

3 February 2012

Business Tax Working Group Secretariat  
The Treasury  
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PARKES ACT 2600  
Via Email: [BTWG@treasury.gov.au](mailto:BTWG@treasury.gov.au)

### **Response to Interim Report on the tax treatment on losses**

Tourism Accommodation Australia (TAA) is the newly-formed division of the Australian Hotels Association (AHA) representing the specific interests of Australia's accommodation sector. It is an organisation of employers in the hotel and hospitality industry registered under the *Fair Work (Registered Organisations) Act 2009*. Its accommodation sector membership of more than 600 properties Australia-wide includes three, four and five-star accommodation hotels, serviced apartments and motels. TAA has branches located in every Australian capital city and a Canberra-based national office.

The tax treatment of losses is an issue of critical importance to the accommodation industry, which is seasonal by nature and vulnerable to external shocks both globally (e.g., the GFC) and locally (Cyclone Yasi). There is a shortage of rooms in many of Australia's major cities which is hampering the development of the broader tourism industry. With finance for major capital development projects becoming more difficult to obtain generally, the accommodation industry faces additional difficulties in convincing banks to lend to support new developments and refurbishments.

TAA has consulted with its membership and worked with broader tourism industry sectoral groups the National Tourism Alliance and TTF Australia to produce its recommendations. In brief, TAA supports some form of 'Combination 3', identified in the Interim Report as comprising some combination of introducing an alternative integrity test to the Continuity of Ownership Test (COT) and the Same Business Test (SBT), introducing time-limited carrybacks for tax losses, and applying an uplift factor to tax losses carried forward to prevent eroding their value over time.

Pursuing these reforms will help address the Working Group's stated objectives to improve the ability of Australian businesses to be innovative and take risks in pursuing growth with the confidence of being treated fairly by the tax system. The accommodation sector, like others within the tourism industry, is highly volatile yet requires significant up front capital investment and a long term focus. The risk of an external shock such as a natural disaster, pandemic illness or major economic downturns serves to lessen the attractiveness of investment in hotels, particularly in a climate where finance is increasingly difficult to obtain.

Tourism Australia has identified a need for 40,000 to 70,000 new accommodation rooms by 2020 to meet demand for the \$34 billion Australian tourist industry, equating to the development of between 133 and 233 hotels of 300 rooms each over the next eight years. To meet the expected increase in demand from growth markets such as China will require substantial investment in both new and existing accommodation properties. This can only be achieved by mitigating some of the risk facing any project with high up front capital requirements and a long-term focus. The inability of hotel operators to carry back tax losses serves to magnify the impact of short-term external shocks.

Permitting the carrying back of tax losses for three years would significantly reduce pressures on hotels caused by one-off downturns from unpredictable external factors and address some of the concerns held by financiers when it comes to lending for hotel development. It is common for hotels to alternate years of strong profits with years of heavy losses, often as a result of factors that cannot be predicted or prevented. TAA notes that this was a recommendation put forward by the Henry Report and strongly supported by many industry organisations.

TAA also agrees there is merit in introducing an uplift factor to tax losses carried forward to ensure they do not erode in real terms and maximises the incentive for capital investment.

The treatment of tax losses is an important area but TAA believes there are further opportunities to encourage capital investment in accommodation with minimal budget impact. The current GST-free status of international conference visitors could be cheaply extended to cover leisure visitors who package their international air travel with their Australian accommodation. While this would apply to only a small proportion of international tourists, it would go some way to addressing the significant price disadvantages Australian hotels face in comparison to regional competitor destinations, particularly in Asia.

TAA would also like to see more generous deductibility for capital works and shorter depreciation schedules for furniture, fittings and equipment in areas like hotel accommodation where refurbishments are needed.

Thank you for the opportunity to comment on the Working Group's Interim Report. If further information is required please contact Corporate Affairs Manager Steven Fanner on (02) 6273 4007 or [fanner@aha.org.au](mailto:fanner@aha.org.au).

Yours sincerely



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