



## **Australian Hotels Association**

Submission to:

### **Re:think Tax White Paper Taskforce**

The Treasury  
Langton Crescent  
PARKES ACT

[bettertax@treasury.gov.au](mailto:bettertax@treasury.gov.au)

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**Contact:**

Stephen Ferguson  
National Chief Executive Officer  
PO Box 4286 MANUKA ACT 2603  
(02) 6273 4007  
[ceo@aha.org.au](mailto:ceo@aha.org.au)

# 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 groups

The Australian hotel industry is a 24/7 labour intensive service industry and is a key element of Australia's tourism industry. Hotels employ over 270,000 people. The makeup of the hotel workforce is extremely diverse and includes adults of all genders and ages. The hotel industry also draws on a diversity of skills including skilled, unskilled, and entry level workers. Occupations include e.g.

- Managers
- Chefs and cooks
- Food and beverage staff
- Security, cleaners and room division
- Marketing, finance and front office

The AHA's members are serviced by branches located in every Australian capital city and a Canberra-based national office. Accommodation hotels are represented by Tourism Accommodation Australia, a division of the AHA. Size and scope of the Australian accommodation hotels sector include:

- 849 accommodation hotels (not including serviced apartments and motels)
- 88,296 rooms
- 225,399 bed spaces

Hotels are community meeting places ingrained in Australia's social fabric, from rural communities and regional centres to city suburban areas and central business districts. Hotels perform an intrinsic role in creating social inclusion and activity. Australian hotels are a key pillar in Australia's tourism and hospitality industry.

## 2 EXECUTIVE SUMMARY

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The AHA supports the following aims and concerns expressed in the tax discussion paper:

- A better tax system to deliver taxes that are lower, simpler, fairer
- A well-designed tax system must deliver equity, efficiency and simplicity
- This requires at the very least minimising the effects of regressive taxes that stifle economic activity and living standards
- The changing global environment and rise of the digital economy is creating challenges for the tax system and business generally.

In addition, the AHA believes:

- The tax system must be capable of stimulating the Australian economy
- Thereby increasing social inclusion and living standards through workforce participation

Therefore, the AHA:

- Recommends the restoration of reasonable entertainment expenses as a tax deduction and the removal of FBT on staff business meals
- Recommends government review ways in which all labour mobility and supply policy and commercial objectives can be met
- Proposes that the recent accelerated and depreciation and reduced company tax rates be available to businesses of all sizes
- Recommends that regressive taxes such as payroll tax, land tax and stamp duty be removed or minimised
- Proposes that given that GST revenue flows to the states, the removal of various state taxes such as payroll tax and land tax above could be included as compensatory measures for increases to or broadening of the GST
- 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
- Recommends that the Federal Government take action to prohibit wagering with unregulated wagering operators
- Believes that the tax system needs to better recognise the positive social and economic benefits of alcohol consumed within hotels, compared to unregulated environments; in particular the capacity to increase social inclusion and living standards through increased workforce participation.
- Strongly advocates retaining the existing differential rates for low, mid strength and draught beer
- Proposes that the government consider introducing differential excise rates for wine and spirit bulk alcohol products consumed on premise

The AHA understands perceptions at first glance that many of its recommendations may present challenges to the review. However, the AHA believes that its recommendations 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.

### 3 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.

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

Despite the positive economic multiplier effects, the AHA understands that its proposal regarding FBT would present challenges to the review. 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.

### 4 LABOUR MOBILITY & SUPPLY

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

**The AHA recommends** government review ways in which all labour mobility and supply policy and commercial objectives could be met.

### 5 THE BUSINESS TAX SYSTEM

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

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

## 6 STATE AND MUNICIPAL TAXES

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The AHA agrees with the government's tax discussion paper statement that "economic modelling suggests that the 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 recommends** that regressive taxes such as payroll tax, land tax and stamp duty should be removed or minimised.

## 7 GOODS AND SERVICES TAX (GST)

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On the proviso that costs, excises and taxes in other areas were reduced and simplified, the AHA would engage in further discussion as to broadening and/or increasing the GST.

**The AHA proposes** that given that GST revenue flows to the states, the removal of various state taxes such as payroll tax and land tax above could be included as compensatory measures for increases to the GST.

## 8 GLOBALISATION & THE DIGITAL ECONOMY

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The digital economy is having a marked effect on the hotel and accommodation sectors. The AHA has no problem with competition. However, the digital economy has created a two speed economy between regulated "bricks and mortar" industries (e.g. pubs and accommodation hotels) and the unregulated "digital/share economy" industries (e.g. pirate bookmakers, unregulated accommodation).

### 8.1 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

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

## 8.2 WAGERING

Hotels conduct wagering by means of “Pub Tabs”. Pub Tabs are agencies of the relevant licenced retail wagering operator in each state or territory, e.g. Tabcorp in the ACT. Hotels wear significant costs in providing the wagering information that stimulates wagering revenue e.g. Sky Channel, prices monitors. Commission revenue from the hotel sector are then used to fund the Australian racing industry. About 30% of TAB funding for Australian racing originates in hotels.

Digital technology on devices such as mobile phones has now enabled hotel patrons to place bets with providers (e.g. corporate bookmakers) other than their Pub Tab. Many of these corporate bookmakers are licenced in Australia and pay race information fees to the Australian racing industry.

However, there are also “pirate bookmakers” operating in overseas jurisdictions that pay no fees to the racing industry. These pirate bookmakers are also not bound to provide information on betting activities in the case of suspicious activity. Current estimates are about \$2 billion gross sales is leaking to unregulated bookmakers.

Whereas the totalisator companies and corporate bookmakers are heavily regulated, the pirate bookmakers are not. This results in the following:

- Loss of revenue for the Australian racing industry, which employs thousands of Australians
- Loss of state government revenue
- Loss of integrity for racing and other sports
- Lack of certainty of being paid

**The AHA recommends** that the Federal Government take action to prohibit wagering with unregulated wagering operators.

## 9 ALCOHOL TAXATION

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The AHA argues that the regulatory schemes for hotels delivers a far safer environment compared to unregulated places. 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

There are 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. In regard to the consumption of alcohol on premise in comparison to unregulated environments, the AHA notes:

- State and territory hotel liquor licensing laws are rigorous and the conduct of licensees is tightly enforced
- Hotels participate in local liquor accords involving licensees, police and community groups that have been effective in finding “local solutions for local problems”
- The social and economic multiplier effect of business activity in hotels increases social inclusion and living standards through participation in the workforce
- The consumption of alcohol is decreasing and is at its lowest ever rate

Hotels strive to provide a safe, secure and comfortable environment for their patrons. For example, over \$500 million each year is invested in security measures such as staff training, security personnel, CCTV and lighting. This results in far higher standards in compliance with the responsible service of alcohol, e.g. consumption by minors, undue intoxication.

**The AHA believes** that the tax system needs to better recognise the positive social and economic benefits of alcohol consumed within hotels, compared to unregulated environments; in particular the capacity to increase social inclusion and living standards through increased workforce participation.

## 9.1 BEER

The current excise taxation of alcohol provides a differential in excise for draught beer to offset the compounding effect of GST. 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 background to these differential rates is that ahead of the introduction of the GST in 2000, the Federal Government made a commitment that the price consumers pay for beer in hotels would not increase due to the introduction of the GST. To achieve this, it was determined that a lesser rate of excise would be imposed on draught beer as distinct from packaged beer.

The differential rates mean the excise on tap beer served on a licensed premise is less than the excise on a bottle of beer that is sold for consumption away from a hotel. The differential rates also ensure that draught beer – with a combined higher GST plus excise tax – is not priced out of the market. The current tax system also provides tax breaks for light and mid strength beer. These categories are increasing in market share and the differential tax system encourages moderation.

Draught keg beer consumed on premise is the core business of hotels and reflects a major part of a hotels income (over 30% on average according to the ABS but in less diversified traditional pubs it may be as high as 70%). Any change to existing market arrangements will impact on the viability of hotels. Disruption to hotels will have the following effects:

- Decreased number of people employed
- Decreased level of tax revenue to government
- Decrease the effective promotion of responsible service of alcohol

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

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

## 9.2 WINE AND SPIRITS

The AHA also notes the positive social and economic multiplier 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

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

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

## 10 CONCLUSION

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In conclusion, the AHA:

- Supports the aim of the taxation review for a “better tax system to deliver taxes that are lower, simpler, fairer”
- Supports a more equitable, efficient and simple tax system

Most importantly, the AHA believes:

- The tax system must be capable of stimulating the Australian economy
- Thereby increasing social inclusion and improving living standards through workforce participation