National Tourism Alliance

20 September 2012

Business Tax Working Group Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600
Via email: BTWG@treasury.gov.au

To whom it may concern,

ACCELERATED DEPRECIATION

The National Tourism Alliance (NTA) welcomes the opportunity to respond to the proposed changes to key tax measures outlined in the *Business Tax Working Group Discussion Paper* released August 2012. The NTA has serious concerns about the proposal to remove depreciation tax initiatives from accommodation infrastructure and aircraft. Such measures would have a significant impact on Australia's international competitiveness, placing further burdens on our already stressed tourism and aviation industries.

The National Tourism Alliance

The NTA provides a forum for advocating to the Federal Government on issues of common interest for Australian tourism and hospitality businesses. Membership comprises the major associations within tourism including the Australian Tourism Export Council, AAA Tourism, Victoria Tourism Industry Council, Restaurant & Catering Australia, Accommodation Association of Australia, Board of Airline Representatives, Bus Industry Confederation, Australasian Casino Association, Caravan, RV & Accommodation Association of Australia, the Australian Regional Tourism Network, as well as all of the state Tourism Industry Councils who together represent almost 60,000 tourism businesses across Australia.

Tourism in Australia

Tourism contributes over $34 billion to Australia's GDP and employs over 500,000 Australians. Tourism is Australia's largest services export industry, providing 9.0 per cent or $22.8 billion of

National Tourism Alliance
ABN 82 539 547 489
Suite 102, 515 Kent Street
Sydney NSW 2000

Phone 02 8971 3155
www.tourismalliance.org
admin@tourismalliance.org
www.australiantourismawards.com.au

Australia's total exports in 2009-10. Australia is also a significant beneficiary of global tourism spending, ranking 8th globally and receiving 3.3 per cent of global tourism receipts.[i]

However, as previously articulated to the *Business Tax Working Group*, the past decade has been a challenging period for Australian tourism. Since 2000, our global competitiveness has declined and Australian tourism has suffered:

- Domestic overnight trips have declined by more than 10 per cent, from 72 million to 64 million
- Australia's share of global international arrivals has declined by 17.3 per cent
- Share of capital expenditure has decreased from 3.5 per cent to 3.0 percent[ii]
- Australia has fallen from 9th position in 2009 to 13th position this year in the World Economic Forum Tourism & Travel Competitiveness Index[iii]

A range of factors, particularly tourism's exposure to external shocks, have driven this relative decline. Recent global economic conditions have also not been favourable for the Australian tourism sector. The global economic crisis has resulted in significant declines in visitor numbers from traditional markets (such as the United Kingdom, the United States and Japan) that have faced difficult economic circumstances, whilst the strong Australian dollar has provided strong incentives for Australian travellers to look abroad for travel options.

The strengthening of the Australian dollar, associated with growing demand by emerging economies for Australian resources, has resulted in a shift in the cost structure of Australia's tourism sector. Tourism competes with other sectors in an environment of constrained labour supply and financing and often competing for limited supplies of high value land.

Tourism 2020 Strategy

Yet despite these challenges, as the Minister for Tourism recently acknowledged, now is a time of opportunity and reform for Australia's tourism industry. The Federal government, State and Territory governments and industry are currently working in partnership to deliver the strategic funding and policy reform that will help to support the future competitiveness of the Australian tourism sector. The groundwork has already been laid through Government and industry collaboration on the *National Long Term Tourism Strategy,* recently updated to the ***Tourism 2020 Strategy*** (**"T2020"**). This Strategy aligns the supply side focus of the NLTS with the ambitious goals outlined in the *2020 Tourism Industry Potential*.

However, the achievement of these goals will be severely impacted if accelerated depreciation is no longer available to incentivise businesses to invest in new capital intensive products. Indeed, the Federal Government commissioned a report into the relationship between regulation and investment in the tourism sector to explore how policy settings can assist in the achievement of the T2020 goals.

The *Tourism Investment and Regulation Review - Final Report* published by L.E.K Consulting in August 2011 that examines this relationship and recommends that a 50 percent capital works deduction bonus be made available to stimulate investment in new development, as well as refurbishments, to best incentivise business investment in accommodation stock. This is in direct contrast to the recommendation of the *Business Tax Working Group* to wind-back the existing depreciation framework.

Accelerated depreciation and aviation

Australia's current accelerated depreciation framework places our aviation industry at a significant disadvantage compared to our international competitors. For the international playing field to be levelled, and for Australia to be able to compete from an equal footing, it is necessary for depreciation rates on new aircraft to be accelerated.

For example, Australian airlines are currently able to depreciate aircraft over ten years. Under this framework Australian carriers have an effective life of 10 years for aircraft for tax depreciation purposes. This compares unfavourably to our international competitors who enjoy much shorter write-off period; such as three-year effective life for Singapore Airlines and a five-year effective life for Air New Zealand.

It is important for the Federal Government to acknowledge the current imbalance that exists in the international airline investment environment and take steps to place Australian carriers in a stronger position to compete internationally. Instead of addressing this imbalance, the recommendations targeting accelerated depreciation that have been proposed by the *Business Tax Working Group* to fund a corporate tax rate cut will only further disadvantage Australian carriers.

Given the dependence of the Australian inbound tourism sector on a strong and steady supply of air services to our shores it is imperative that the Government ensures that the tax framework supports Australia's international aviation. The current measures proposed by the *Business Tax Working Group* would only widen the gap between Australian carriers and their international competitors.

Accelerated depreciation and accommodation

For Australian tourism to achieve the T2020 goals it must drastically increase the supply of short-term accommodation stock. However, Australia's tourism industry suffers from a lack of investment in new short-term tourism accommodation. A combination of market factors and distortions arising from taxation and regulation regimes has resulted in clear disincentives to investment in short-term accommodation.

Significant investment in tourism accommodation is required so that the sector can fulfil its inherent growth potential. The National Long Term Tourism Strategy has recognised that addressing a number of significant supply side issues, including a lack of capital investment, will help to support a competitive Australian tourism sector. The T2020 goals estimate that between 40,000 and 70,000 additional rooms are required in order for Australia's international tourism growth potential to be met.

As part of the National Long term Tourism Strategy the Tourism Ministers' Council established the Investment and Regulatory Review Working Group (IRRWG) who undertook work to identify regulatory impediments to investment in tourism and to recommend reform proposals that would remove these impediments. The resulting report, '*Tourism Investment and Regulation Review - Final Report'* identified a number of key impediments to investment in tourism with one major impediment being taxation treatment, including capital allowance and land tax.

The treatment of short term accommodation under capital allowance arrangements has been identified as a potential area of reform. The NTA believes that capital allowance arrangements should be enhanced and streamlined to ensure effective rates more closely match rates of economic depreciation.

Unlike commercial buildings, hotels and short-term accommodation are in continuous use, rather than across a limited number of hours per day. As a result, hotels depreciate much faster than other properties and require more regular upgrading. The current 4% per annum capital allowance (suggesting a useful life of 25 years) does not reflect the commercial operation of a hotel.

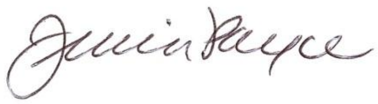
The *Tourism Investment and Regulation Review - Final Report* recommends the introduction of a 50 percent capital works deduction bonus, with the remaining 50 percent spread over 12.5 years at 4 percent, should be made available to stimulate investment in new development as well as refurbishments, for a short-term (3 years) incentive for tourist accommodation development. The economic modelling undertaken by L.E.K. Consulting to support this recommendation demonstrates that for minimal government outlay this reform will increase incentives for investment in new, as well as improvement of existing, tourist accommodation.

The proposal by the *Business Tax Working Group* to remove accelerated depreciation measures will place further hurdles in the path of Australian tourism to achieve T2020 objectives and to grow and develop the visitor economy.

The NTA strongly urges the BTWG to retain depreciation tax initiatives for accommodation infrastructure and aircraft. To remove such initiatives would only further burden struggling industries and would have a significant impact on Australia's international competitiveness.

The Members of the NTA appreciate the opportunity to provide feedback in relation to the Discussion Paper. If you have any questions in relation to our letter please do not hesitate to contact me on (02) 8971 3155.

Yours sincerely



Juliana Payne
Chief Executive

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[i] *Tourism Satellite Account (cat. No. 5249.0)*, Australian Bureau of Statistics
[ii] *Tourism Investment and Regulation Review,* L.E.K. Consulting
[iii] *Tourism and Travel Competitiveness Index Report,* World Economic Forum