



3 February 2012

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

To the Business Tax Working Group Secretariat

RE: Tax Treatment of Business Losses

The Tourism & Transport Forum (TTF) is the peak industry group for the Australian tourism, transport, aviation and investment sectors. As a national, member-funded CEO forum, TTF advocates the public policy interests of the 200 most prestigious corporations and institutions in these sectors.

TTF would welcome reforms to the tax treatment of business losses given this recognises the inherent volatility of the tourism industry and would encourage much needed investment and innovation in the sector and TTF appreciates the opportunity to respond to the Business Tax Working Group's interim report.

TTF members include both the owners and operators of hotel, resort and serviced apartment-style accommodation properties and have gathered their opinions and recommendations in preparing this submission.

Australian tourism industry background

Expenditure by international and domestic visitors makes a significant contribution to the Australian economy. The value of the tourism sector is measured by the ABS's Tourism Satellite Account within the national accounts. In 2010-11, international and domestic tourism consumption in Australia was \$95.7 billion¹. This tourism consumption generated \$23.7 billion in export earnings or 8.0 per cent of total Australian exports and directly employed 513,700 people or 4.5 per cent of total Australian employment. Tourism contributed \$34.6 billion to gross domestic product, and generated approximately \$7.2 billion in net federal and state revenue, including the GST and other taxes on production.

Over the last decade, however, the tourism sector has experienced significant upheaval with a series of external shocks and global uncertainties. Over the same period, the competition for international visitors has intensified with new destinations vying for potential tourist dollars.

At home, the strength of the resources sector, which has helped to boost the economy in recent years, is forcing structural adjustments for Australia's tourism industry as it needs to respond to the impacts of a high Australian dollar and constraints on available investment and labour supply.

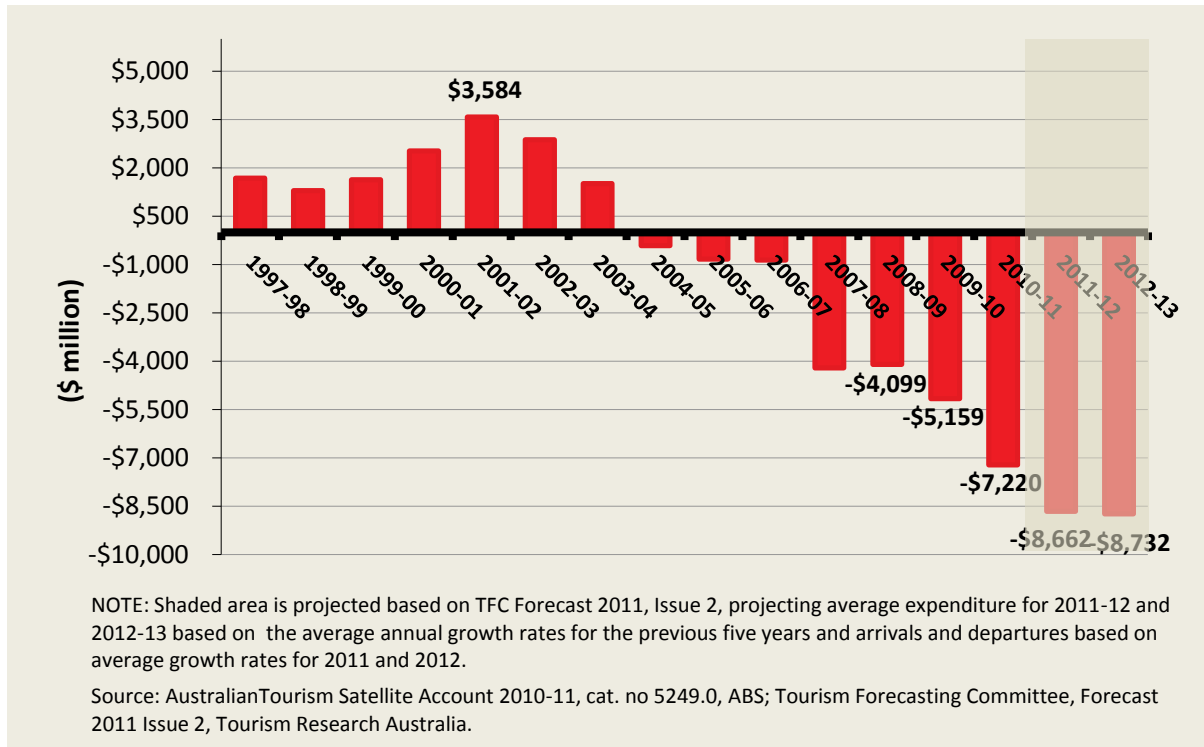
Over the last decade, Australia's tourism balance of trade, the difference between expenditure by international visitors in Australia and that of Australian residents travelling overseas, has deteriorated from a surplus of \$3.6 billion in 2001-02 to a deficit of \$7.2 billion in 2010-11.

This scenario is set to continue with the latest forecast from the Tourism Forecasting Committee (TFC) projecting that the number of Australians travelling overseas will increase by 5.4 per cent in 2012², while international visitors to Australia are expected to grow only 2.7 per cent. Based on these projections, the tourism trade deficit could reach almost \$8.7 billion in 2011-12 as outbound travellers exceed arrivals by more than two million (see Chart 1).

¹ Australian Tourism Satellite Account 2010-11, cat. no 5249.0, ABS.

² Tourism Forecasting Committee, Forecast 2011 Issue 2, Tourism Research Australia.

Chart 1 - Tourism, Balance of Trade, 1997-98 to 2012-13



To reverse the ongoing deterioration in the tourism balance of trade and to grow Australian tourism, our tourism product mix must become more internationally competitive to retain domestic tourism and attract international visitors.

Building business confidence through the proposed reform of the tax treatment of business losses will provide an incentive for tourism businesses to invest in existing and new operations, helping to boost the competitiveness of the sector.

In 2010, the Tourism Ministers’ Council endorsed the Australian 2020 Tourism Industry Potential target to increase overnight visitor expenditure from \$70 billion in 2009 to \$140 billion in 2020³. Developed by Tourism Australia, this target is driven in large part by anticipated growth in international tourism from key Asian source markets. To achieve this national growth will require substantial growth in capacity (both aviation and tourist accommodation) and a significant boost in labour supply. In fact, to meet the potential, it is estimated that 40,000 to 70,000 new tourist accommodation rooms will be required across Australia.

Providing confidence to tourism businesses that they can smooth years of uneven earnings and recoup losses from investments will be critical in ensuring that growth targets can be achieved.

The tourism industry and the treatment of tax losses

TTF agrees with the conclusion of the working group that the current tax settings create a bias against risk-taking by businesses and restrict cash flow. The tourism sector is facing a time during which significant change will be required to respond to the opportunities generated by the increasing wealth and international travel from key Asian growth markets. Reform to the tax treatment of business losses could ease the impediments and unlock investment and innovation.

³ 2020 Tourism Industry Potential, Tourism Australia and the Department of Resources, Energy and Tourism, November 2010.

TTF strongly supports the working group's recognition that policy settings, including tax, should not hinder risk taking and innovation. Reform of the tax treatment of business losses will not only support businesses across the tourism sector which are struggling, but will incentivise businesses to invest in new infrastructure and products, refurbish and upgrade existing products with the confidence that they can smooth out earnings over a number of years.

Acknowledging the volatile nature of the tourism industry and responding with appropriate modifications to the tax system to smooth out earnings will unlock additional investment that will foster economic activity, create jobs and in turn boost government tax revenue.

The tourism industry wants to see these reforms quickly implemented to enable the industry to make the required structural changes and investments and to ensure that these reforms are not held back while the whole system is reviewed.

Allowing current tax losses to be offset against previous years' profits

Tourism is a highly seasonal industry and subject to external shocks such as weather events, terrorism threats, the collapse of airline services and to fluctuations in the value of the Australian dollar which can result in volatility in profits and effective tax rates between tax periods. The ability to carry back losses would enable a reduction in effective tax rates between periods and provide vital funding when it is most needed thereby assisting tourism businesses to maintain economic viability and employment levels. TTF supports the option of allowing businesses to carry current year tax losses to be offset against previous years' profits.

TTF recommends a carry back period of at least three years, in line with other countries such as Canada, to reflect the inherent volatility of the tourism industry and to support the longer-term view of the investment required to address the lack of new supply of hotels in Australia's capital cities.

TTF highlights that this reform would be beneficial for existing hotel owners looking at expanding their portfolio of hotels or start-up businesses that will experience a few years of losses prior to seeing positive earnings given the additional certainty in future year after-tax returns.

The ability to apply an uplift factor of losses to ensure that the real value of tax loss carried forward does not diminish over time would provide confidence to investors considering projects with longer lead times.

Replacement of current restrictive integrity measures

TTF supports the removal of the current integrity measures in favour of the proposed alternative integrity tests. The removal of the existing Continuity of Ownership (COT) and the Same Business Test (SBT) would increase the potential for a business to use its carried-forward losses to reduce its current year taxable income, regardless of whether the business experiences a change in ownership, thereby removing this constraint on decision-making.

TTF notes that during both the acquisition and disposal of hotel assets, detailed consideration is often given to the structure of the purchase or sale from a tax perspective. Where there are tax losses associated with a company structure, the ability to carry losses forward through the removal of the COT and SBT would remove some of the complexities associated with these transactions. TTF therefore recommends this the removal of the COT and SBT tests.

Support for the tourism industry as it responds to structural change and looks to make the investments required to respond to emerging opportunities will be critical.

TTF supports the general conclusions of the working group around the potential of reforms in the tax treatment of business losses to build business confidence and boost investment levels and innovation. TTF recommends that the combinations of reforms proposed under Combination 3 (removal of the COT and SBT in conjunction with the ability to carry back losses for three years and apply an uplift factor) would be of the greatest benefit to the tourism industry, and to the broader Australian economy.

While tourism businesses would prefer the reforms to apply to losses in previous years given the significant impact the GFC and other external shocks have had on the profitability of businesses in the tourism industry in recent years, timely implementation of the proposed reforms would provide some confidence as businesses make decisions about future investments.

TTF appreciates the opportunity to respond to the Business Tax Working Group's interim report on the tax treatment of business losses. If you have any queries regarding this letter, please do not hesitate to contact me on (02) 9240 2000.

Regards,

A handwritten signature in black ink, appearing to read 'John Lee', with a large, stylized initial 'J'.

John Lee
Chief Executive