



SUBMISSION TO STATE TAXATION REVIEW

April 2015

INTRODUCTION

The Australian Hotels Association – South Australian Branch (AHA|SA) welcomes the opportunity to provide its submission to the SA State Government's 2015 State Tax Review.

The AHA|SA represents over 80% of South Australia's hotel industry. Members include a diverse range of hospitality focussed businesses including traditional metropolitan and regional hotels, small bars, taverns, accommodation specialists, late night entertainment providers, functions centres, dining specialists and tourism destinations.

The AHA|SA provides its members with a diverse range of business services including representation to Government on issues or policies that may impact on their businesses. The AHA|SA canvasses its members opinions on a regular basis via regional meetings, face to face discussions, email and through various sub-committee structures and forums.

While the AHA|SA notes the request made by Treasurer Tom Koutsantonis that recommendations to this Review should be revenue neutral, the AHA|SA contends that it is the role of an advocacy group to seek a fair and reasonable outcome for its members, rather than to balance the budget of Governments.

While recommendations and suggestions on budget savings may be provided, ultimately the AHA|SA provides this submission on behalf of its membership and in good faith that the South Australian Government recognises the contribution of the sector to the economy and takes the needs of its business owners seriously.

THE SOUTH AUSTRALIAN HOTEL INDUSTRY

There are around 630 hotels in South Australia. These hotels employ approximately 24,000 people and each year; generate \$1.5 billion in retail sales, support 21,000 live band performances, give \$9 million to charities, sport and community groups, and hold properties with a capital and commercial value of \$2.1 billion.¹ Without doubt these businesses play a crucial and vital role in South Australia's economy and provide a critical cultural, social and community function.

Collectively these hotels contribute significant revenue to the South Australian Government through various taxes, charges and levies. These include:

- payroll tax
- land tax
- stamp duties on insurances
- workcover levy
- stamp duty on conveyances
- liquor licence fees
- gaming taxes
- emergency services levy

Together with the state taxes these South Australian businesses also pay Commonwealth taxes and Local Government rates and charges.

¹ Research conducted for AHA|SA by McGregor Tan

THE TAX BURDEN ON SOUTH AUSTRALIAN HOTELS

In its 2011 report on State Tax Reform, the Allen Consulting Group stated that “Studies about state taxes have consistently demonstrated the benefits of state tax reform. These taxes adversely impact on the competitiveness of industry while imposing significant compliance costs.”²

These impediments are not just due to the nature of the taxes themselves, but also the time and effort required by the business to understand the complexities of the taxes and fulfil their obligations.

“The myriad of taxes levied by state governments can make it difficult for busy business owners and managers to understand their liabilities.”³ It is certainly the experience of the AHA|SA members that compliance costs and taxation takes up a significant amount of their time, with associated costs.

For hotels businesses the high tax burden is amplified with the inclusion of liquor license fees and gambling taxes. There is no doubt AHA|SA members are paying a disproportionately high level of taxes compared to both other businesses and similar businesses in other Australian states.

A number of recent reviews have concluded that South Australian businesses pay an unreasonable and uncompetitive level of state taxes, taxes which are inefficient and detrimental to economic and business growth in this State.

The Institute of Public Affairs (IPA) in its State Business Tax Calculator stated that “South Australia is the highest taxing state on business in Australia”.⁴

In its State Tax Review 2012/13 Pitcher Partners ranked South Australia as having the highest aggregate tax burden when looking at workcover, payroll taxes, stamp duty on property and land taxes.⁵

In 2012, the IPA again ranked South Australia, this time second highest for state general business taxes with only the ACT having a marginally higher liability (and by only 0.1% or \$1,500 per annum).⁶

The Commonwealth Grants Commission stated in land tax terms that while South Australia is a relatively lower taxing State for small land holdings it is relatively higher for large land holdings.⁷ Hotel owners of course tend to have large land holdings.

The AHA|SA recognises that the State Government’s “State Tax Review Discussion Paper” cites more recent reviews by Pitcher Partners (2013/2014) and KPMG (2014) as well as the IPA report.⁸

² The Allen Consulting Group, 2011, ‘State tax reform: A practical approach to drive sustainable gains, Report to Business Coalition for Tax Reform,’ page 5.

³ Novak, “Business Bearing the Burden 2012”, Institute of Public Affairs, January 2013, page 3.

⁴ Institute of Public Affairs, State Business Tax Calculator Fact Sheets page 9

⁵ Pitcher Partners State Tax Review 2012/13.

⁶ Allen Consulting Group, op cit, page 11

⁷ State Tax Review Discussion Paper February 2015, SA State Government, page 27

⁸ State Tax Review Discussion Paper pages 27-29

What is clear is that the slightly better standing of South Australia overall in terms of business taxation is due to current concessions in payroll tax and anticipated reductions in Workcover premiums.

In reviewing State taxes, the AHA|SA believes there is room for the abolition of some state taxes and the review or 'maintenance' of others.

RECOMMENDATIONS

Payroll Tax

Currently payroll tax provisions allow for the grouping of employers (this acts to combine the payrolls of all hotels with related ownership). The grouping provisions have the effect of adding together the wages paid by group employers and allowing only one (the designated) group employer to claim the deduction.

AHA|SA members report that the current payroll tax thresholds and, specifically, grouping rules provide a disincentive for them to grow their businesses and to employ additional staff if to do so would result in payroll tax liabilities.

Grouping provisions also have a negative impact on business competitiveness particularly in regional areas. Regional AHAI SA members report that grouping provisions create an uneven playing field and put them at a disadvantage compared to other businesses in the same area. The AHA|SA would like to see these grouping provisions removed.

Payroll tax grouping provisions are administratively complex particularly for those businesses which operate across a number of jurisdictions or sites.

The AHA|SA notes with interest the statements made in the "State Tax Review Discussion Paper" regarding payroll tax, specifically that:

While payroll tax is often seen by business as a tax on employment, studies on the impact of payroll tax.. generally suggest that the burden of tax is unlikely to be borne by business (in terms of lower profits) in the long-run. Instead the long run effect of payroll tax is likely to involve some combination of lower wages for employees and higher prices charged by firms who pay payroll tax"⁹

While this may be the case for some large businesses, in the case of hotels this is a very questionable conclusion. Fixed rates of pay via Federal Awards and the highly competitive nature of food and beverage pricing means it is almost impossible to dilute the burden of payroll tax via reductions in wages costs or higher prices. The Payroll Tax burden is simply borne by the business owner.

In its Discussion Paper the State Government also raises the option of reducing the complexities of Payroll Tax via a removal of or phase out of the tax-free threshold (currently \$600,000pa). The AHA|SA would not support any removal or phase out of the tax free

⁹ State Tax Review Discussion Paper February 2015, Government of South Australia, page 37

threshold for payrolls under \$600,000. In fact, given that only Victoria has a lower threshold (\$550,000), the AHA|SA considers that an increase in this threshold is warranted.¹⁰

The AHA|SA welcomed the payroll tax rebate introduced in 2013/2014 and it is clear that the relief provided to small business owners is reflected in the improvement in tax-burden standing across States. This rebate must be continued.

Understanding that this tax represents 26% of all state tax revenue¹¹ and that hoteliers pay around \$400 million in payroll tax each year the AHA|SA recommends:

- Removal of grouping provisions
- Retention of the payroll tax rebate, or consideration of reduction in the current 4.95% rate and a broadening of the taxation base
- Review of the current \$600,000 threshold to ensure it remains a reasonable indication of small business payroll.

Stamp Duty

Due to its narrow base stamp duty on non-residential conveyances is an inefficient tax.

As well as this conveyance stamp duty hoteliers are liable for stamp duty on all insurance policies, including public liability insurance. A further quasi stamp duty is also levied upon transfers of hotel licences which include gaming machine, this “Gaming Surcharge” amounts to 0.5% of the per annum Net Gaming Revenue (NGR).

The SA State Government has flagged its intention to remove stamp duties on the transfer of non-residential properties on a number of occasions and it is well past time that this occurred.

Given that we understand that the decision to not remove stamp duty was related to the introduction of the GST, consideration must also be given pushing for the abolition of stamp duty as a part of a package of national measures which includes an increase to the broad based goods and services tax (GST).

Land Tax

The land tax burden on South Australian businesses is both unreasonable and inefficient. At lower unimproved land values, (<\$1,155,000) SA ranks third most expensive, with only QLD and the ACT ranking higher. At higher land values however SA levies a full 83% more (\$185,446) than the next most expensive (\$101,088 ACT).¹²

¹⁰ Ibid, page 61

¹¹ Ibid, page 18

¹² Pitcher Partners, op cit.

Not only is land tax an inefficient tax but is also a serious disincentive to economic growth in this state and particularly to hoteliers, who often own landmark South Australian properties on prime real estate.

This is further exacerbated when total land holdings upon which the premises are located incorporate a number of Certificates of Title and therefore attract multiple land tax charges.

Even the State Government's own document states that SA is a "relatively higher taxing State for large land holdings"¹³ It is at this end of land tax scale that many AHA|SA members lie, with high value fixed property assets. This would be particularly true when considering large properties in the CBD and metropolitan area, however large properties in rural or regional areas are also affected where property value may have lesser resemblance to the turnover of the business or the owner's ability to pay.

Recent increases to Land Tax rental thresholds (from \$250,000 to \$400,000pa rental) place another unreasonable burden on hoteliers, or to tenants as hotel property owners consider an increase in rents to meet this additional burden.

While recognising the challenges involved the AHA|SA supports the consideration of a broad-based property tax to include an application of land tax on primary place of residence. This would allow a reduction in land tax for higher valued commercial properties without a negative effect on the SA Government's revenues.

Workcover

The AHA|SA recognises the recent 2014 reform of South Australia's Workcover scheme and the announced savings of \$180 million per annum for registered businesses (ranging from around \$5,000 pa for businesses with fewer than ten employees and \$120,000 pa for those with over 200.)¹⁴ Savings for most hotel businesses will be in lower end, and will be welcomed, but as pointed out will not be felt until 2015-16.¹⁵

Emergency Services Levy (Fixed Property)

The 2014-2015 financial year saw large increases in the rates of ESL for fixed property via the removal of the previous rebate. The AHA|SA recognises the continued concessions to regional areas however these changes resulted in substantial increases in ESL to high value metropolitan hotel properties. The AHA|SA does not dispute the need for well funded emergency services however would not like to see this Levy simply used as way to increase tax revenue and syphon other funding away from emergency services.

¹³ State Tax Review Discussion Paper February 2015, op cit, page 27

¹⁴ http://www.premier.sa.gov.au/images/news_releases/14_01Jan/workcover.pdf

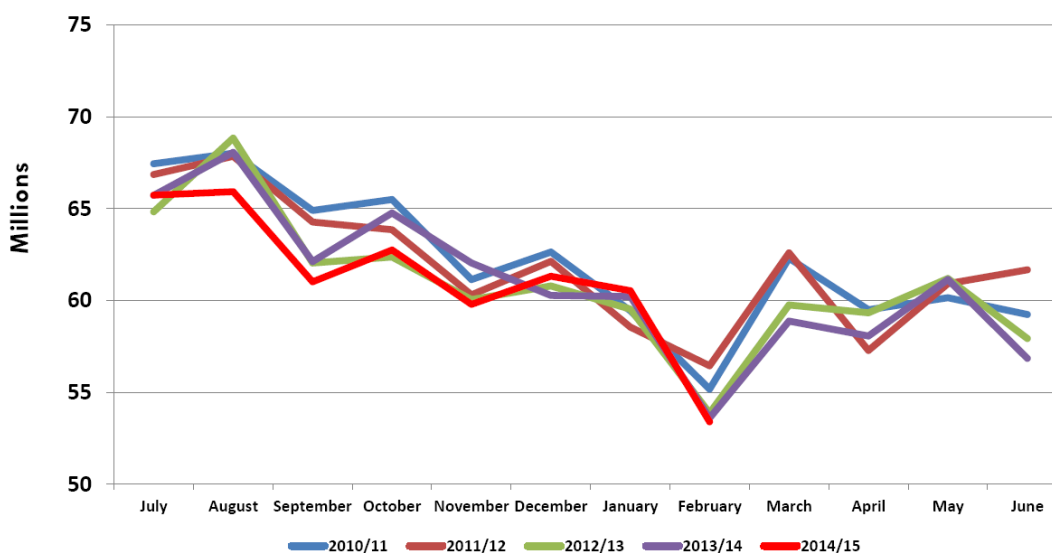
¹⁵ State Tax Review Discussion Paper February 2015, op cit, page 29

Gambling Tax

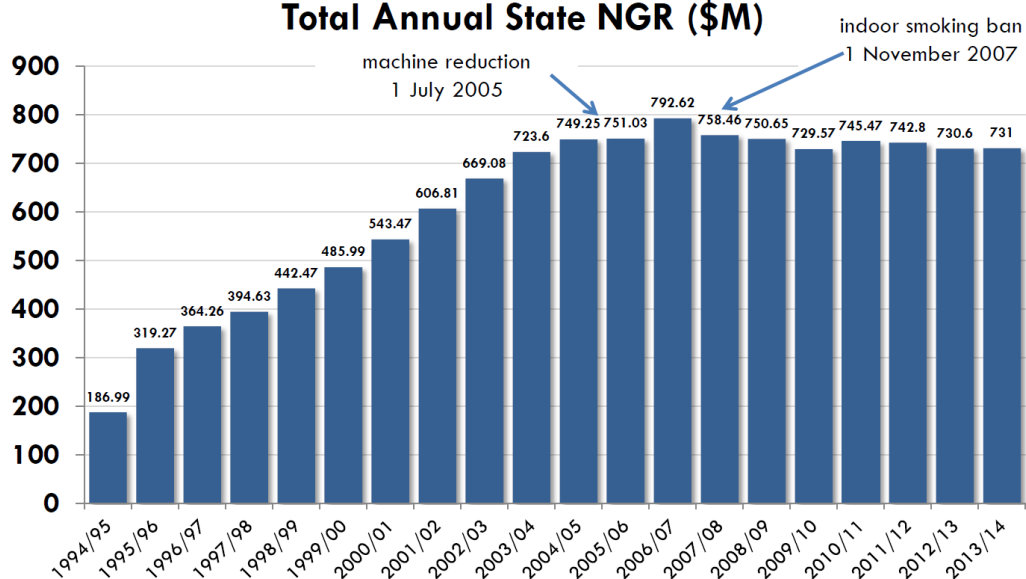
South Australian Gaming Tax is the highest in Australia with maximum thresholds of 65%, in other words 65 cents in every \$1 spent on gaming being paid in tax. On top of this, venues are subject to 10% GST on total revenue meaning the effective tax threshold is up to 75 cents in every dollar. Gambling taxes contribute a significant, but declining, revenue stream to the State Budget.

The Hotel and Club Industries paid approximately \$291 million in State gaming tax in 2011/12 from a total spend of \$742.79m, equating to an overall gaming tax collection of 39.17% of all monies spent on gaming. This level of tax is a burden as the industry has seen no revenue growth since 2007, see graphs below.

Net Gaming Revenue (NGR)

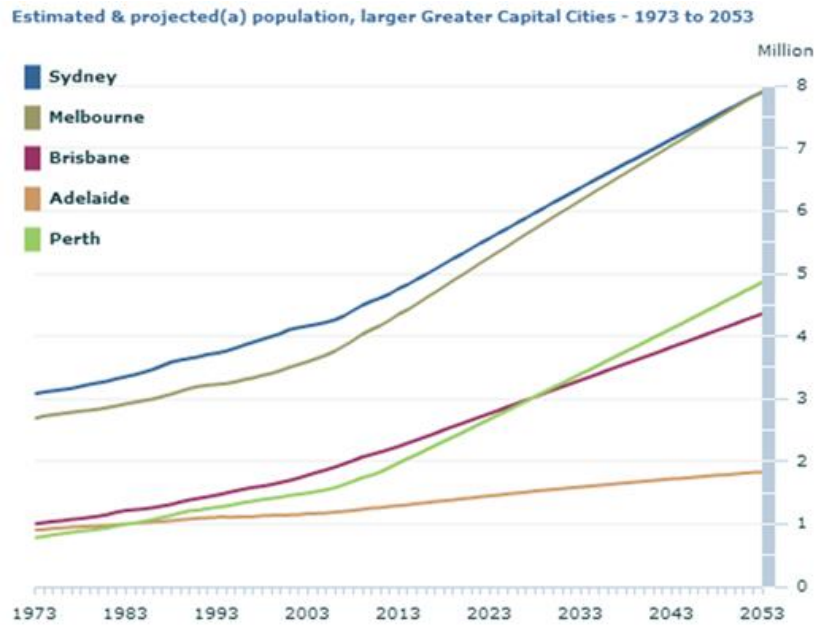


Total Annual State NGR (\$M)

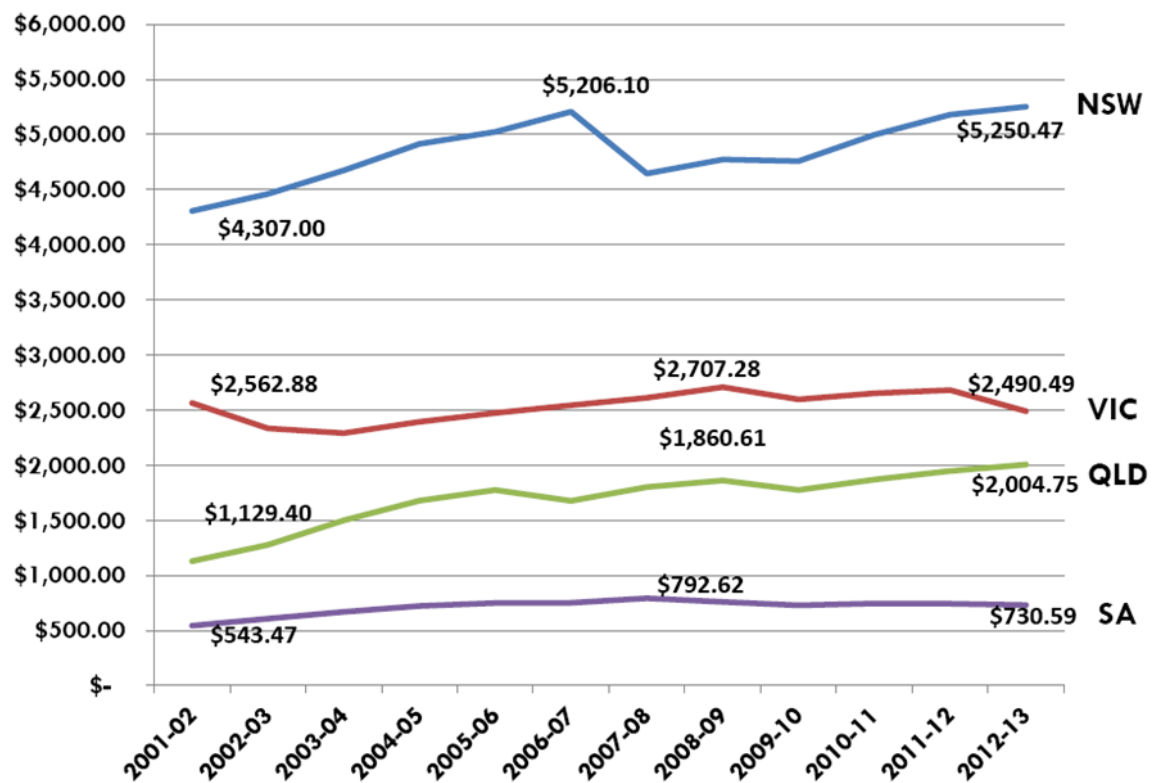


Some of the slowing revenue can be attributed low population growth in South Australia compared to other States as well as the relative age of gaming machines.

Australian Capital City Population



State NGR 2002 to 2013



The rise of on-line gambling has also contributed to the decline in gaming machine revenue. Not only has this resulted in a reduction in revenue to hotels and to tax revenue to the State Government but also poses significant personal and societal risk as these individuals move away from the highly regulated gaming venues to private, uncontrolled environments. On-line gambling has no mechanism to address problem gambling behaviours.

In terms of taxation the AHA|SA would certainly welcome a move towards application of tax on on-line gambling operations, via a tax on 'place of consumption' rather than supply.

The Adelaide Casino enjoys significant tax concessions on gaming machines compared to its competitors, namely hotels and clubs. While the Discussion Paper, not incorrectly, states that The Casino pays 41.5% tax this of course is a maximum rate and does not apply to all NGR.

The Casino also benefits enormously from a tax rate of just 10.9% for all NGR generated by gaming machines in designated 'premium' areas.

The State Budget documents (2012) suggested then tax 'forgone' by the State Government as a result of this concession equated to \$18.1 million.

There is no capacity within the Hotel and Club sector to increase tax on gaming machines in light of the above and we continue to argue that concessions to the Adelaide Casino should be withdrawn. Removal of this concession would go some way to addressing any taxation revenue reductions made via other reforms suggested in this submission.

Liquor Licence Fees

The AHA|SA accepts that liquor licence fees are a part of doing business in SA, however urges those fees to be applied to the industries it collects it from, namely the hotels and hospitality industry and better policing.

Tax Maintenance

As well as the recommendations above, there is no doubt that the collection, administration and business of collecting taxes is a burden on business and a cost to governments. As a part of this review the AHA|SA urges the state government to review the administrative burden of red tape for business with a view to reducing and streamlining these requirements. These savings may not 'balance the budget' however would result in savings to not only business but the governments that collect them.

National Taxation Review

As a part of the current National Tax Review, the AHA|SA urges the State Government to make representations to the Commonwealth for a marginal increase to the GST, with funds to be returned back to the States and the abolition of taxes such as Stamp Duties. Abolition of stamp duties would reduce the tax burden on SA businesses and promote a more competitive business environment.

CONCLUSION

SA Hotels make a significant tax contribution to this state. SA's hotels provide a critical, valued and vibrant community function and are intrinsic to the culture of the State and its social well-being.

Hotels continue to experience the most difficult trading conditions since the early 1990's for a range of reasons including low consumer confidence and continuing high costs of doing business.

In order to operate and to grow the hotels and hospitality businesses in South Australia, tax levels and tax policies must provide incentives to business and it is clear that a number of taxes currently do the opposite. Accordingly, the AHA|SA urges the State Government to seriously and genuinely review the taxation burden to businesses.