensure visitors do not choose a destination other than Australia due to lack of suitable accommodation.

The capital works allowance is a tax deduction available for the structural element of a building including fixed irremovable assets; it does not cover plant and equipment. In respect to tourism property, it covers the hotel building but not the furniture, furnishings or equipment (FF&E). It is not limited to new buildings but includes any redevelopment with building works. Currently, residential and other property types have an allowance of 2.5% p.a. which means the building is written off over 40 years. Manufacturing and tourist accommodation has a capital works allowance of 4%, meaning a hotel is currently written off over 25 years. The tourism industry has consistently argued that hotels are in use 24/7 and depreciate much faster than other properties and that the 4% allowance is not sufficient, i.e. that hotels have a shorter operational life than 25 years.

The LEK report to the Investment and Regulatory Reform working group under the National Long-term Tourism Strategy recommends an additional 50% capital works deduction bonus as a short term incentive (for 3 years) for tourist accommodation development. This would see the investment in the hotel/motel being written off over 12.5 years. LEK has completed robust modelling around this incentive which is contained in its report to the Tourism Minister. This tax incentive will significantly improve the economic return and ability to obtain finance for hotel operators. This incentive would therefore facilitate much needed investment in accommodation room stock and ancillary meeting spaces within accommodation properties. To ensure that a supply bubble does not occur as a result of this incentive, however, TTF recommends that it should be for a limited period of time, for example 3 years.

TTF recommends that a 50% capital works deduction bonus, with the remaining balance spread over 12.5 years at 4%, be made available to stimulate investment in new accommodation development. Accelerating the capital works deduction schedule from its current 25 years at 4% better aligns the depreciation timeframe with the operational life of investments.

Furniture, Fittings and Equipment (FF&E) Depreciation

Australia cannot compete internationally, or meet tourism growth, with aging product. The quality of Australia's accommodation product directly impacts on the visitor experience and is in turn critical to growing tourism demand. Resort, hotel and other accommodation product is a combination of guest services and furniture, fittings, and equipment (FF&E). Accommodation product is unique and FF&E is essential to the product's appeal. In a 24/7 tourist accommodation establishment, assets rapidly wear out and FF&E must be upgraded frequently to ensure Australia offers innovative product.

A major concern, as raised in the *State of the Industry 2010* Report by Tourism Australia, is the lack of Australians engaging in domestic travel. One of the main reasons according the report is the 'lack of investment in product and experiences, which has eroded the value equation for domestic tourism'. Refurbishment and renovation are two of the most important factors in keeping an accommodation establishment attractive to visitors.

In order to provide an incentive to hotels to refresh their properties, TTF recommends that accelerated depreciation on Furniture, Fittings and Equipment (FF&E) should be made available, with 50% of the expenditure on FF&E items being deducted in the first year and the remaining balance spread over the applicable timeframe in the depreciation schedule (i.e. 7 years for carpets, 7 years for bed mattresses, as examples).

2. Aviation fuel excise

Jet A-1 aviation turbine kerosene derived from biological feedstocks is not currently explicitly exempted from proposed carbon tax measures to raise excise on aviation fuels.

The government's Clean Energy Plan states that "emissions from the combustion of bio-fuels and biomass" will not be taxed. The proposed bill goes on to specify ethanol, biodiesel and renewable diesel as specific road transport fuels that will not incur fuel tax credit reductions or changes to excise, as these fuels are zero-rated under international carbon accounting rules, but bio-derived jet fuel is not specified in the legislation.

TTF believes this drafting anomaly needs to be corrected.

The implied Carbon Tax exemption for any bio-fuel product, regardless of use, needs to be made explicit in the case of Jet A-1 and aviation gasoline as the first step towards stimulating investment in a local sustainable aviation fuels industry.

The Sustainable Aviation Fuel Road Map produced by CSIRO in May 2011 estimated that a local industry refining synthetic Jet A-1 from biomass could create 12,000 new jobs in regional areas by 2030. The current uncertainty over whether aviation bio-fuels will be subject to excise acts as a barrier to forward fuel purchase options for bio-fuel and thus puts these jobs in doubt.

TTF believes government needs to investigate a series of measures to stimulate a sustainable aviation fuels industry in Australia, but that the first step is for the federal government to guarantee bio-fuels for aviation will be zero-rated for excise purposes.

3. Passenger movement charge

The government has recently clarified that the Passenger Movement Charge (PMC) is no longer hypothecated against its original stated purpose of funding the border agencies at the primary line, including Customs and Border Protection, quarantine and immigration.

TTF believes the departure tax undermines the competitiveness of Australia's tourism industry and is inconsistent with the government's stated goals of growing international visitation. Fundamentally, the PMC is a protectionist measure, in the form of an export tax on international visitors, and an import tax imposed on Australian residents.

The detrimental impact to the broader economy generated by the charge outweighs the revenue it generates, as illustrated by countries such as The Netherlands and Ireland repealing their departure taxes. While a complete removal would certainly provide significant improvements to the tourism industry broadly, TTF understands the impractical nature of eliminating this significant revenue source in one move, especially given the constrained fiscal environment the government faces.

The PMC requires reform to more closely align with the federal government's tourism policy goals.

Specifically, Treasury needs to introduce flexibility into the PMC-charging mechanism in relation to priority international source markets, including mature markets which are underperforming, and to stimulate demand for travel to regional Australian destinations. A reduction in the PMC in targeted cases would stimulate growth in visitation, which would offset the reduction in revenue through an increase in visitor expenditure, providing a net increase in Australia's economic position.

Extrapolating findings in *The Impacts of the Passenger Movement Charge on Tourism Output and the Economy*[3] by Forsyth et al, regions more dependent on the international tourism sector (e.g. Tropical North Queensland) would benefit more than capital cities from a targeted PMC reduction.

TTF also recommends a restructure for short-haul markets where the PMC comprises a large proportion of the total ticket price.

On popular New Zealand routes, the PMC often comprises up to 30 per cent of the ticket price and TTF believes a reduction in the departure tax would stimulate growth in visitation, which would offset the reduction in revenue collected. Given the government's commitment to simplifying trans-Tasman border formalities, TTF believes New Zealand should be used as a test case for PMC reduction, due to its status as the single largest source market for inbound visitors.

[3] The Impact of the Passenger Movement Charge on Tourism Output and the Economy, by Peter Forsyth, Serajul Hoque, Larry Dwyer, Tien Duc Pham and Ray Spurr, The Centre for Economics and Policy, March 2011

4. Public transport fringe benefit taxes

Existing inequity in the tax treatment of private and public transport and the expected impact of the carbon price on public transport fares have created the need for complementary measures to ensure that commuters have a real choice between public transport and private motor vehicle usage. As Australia moves toward a carbon-constrained economy and a tax and transfer system that rewards sustainable consumption choices, TTF believes there is a strong case to examine using taxation to encourage public transport patronage.

Recent reforms to fringe benefits tax (FBT) concessions for salary-packaged vehicles have removed incentives for motorists to drive further. However, the FBT rate applied to public transport fares (46.5 per cent) remains a significant disincentive for employers to encourage workers to make sustainable commuting choices.

Analysis of possible tax incentives based on efficiency, visibility, equity and simplicity suggests that an FBT exemption, as provided in the US Commuter Benefits scheme, would provide the most effective tax incentive for public transport users.[4] Furthermore, the requirement for employers to "opt in" means that tax-free fringe benefits or allowances would be closely linked to workplace productivity gains.

TTF recommends the provision of an FBT exemption for employer-provided public transport and carpooling expenses capped at an initial monthly rate of $75 per employee.

This measure would provide relief in the cost of commuting and increase take-home pay, as a proportion of transport expenditure is deducted from pre-tax earnings. For employers, a tax-free allowance decreases payroll tax liabilities and provides an opportunity to offer additional employment benefits to attract and retain quality employees.

For government, this tax provision would provide a complementary measure to offset the impact on public transport resulting from the carbon price. Furthermore, as seen in the US, the monthly allowance cap can be adjusted over time to stimulate transport demand as economic or environmental factors may dictate.

[4] NSW Ministry of Transport: Tax Incentives for Public Transport Users, Ernst and Young, 2006, p12