



**Accommodation
Association
of Australia**

Future COAG Regulatory Reform Agenda

Submission of the Accommodation Association of Australia

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EXECUTIVE SUMMARY

- There should be harmonisation of payroll tax rates and thresholds across Australia.
- To assist with stimulating new tourism infrastructure, land sites – particularly in major Australian capital cities – should be specifically designated for development of tourism accommodation businesses.
- Taxation incentives, such as up-front tax exemptions and a 50 per cent capital works deduction bonus, should be considered to promote development and refurbishment of tourism accommodation businesses.
- Local government authorities must not use council rates to gouge tourism accommodation businesses.
- A comprehensive economic assessment of the impact of the Building Code of Australia on the accommodation industry should be carried out.
- As part of this research, the cost to tourism accommodation businesses of new building accessibility standards should be quantified.
- Responsible service of alcohol training should be recognised on a national basis.
- A ruling by the Australian Taxation Office about payment of GST on deposits should be overturned.
- A broader debate should take place about the application of the Passenger Movement Charge to determine if it should be recalibrated to assist domestic tourism.
- There should be national coordination of public policy issues that are the subject of current state government consultations, including bunk bed safety in Queensland and international student accommodation in NSW.

INTRODUCTION

1. The Accommodation Association of Australia welcomes the opportunity to put forward the following submission to be considered as part of the public consultation on the future agenda for regulatory reform through the Council of Australian Governments (COAG).

ABOUT THE ACCOMMODATION ASSOCIATION

2. The Accommodation Association of Australia (the Accommodation Association) is the national industry body for the Australian accommodation industry.
3. Members of the Accommodation Association include major hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and time-share establishments in metropolitan, regional and rural Australia across all states and territories.
4. The Association's membership base includes almost 2000 properties and more than 110,000 guest rooms.
5. The Association's members include major international hotel chains, including Accor Hotels, Mirvac Hotels and Resorts, Hilton Hotels, Toga Hospitality, Mantra Group and InterContinental Hotels Group.

THE ACCOMMODATION SECTOR – OVERVIEW

6. Tourism contributes \$34 billion to Australia’s gross domestic product (GDP), a 2.6 per cent share.
7. Around 500,000 Australians are employed in the Australian tourism industry – 4.5 per cent of total employment.
8. Employment within Australia’s accommodation sector stands at 71,500 – 14.3 per cent of the total employment in tourism.
9. Tourism is Australia’s leading services export and it is the sixth-largest total export earner.
10. Tourism contributes \$23 billion or 9 per cent of Australia’s total export earnings for all goods and services.
11. There are 4279 tourism accommodation establishments in Australia.
12. There are 227,320 tourism accommodation rooms within Australia and 640,454 bed spaces.
13. Tourism’s share of the Australian economy has been declining.
14. The number of domestic overnight trips taken by Australians has fallen by 1.1 per cent on average each year over the period 2001-2010.
15. The total number of domestic visitor nights fell by 1.2 per cent on average each year between 2001-2010.
16. Outbound tourism from Australia is growing at a much faster rate than inbound tourism.
17. Tourism has a number of unique characteristics in comparison to other industries. These include:
 - It is highly labour intensive;
 - It requires the input of many service providers into a single “product” to the end consumer;
 - It is dominated by a significant number of small businesses;
 - Tourism competes against all other discretionary expenditures for the “hearts and minds” expenditure of the consumer; and
 - Tourism businesses operate in a highly complex environment requiring significant compliance skills and costs.

PAYROLL TAX – HARMONISATION

18. Since payroll tax powers were granted to state governments in 1971, larger accommodation businesses – in particular, major hotel and motel chains which have multiple sites – have faced increasing additional “red tape” costs due to the different rates and thresholds for payroll tax that exist in each Australian state/territory.
19. Current payroll tax rates and thresholds are as follows:

	% Rate	Threshold
ACT	6.85	\$1.5 million
NSW	5.45	\$678,000
NT	5.5	\$1.5 million
QLD	4.75	\$1 million
SA	4.95	\$600,000
TAS	6.1	\$1.01 million
VIC	4.9	\$550,000
WA	5.5	\$750,000

20. The administration of applying these different tax rates to employees represents significant costs to accommodation businesses (as well as other businesses which have a presence in multiple states and territories).
21. The Accommodation Association advocates a process of harmonisation of payroll tax rates and thresholds across Australia, either through COAG or another appropriate forum.

TOURISM ACCOMMODATION – FUTURE REQUIREMENTS

22. Tourism Australia’s “2020 Tourism Industry Potential”, which was publicly released in November 2010, outlined an ambitious set of goals to promote long-term, sustainable growth of Australia’s tourism industry.
23. For industry, realising this potential, according to Tourism Australia, would:
 - Double overnight expenditure from \$70 billion in 2009 to as high as \$140 billion in 2020;
 - Increase tourism’s contribution to GDP to up to 3 per cent in 2020; and
 - Increase tax revenues from tourism from \$9.3 billion in 2009 to as high as \$14.5 billion in 2020.
24. To achieve the goals in the 2020 Tourism Industry Potential, Tourism Australia estimates between 40,000-70,000 new accommodation rooms will be needed in Australia (at occupancy rates of 75 per cent). These new rooms will be needed mainly in capital cities, with improvements on quality, rather than quantity being the focus for regional Australia.
25. It is critical that any increases in room inventory are not overly detrimental to existing tourism accommodation businesses.

TOURISM ACCOMMODATION – NEW DEVELOPMENTS

26. The number of new accommodation businesses which have been developed (new builds) in Australia in the past decade is extremely low and for the accommodation rooms target in the 2020 Tourism Industry Potential to be reached, significant investment incentives will be required.
27. A primary reason for the lack of growth in investment in high-end tourism accommodation in Australia’s major cities is the poor rate of return for investors in such businesses in comparison to buildings in major cities that are used for other purposes, notably office space (which provide stronger and more consistent returns for investors).
28. Therefore, the Accommodation Association is supportive of land sites in major Australian cities being given special consideration.
29. Such special consideration should, as a minimum, include land sites being specifically designated as being for the development of tourism accommodation businesses.
30. In May 2011, the Accommodation Association advocated for this policy in a submission lodged as part of the consultation process on the Perth Waterfront Metropolitan Scheme Amendment. Given high occupancy rates in major hotels and apartments within the Perth CBD, having land set aside in inner city Perth specifically for new tourism accommodation developments is vital. A similar situation exists in Sydney, Melbourne and Brisbane.
31. Taxation incentives will also assist with attracting greater investment in new tourism accommodation developments.
32. Such incentives should include:

- Up-front tax exemptions, instead of incurring taxes and then having them offset through input credits; and/or
- A short-term 50 per cent capital works deduction bonus so that investment in accommodation businesses can be written off over 12.5 years, instead of the current 25 years.

TOURISM ACCOMMODATION – REFURBISHMENT

33. Return on investment is low for the refurbishment of room stock within Australia’s tourism accommodation sector.
34. While accommodation rooms within Australia are, by and large, of a high standard in comparison to other countries, continual refurbishment is required for businesses and the broader industry for it to remain globally competitive.
35. The stagnation in the number of overseas visitor arrivals in the second half of the last decade, together with the drop in domestic tourism has created a difficult trading environment for accommodation businesses, notably those in locations outside Australia’s capital cities.
36. The returns for many investors in accommodation businesses have not been adequate enough for them to make major commitments to capital expenditure on upgrading existing rooms and other parts of their businesses (restaurants, function rooms, meeting/convention space, leisure facilities).
37. In this environment, it is the submission of the Accommodation Association that there should be tax incentives as a way of promoting refurbishment in tourism accommodation businesses.
38. Such incentives should include:
 - Refurbishments to tourism accommodation businesses should be eligible for tax relief through deductions/exemptions;
 - Exemptions should be available up front, instead of the current system where taxes are imposed (GST) and incurred then offset through input credits;
 - The introduction of a major refurbishment allowance to promote reinvestment in fixtures, furnishings and equipment every 5-7 years. Such an allowance could be claimed once in each cycle on a “per room” or a “per square metre” basis up to a specified level; and/or
 - The introduction of a short-term 50 per cent capital works deduction bonus so that investment in accommodation businesses can be written off over 12.5 years, instead of the current 25 years.

COUNCIL RATES – GOUGING

39. The Accommodation Association is becoming increasingly concerned that local governments are gouging tourism accommodation businesses through the council rates they are charging these businesses.
40. An example of this is Shire of Roebourne which is centred on Karratha in the resource-rich Pilbara region in WA.
41. A tourism accommodation business within this local government area has been notified that the Shire of Roebourne intends to introduce a new differential category for council rates – “Workforce Accommodation”.
42. Specifically, the Shire of Roebourne is proposing to increase the rate from \$0.057730 per \$1 of the statutory valuation to \$0.094630 per \$1 of the statutory valuation of the property.
43. For the business in question, this will result in a 64 per cent increase in its council rates.
44. This is an entirely unacceptable increase for the business, as well as other tourism accommodation businesses within this local government area.
45. Further, the Accommodation Association is vehemently opposed to this council and indeed other councils engaging in what appears to be ruthless gouging of an industry which is experiencing a challenging trading environment.
46. Income generated from guests who stay in tourism accommodation establishments for business reasons is an integral source of revenue for tourism accommodation businesses. For a council – and other councils – to exploit this unnecessarily cuts into financial returns for operators.
47. The Association will actively campaign against local government using council rates to gouge tourism accommodation businesses.

BUILDING CODE OF AUSTRALIA

48. Requirements under the Building Code of Australia (BCA) for Australia's tourism accommodation businesses should be based on up-to-date, credible evidence and therefore, a comprehensive study/analysis of the application of the BCA to tourism should be undertaken as soon as possible.
49. Among other things, this research should examine the new building accessibility standards which took effect on 1 May 2011.
50. Well before the new standards took effect, the standards were stifling investment in tourism accommodation businesses in Australia.
51. Specifically, the new standards have discouraged major improvements to facilities provided by tourism accommodation establishments. This remains an ongoing issue for Australia's status as an international tourism destination, as well as individual businesses.
52. The research should include a comprehensive economic assessment of the impact of the BCA on the accommodation industry.
53. Another key component of the study should be an intensive analysis of risk for guests who stay at all types of tourism accommodation establishments within Australia.
54. The outcomes of the study would determine whether or not the BCA should be changed, including if there is widespread misclassification of buildings that are used for tourism accommodation.
55. Ultimately, the study should provide tangible evidence that is used as the basis for resolving issues surrounding confusion about whether tourism accommodation buildings are classified under the BCA as Class 2 or Class 3.
56. The study should be used to inform a standard definition of short-stay accommodation in all Australian jurisdictions, which should be agreed upon by COAG.

RESPONSIBLE SERVICE OF ALCOHOL – HARMONISATION

57. Similar to the issue of payroll tax, accommodation businesses with multiple sites in different Australian states and territories face additional, unnecessary compliance costs for staff training.
58. Training certificates for courses for responsible service of alcohol (RSA) awarded in one jurisdiction are not recognised in another state/territory.
59. For businesses in our industry, this requires them to incur additional costs for the (re)training of managers and staff who move between jurisdictions on a permanent or temporary basis.
60. These costs would be reduced if training certificates were recognised across all jurisdictions.
61. The Accommodation Association acknowledges that this issue is being addressed through the implementation of the National Long-Term Tourism Strategy.

GST ON DEPOSITS

62. A ruling made by the Australian Taxation Office in 2007 about GST on deposits has created unnecessary confusion and cost for accommodation businesses.
63. The 2007 determination overturned the practice of GST payments on deposits being made when the service for which the deposit has been paid has been delivered, so that when payments are accepted as a security deposit, GST must be paid on the total amount of the supply, not the amount that has been paid as a deposit.
64. For accommodation businesses, which regularly accept deposits for room bookings and function/event bookings, this has meant a significant negative impact on cash flow.
65. The Accommodation Association submits that the 2007 ruling be overturned immediately.

PASSENGER MOVEMENT CHARGE

66. The Accommodation Association is fundamentally opposed to the Passenger Movement Charge (PMC, which replaced departure tax in 1995) because it is a virtual tax on tourism.
67. In essence, the PMC remains a departure tax because it is imposed on a person who is departing from Australia to another country, whether or not the person intends to return to Australia.
68. In 2010, outbound tourism (departures for overseas from Australia) increased by 13.2 per cent, while inbound tourism (international visitor arrivals to Australia) increased by 5.4 per cent.
69. Since 2008, the number of outbound passengers has outstripped the number of inbound visitors and this is a gap that continues to widen.
70. Despite representations from industry, the Federal Government has signalled that it is determined to retain the PMC and the quantum of the tax has increased.
71. In this context, if the PMC is to remain, then the Accommodation Association submits that its focus should be on outbound travellers.
72. As far leisure tourism is concerned, the growing gulf between the number of international departures and arrivals confirms that more Australians are making a conscious decision to travel overseas. This is due to the high Australian dollar, the relatively low cost of overseas destinations and a range of other factors.
73. It is highly likely that such travellers will not be deterred from going overseas by having to pay an even higher PMC, but for international visitors to Australia who are forced to pay the PMC on their departure from Australia, this remains an issue because it effectively penalises inbound tourism.
74. Therefore, consideration should be given to there being a broader debate about the merits or otherwise of increasing the PMC for persons who have been in Australia for more than three months (i.e. Australians travelling overseas) and reducing it for persons who have been here for less than three months (i.e. international visitors).
75. Such a debate should involve careful analysis of the long-term future of domestic tourism within Australia in comparison to outbound travel, particularly to emerging destinations such as many within Asia.
76. In addition, if there is to be additional revenue raised by recalibrating the PMC, then this extra funding could be used to fund proposed tax relief on refurbishment and/or development of tourism accommodation properties in Australia.

BUNK BED SAFETY – QUEENSLAND

77. The Queensland State Government is carrying out a public consultation about bunk bed safety in tourism accommodation businesses in Queensland.
78. The State Government has signalled that from October 2013, it intends to make mandatory safety standards for the manufacture and supply of bunk beds that were introduced in 2002 applicable to all bunk beds.
79. This will mean that bunk beds in tourism accommodation businesses that were first used before 2002 and do not comply with the mandatory safety standards will either have to be altered to comply with these standards by October 2013 or no longer be used.
80. The accommodation industry is strongly committed to maintaining the highest levels of guest safety, therefore the time-frame that is being proposed by the Queensland Government is an acceptable one.
81. Through a submission to the Queensland Government, the Accommodation Association has proposed that if a tourism accommodation business is able to adequately demonstrate the new requirements would cause it significant hardship, then – upon approval of the Attorney-General and/or other relevant Minister – the business should receive financial relief to assist with complying with the changes.
82. Assistance could include temporary payroll tax relief and/or the Queensland Government providing dollar-for-dollar matched funding.
83. Through the submission, the Association urged the Queensland Government should work closely with the Federal Government, including the Federal Attorney-General, to promote harmonisation of this new regulatory framework across all states and territories through COAG, the Standing Committee of Attorneys-General and/or the Tourism Ministers' Council.

INTERNATIONAL STUDENT ACCOMMODATION – NSW

84. The Accommodation Association is participating in the NSW Parliament's Legislative Assembly Committee Inquiry into International Student Accommodation.
85. Through this inquiry, the Association has reinforced the importance of maintaining high safety standards in all types of tourism accommodation establishments.
86. Central to high standards of student accommodation is accreditation.
87. The process of determining the most effective method of introducing formal accreditation of student accommodation should be undertaken on a national basis to ensure consistency across Australian jurisdictions.

CONCLUSION

88. The Accommodation Association looks forward to further engagement with the Commonwealth Government, including the Department of Finance and Deregulation and other relevant departments, on these important policy issues for Australia's accommodation industry.

Date: 21 October 2011