



House of Representatives Standing Committee on Economics Inquiry –

Passenger Movement Charge Amendment Bill 2012

Income Tax (Managed Investment Trust Withholding Tax)

Amendment Bill 2012

Submission of the
Accommodation Association of Australia

Accommodation Association of Australia – Principal Contact
Mr Richard Munro
Chief Executive Officer
Phone: +61 2 8666 9015

EXECUTIVE SUMMARY

- There should be a broader debate about the merits or otherwise of recalibrating the Passenger Movement Charge so that it benefits domestic tourism.
- The Managed Investment Trust withholding tax should remain at 7.5 per cent so that attempts to encourage greater investment in Australian tourism accommodation infrastructure are not compromised.

INTRODUCTION

1. The Accommodation Association of Australia welcomes the opportunity to put forward the following formal submission to be considered as part of the inquiry into four bills which were referred to the House of Representatives Standing Committee on Economics on 24 May 2012.
2. The Accommodation Association's submission will focus on two of the four bills:
 - The Passenger Movement Charge Amendment Bill 2012 (PMC Bill); and
 - The Income Tax (Managed Investment Trust Withholding Tax) Amendment Bill 2012 (MIT Tax Bill).

ABOUT THE ACCOMMODATION ASSOCIATION

3. The Accommodation Association of Australia (the Accommodation Association) is the national industry body for the Australian accommodation industry.
4. Members of the Accommodation Association include major hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and timeshare establishments in metropolitan, regional and rural Australia across all states and territories.
5. The Association's membership base includes almost 2000 properties and more than 110,000 guest rooms.
6. The Association's members include major hotel chains, including Accor Hotels, Mirvac Hotels and Resorts, Hilton Hotels, Toga Hospitality, Mantra Group, Rydges Hotels, Amora Hotels, InterContinental Hotels Group, 8Hotels and Quest Serviced Apartments.

TOURISM AND ACCOMMODATION – OVERVIEW

7. Tourism contributes \$34 billion to Australia's gross domestic product (GDP), a 2.6 per cent share.¹
8. Around 500,000 Australians are employed in the Australian tourism industry – 4.5 per cent of total employment.²
9. Employment within Australia's accommodation sector is 110,969.³
10. Tourism is Australia's leading services export and it is the sixth-largest total export earner.⁴
11. Tourism contributes \$23 billion or 9 per cent of Australia's total export earnings for all goods and services.⁵

¹ Tourism Industry Facts & Figures (at a glance), Department of Resources, Energy and Tourism/Tourism Research Australia, May 2011, Page 44

² Ibid, Page 44

³ Ibid, Page 55

⁴ Ibid, Page 45

12. There are 4279 tourism accommodation establishments in Australia.⁶
13. There are 227,320 tourism accommodation rooms within Australia and 640,454 bed spaces.⁷
14. Tourism's share of the Australian economy has been declining.
15. The number of domestic overnight trips taken by Australians has fallen by 1.1 per cent on average each year over the period 2001-2010.⁸
16. The total number of domestic visitor nights fell by 1.2 per cent on average each year between 2001-2010.⁹
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.

⁵ Ibid, Page 45

⁶ Ibid, Page 55

⁷ Ibid, Page 55

⁸ Ibid, Page 26

⁹ Ibid, Page 26

PASSENGER MOVEMENT CHARGE – BACKGROUND

18. In 1995, the Passenger Movement Charge (PMC) replaced departure tax with Australia.
19. In essence, the PMC remains a departure tax as it is imposed on a person who is departing Australia to another country, regardless of whether or not the person intends to return to Australia.
20. The original purpose of the PMC was to fund costs incurred by Federal Government agencies when they process international passengers, namely Customs, immigration and quarantine.
21. At its inception (in 1995), the PMC was \$27 per departing passenger.
22. Since, then the PMC has risen on several occasions:
 - 1999: Increased to \$30 (to cover additional processing costs due to the Sydney Olympics in 2000);
 - 2001: \$38 (foot and mouth disease);
 - 2008: \$47; and
 - 1 July 2012 (proposed) \$55.
23. The legislation to give effect to the latest proposed increase is the PMC Bill, which is being scrutinised by this inquiry.
24. From 2013-14 on, the PMC is to be indexed annually in line with the consumer price index.
25. The 2012-13 Federal Budget papers reveal that the PMC is expected to raise \$610 million over the next four years.
26. Despite close links between the PMC and tourism, funds raised by the collection of the tax go directly to consolidated revenue. This means that any funding collected as a result of the PMC which is greater than cost recovery is not allocated to directly benefit tourism.

PASSENGER MOVEMENT CHARGE – POLICY POSITION

27. Australia's accommodation industry is fundamentally opposed to the PMC because it is a virtual tax on tourism.
28. This "tourism tax" has a direct negative impact on visitor numbers which in turn has a detrimental effect on room occupancy and revenue per available room (RevPAR) in tourism accommodation businesses.
29. 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.
30. Since 2008, the number of outbound passengers has outstripped the number of inbound visitors and this is a gap that continues to widen.
31. Given that the Federal Government has indicated that the PMC will be retained, the Accommodation Association has developed a policy position which is designed to benefit domestic tourism while remaining revenue neutral.
32. This position was articulated in the Association's 2012-13 Pre-Budget Submission.

33. Specifically, the Accommodation Association is advocating for consideration being given to focusing the financial impost of the PMC on outbound travellers for the benefit of domestic tourism.
34. 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 in preference to domestic travel, reducing the benefits of tourism to the Australian economy. Decisions to travel overseas are made because of the high Australian dollar, the relatively low cost of overseas destinations and a range of other factors.
35. 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.
36. Therefore, it is the Association's position that 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).
37. 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.

PASSENGER MOVEMENT CHARGE – WHY IT HURTS TOURISM ACCOMMODATION BUSINESSES

38. As stated above, a higher PMC directly equates to less visitor numbers and lower occupancy and average room rates in tourism accommodation businesses.
39. Given it is already widely acknowledged that Australia is a high-cost tourism destination, adding to these costs through a higher PMC creates an additional reason why overseas consumers will choose not to travel to Australia.
40. Of particular concern is the imposition of the PMC as part of the cost to consumers of shorter international flights to destinations such as New Zealand and Asia.
41. According to the Tourism and Transport Forum, the proposed increase in the PMC will mean a family of four from New Zealand which travels to Australia will pay more than \$NZ280 in departure tax (PMC).¹⁰ In some instances, this amount is higher than the cost of a single individual ticket on a flight from Australia to New Zealand.
42. Examples like this illustrate why the latest proposed increase in the PMC will further reduce Australia's competitiveness as an international tourism destination and therefore, hurt our tourism industry.

¹⁰ Cash for Cars – Taxes for Tourism, Media Release, Tourism and Transport Forum, 8 May 2012

PASSENGER MOVEMENT CHARGE – ADDITIONAL REVENUE

43. The Accommodation Association does not support any additional revenue beyond cost recovery being collected through the PMC.
44. However, in the event that there is to be additional revenue raised by increasing the amount of the PMC or if the PMC is to be recalibrated, then this extra funding should be quarantined specifically to benefit the slowing domestic tourism industry.
45. For example, additional funds generated could be used to fund proposed tax relief on refurbishment and/or development of tourism accommodation properties in Australia.
46. The Accommodation Association notes that in the 2012-13 Budget, the Government allocated \$61 million over four years to Tourism Australia to establish an Asia Marketing Fund. The industry welcomes this initiative and in particular, that the funding is to be targeted for tourism promotion in emerging markets in this region.

INVESTMENT IN TOURISM ACCOMMODATION INFRASTRUCTURE

47. 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.
48. 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.
49. 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.
50. It is critical that any increases in room inventory are not overly detrimental to existing tourism accommodation businesses.
51. 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. For example, it took until October 2011 for the first new five-star hotel in (or around) the Sydney CBD since the 2000 Olympics to be built.
52. On 2 May 2012, the Government launched two documents which, together with a strategic partnership between Tourism Australia and Austrade, are designed to lift the level of investment in tourism accommodation infrastructure in Australia.
53. The documents are the Australian Tourism Investment Guide and the Tourism Investment Monitor.

MANAGED INVESTMENT TRUST WITHHOLDING TAX – POLICY POSITION

54. As Tourism Australia has identified through the 2020 Tourism Industry Potential, one of the major challenges confronting the industry is lifting the level of investment in tourism accommodation infrastructure in Australia.
55. There is a significant proportion of foreign investment in the Australian tourism industry; specifically, the accommodation sector.
56. Over the years, many major hotels and resorts in Australia have been developed by international companies and through this investment, Australia's tourism accommodation infrastructure has been greatly enriched.
57. Managed investment trusts are an attractive financing vehicle for large-scale purchases in Australia's accommodation industry.

58. As proposed by the MIT Tax Bill, the increase in the MIT withholding tax from 7.5 per cent to 15 per cent is a disincentive for overseas companies to seek investment in Australia's existing tourism accommodation product and it would also have the effect of stalling investment in new tourism accommodation businesses.
59. Compromising tourism investment directly results in lower employment growth in the tourism industry and Australia's ability to compete with other nations for international visitors. This comes at a time when our domestic tourism industry is experiencing an economic slowdown.
60. As well, the proposed tax increase flies in the face of attempts by the Government to lift investment in tourism in Australia.
61. It is, therefore, the position of the Accommodation Association that the MIT withholding tax should remain at 7.5 per cent.

CONCLUSION

62. The Accommodation Association looks forward to further engagement with the Committee on the issues raised in this submission which are of significant importance to Australia's accommodation industry.

Date: 31 May 2012