Tourism & Transport Forum (TTF)

TAXING TIMES

A look at the tax issues impacting the tourism, aviation and transport sectors

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TOURISM & TRANSPORT FORUM

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

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Furniture, fittings and equipment depreciation: In order to provide an incentive to hotels to refresh their properties, TTF recommends that accelerated depreciation on Furniture, Fittings and Equipment (FF&E) be made available, with 50 per cent of the expenditure on FF&E items being deducted in the first year and the remaining balance spread over the applicable timeframe in the depreciation schedules (i.e. seven years for carpets, seven years for bed mattresses as examples).

State-based taxes

Overall, TTF recommends that there is a necessity to investigate areas of harmonisation between these regimes with a goal of standardisation.

Payroll tax: TTF recommends that payroll tax be abolished to remove the excess burden of taxation on labour intensive industries such as tourism. Recognising the current constrained fiscal environment, a more immediate reform would be to harmonise the rate across states to the lowest rate of all the states.

Land tax: TTF recommends that land tax exemptions be provided for hotels to provide a level playing field across all industries. Recognising the current constrained fiscal environment, a more immediate reform would be to harmonise the rate across states to the lowest rate of all the states.

Stamp duty: TTF recommends stamp duty exemptions for the purchase of hotels in order to remove the deadweight cost on tourism innovation and the excess tax burden on tourism. Again, recognising the current constrained fiscal environment, a more immediate reform would be to reduce stamp duty to the lowest rate across the states.

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Aviation fuel excise: TTF believes government needs to investigate a series of measures to stimulate a sustainable aviation fuels industry in Australia, but that the first step is for the federal government to guarantee bio-fuels for aviation will be zero-rated for excise purposes.

Improved access to capital for aviation: To improve access to foreign investment for Australian airlines and to improve their international competitiveness, TTF recommends that interest withholding tax on equipment leasing be removed.

Tax depreciation on aircraft: TTF strongly supports the reduction of the effective life statutory cap for aircraft from ten years to three years and the reintroduction of the investment allowance for aircraft assets. This would further support the current and future fleet growth and re-investment program and put Australian airlines on a level playing field with regional competitors.

Airline fringe benefits tax: TTF recommends airline transport fringe benefits tax be removed from the FBT legislation as the time and cost incurred to calculate the taxable value of this fringe benefit is disproportionate to the revenue collected by the Australian Taxation Office.

TRANSPORT

Public transport fringe benefits tax: TTF recommends the provision of an FBT exemption for employer-provided public transport and carpooling expenses capped at an initial monthly rate of $75 per employee.

Regulatory reform for rental vehicles: TTF recommends that the Australian government lead and work with state governments to harmonise registration and CTP regimes for the rental vehicle sector.

Road pricing reform: TTF recommends that the Australian government lead and work with state governments to implement road pricing reform by linking pricing with vehicle fuel efficiency and usage.

INTRODUCTION

There are opportunities within Australia's tax system to make tourism more competitive and to create incentives for investment in new tourism product and the refurbishment of existing product.

TTF recently provided a statement of priority reforms to Treasury in advance of the federal government's Tax Forum in which we highlighted four priority areas for reform: capital works deductions and furniture, fixtures and equipment (FF&E) depreciation incentives for short-term accommodation; clarity regarding aviation fuel excise; reforms to the passenger movement charge (PMC); and the provision of a fringe benefit tax exemption for public transport.

This paper will look to build on these and TTF's full advocacy agenda on taxation issues across areas of relevance to our tourism, aviation and transport sector members and is intended as a continuing opportunity to engage with members to confirm and refine our rationale and recommendations.

TOURISM

Australian tourism is a significant component of the Australian economy

Expenditure by international and domestic visitors makes a significant contribution to the Australian economy. The value of the tourism industry is measured by the ABS's Tourism Satellite Account (TSA) within the system of national accounts. In 2009-10, international and domestic tourism consumption in Australia was $93.6 billion[1]. This tourism consumption:

- Generated $22.8 billion in export earnings – 9.0 per cent of total Australian exports;
- Directly employed 500,500 people – 4.5 per cent of total Australian employment; and
- Contributed $33.9 billion to Gross Domestic Product – 2.6 per cent of GDP.

Tourism also generated approximately $6.9 billion in net federal and state revenue in 2009-10[2], including the goods and services tax (GST) and other taxes on production, but excluding the PMC.

Tourism imports now exceed exports

Over the years, the tourism balance of trade has deteriorated from a surplus of $3.6 billion in 2001-02 to a deficit of $5.0 billion in 2009-10[3]. The latest overseas arrivals and departures data reveal continued strong growth in outbound travel, with the number of Australians travelling overseas up more than 10 per cent in the most recent year ending data while international arrivals are up less than three per cent[4] in the same period. Based on this data, the tourism trade deficit could reach almost $6.3 billion in 2010-11 as outbound traveller numbers now exceed arrivals by 1.6 million.

Addressing this will require a significant improvement in the competitiveness of Australian tourism, and a higher quality and expanded set of tourism product and experiences to successfully target key growth markets in Asia and to stem the declining interest of the domestic market.

An expanded scope for tourism policy – beyond tourism promotion to tourism supply

The National Long-Term Tourism Strategy was established to "assist the Australian government in achieving its overarching policy goal, which is to maximise the net economic benefit of the tourism industry to the Australian economy". The strategy looks to expand the scope of tourism industry policy beyond tourism promotion to also address tourism supply.

In 2010, the Tourism Ministers' Council adopted the Australian 2020 Tourism Industry Potential to double overnight visitor expenditure from $70 billion in 2009 to $140 billion in 2020[5]. This industry growth potential was developed by Tourism Australia and is driven by anticipated growth in international tourism from key source markets such as China.

To meet this demand potential from source markets in Asia will require substantial investment in aviation capacity, accommodation and tourism infrastructure. Achieving investment in internationally competitive tourism product is a key focus of the federal and state governments under the National Long-Term Tourism Strategy.

To achieve this potential growth will require:

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[1] Australian Tourism Satellite Account, cat. no. 5249.0, ABS, 2009-10
[2] Australian Tourism Satellite Account, cat. no. 5249.0, ABS, 2009-10
[3] Australian Tourism Satellite Account, cat. no. 5249.0, ABS, 2009-10
[4] Overseas Arrivals and Departures data, cat. no. 3401.0, ABS, July 2011
[5] 2020 Tourism Industry Potential, Tourism Australia and the Department of Resources, Energy and Tourism, November 2010.

- 40 per cent to 50 per cent increase in international aviation capacity;
- 23 per cent to 30 per cent increase in domestic aviation capacity;
- 40,000 to 70,000 additional rooms; and
- 56,000 to 152,000 additional jobs.

Concern of tourism sector around taxes

The results of the recent TTF-MasterCard Tourism Industry Sentiment Survey conducted among senior executives of Australian tourism operators, including airlines, hotels, tour operators and attractions, reveal significant concern about the impact of taxes on international travellers, state-based taxes and other taxation measures.[6]

Almost 95 per cent of tourism executives confirmed that taxes on international visitors, including the PMC and GST on products and services purchased by international visitors, are a concern for their businesses. The majority of executives also indicated that state-based taxes, including payroll taxes, land tax and stamp duty, have a 'medium' or 'high' impact on the profitability of their business.

Tax system recommendations are interrelated to carbon tax measures

The federal government has indicated that tax measures related to the proposed carbon tax will not be debated in the upcoming Tax Forum. However, many of the recommendations that TTF has made to government concerning the carbon tax's implementation are integral to the overall tax agenda TTF is pursuing on behalf of our membership both at the Tax Forum and beyond.

1. General taxation

a. Tax loss carry-backs

The concept of a loss carry-back enables a company to reclaim taxes paid in prior years against current-year tax losses. Many jurisdictions allow for loss carry-backs, including Canada, for example, which allows three years' worth of tax payable to be recovered against tax losses.

In Australia, the assessment of taxation payable is arbitrarily broken into defined financial year periods and a period of high taxable income can be followed by a tax loss. However, no relief is given for taxes previously paid when falling into losses. This concept was addressed in the recent Henry Review of Australia's Future Tax System, which recommended that companies be allowed to carry back a revenue loss to offset it against the prior year's taxable income.

Tourism is highly seasonal and subject to external shocks such as the recent flooding and events in Queensland, SARS, September 11 and the collapse of Ansett. A tax loss carry-back would effectively address the volatility in annual performance of the industry. Permitting the carrying back of tax losses for three years, capped at the level of taxes paid in the period, would assist considerably in sustaining a long-term view of investment in tourism.

TTF recommends the carrying back of tax losses for three years to significantly ease cash flow pressures for business operating in trade-exposed industries.

[6] TTF-MasterCard Tourism Industry Sentiment Survey, August 2011

2. Taxes on international visitors

a. Passenger movement charge

The passenger movement charge (PMC) is no longer hypothecated against its original stated purpose of funding the border agencies at the primary line, including customs and border protection, quarantine and immigration.

In the recent TTF-MasterCard survey, six out of ten tourism executives indicated that the PMC was a 'medium' to 'high' concern to their business

TTF believes the departure tax undermines the competitiveness of Australia's tourism industry and is inconsistent with the government's stated goals of growing international visitation. Fundamentally, the PMC is an export tax on international visitors and an import tax imposed on Australian residents.

The detrimental impact to the broader economy generated by the charge outweighs the revenue it generates, as illustrated by countries such as The Netherlands and Ireland repealing their departure taxes[7]. While a complete removal would certainly provide significant improvements to the tourism industry broadly, TTF understands the impractical nature of eliminating this significant revenue source in one move, especially given the constrained fiscal environment the government faces.

TTF recommends that the PMC be reformed to more closely align with the federal government's tourism policy goals.

Specifically, Treasury needs to introduce flexibility into the PMC-charging mechanism in relation to priority international source markets, including mature markets which are underperforming, and to stimulate demand for travel to regional Australian destinations. A reduction in the PMC in targeted cases would stimulate growth in visitation, which would offset the reduction in revenue through an increase in visitor expenditure, providing a net increase in Australia's economic position.

Extrapolating findings in *The Impacts of the Passenger Movement Charge on Tourism Output and the Economy*[8] by Forsyth et al, regions more dependent on the international tourism sector (e.g. Tropical North Queensland) would benefit more than capital cities from a targeted PMC reduction.

TTF also recommends a restructure for short-haul markets where the PMC comprises a large proportion of the total ticket price.

On popular New Zealand routes, the PMC often comprises up to 30 per cent of the ticket price and TTF believes a reduction in the departure tax would stimulate growth in visitation, which would offset the reduction in revenue collected. Given the government's commitment to simplifying trans-Tasman border formalities, TTF believes New Zealand should be used as a test case for PMC reduction, due to its status as the single largest source market for inbound visitors.

b. Tourist Refund Scheme (TRS)

Contrary to the standard GST-free treatment of other exports, retail purchases by overseas visitors in Australia currently incur the GST. In 2009-10, these export retail sales generated $6.5 billion[9],

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[7] *IATA Welcomes Abolition of Dutch Tax*, IATA release, 27 March 2009
[8] The Impact of the Passenger Movement Charge on Tourism Output and the Economy, by Peter Forsyth, Serajul Hoque, Larry Dwyer, Tien Duc Pham and Ray Spurr, The Centre for Economics and Policy, March 2011
[9] Australian Tourism Satellite Account, cat. no. 5249.0, ABS, 2009-10

nearly three times the value of wool exports[10]. However, the sector remains exempt from the GST-free treatment of other export sectors, an impediment that hinders the international competitiveness of both the Australian retail and tourism industries to the detriment of the national economy.

Almost half of the tourism executives surveyed in a recent TTF-MasterCard survey indicated that GST on products and services purchased by overseas visitors while in Australia is a medium to high concern to their businesses.

Over the five years to December 2010, retail expenditure by international tourists increased by 32 per cent[11], outpacing overall Australian retail expenditure growth of 29 per cent[12] and this growth trend is projected to continue. The Australian retail and tourism industries are well positioned to benefit from growth in shopping-motivated key inbound markets such as China and Korea, with the Australian 2020 Tourism Industry Potential aiming to double total inbound visitor expenditure to $140 billion by 2020.

While the current Tourist Refund Scheme (TRS) seeks to mitigate some of these impacts, TTF believes that the current scheme falls short of achieving its stated aims with fewer than half of available refunds claimed in 2009-10[13] – a decade after the scheme's introduction.

TTF believes the TRS's eligibility criteria are restrictive. The current $300 threshold reduced the number of retailers to access the scheme. Furthermore, the 30-day reclaim period is inconsistent with the average length of stay of overseas visitors to Australia given that international visits of less than 30 days account for only 21 per cent of international visitor nights in Australia[14].

TTF recommends practical reforms to the scheme, including honouring 2008-09 federal budget commitments to extend the reclaim period to 60 days. Further, TTF recommends the eligibility threshold be reduced to include all purchases of $50 or more. These measures would simplify the marketing of the scheme by retailers and increase the attractiveness of Australia as a destination for shopping-motivated overseas travellers.

c. Extend the GST to leisure tourism packages

Currently, international visitors to Australian business events such as conferences and conventions are able to purchase GST-free packages to Australia, adding a critical edge to Australia's international competitiveness in winning business events bids. To provide similar incentives for leisure visitors to Australia, TTF recommends the extension of this scheme to international leisure packages.

The impact of this initiative to government revenue is potentially limited, as currently fewer than 20 per cent of leisure visitors to Australia package their international airfare with Australian ground content[15] (e.g. accommodation and tours). However, as leisure package visitors are some of the

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[10] International Trade in Goods and Services, cat. No. 5368.0, ABS, Jun 2010
[11] International Visitor Survey, TRA, June 2011
[12] Retail Trade, Australia cat. no. 8501.0, ABS, Australia, Dec 2010
[13] TTF analysis of Australian Customs & Border Protection Service Annual Reports; International Visitor Surveys, TRA
[14] International Visitor Survey, TRA, June 2011
[15] International Visitor Survey, TRA, June 2011

most price-sensitive international inbound travellers to Australia, the deduction of GST could be a significant incentive to encouraging increased visitation to Australia.

TTF recommends that the current GST-free status for international airfares to Australia and international business event package travel to Australia be extended to the accommodation and tour components of leisure travel packages.

3. Short-term accommodation

In the recent TTF-MasterCard survey, tourism executives were asked their views on various taxation issues in advance of the federal government's Tax Forum. More than a third of the survey respondents reported that accelerated depreciation rates would have a significant impact on their decision-making regarding reinvestment in their property or assets.

a. Capital works deduction incentive

According to the Australian 2020 Tourism Industry Potential, between 40,000 and 70,000 additional hotel rooms will be required across Australia by 2020. Given the existing strong demand for accommodation and the looming shortfall of rooms, particularly in capital cities, an incentive to encourage new accommodation construction is recommended to ensure visitors do not choose a destination other than Australia due to lack of suitable accommodation.

The capital works allowance is a tax deduction available for the structural element of a building including fixed irremovable assets; it does not cover plant and equipment. In respect to tourism property, it covers the hotel/motel or resort building but not the furniture, furnishings and equipment (FF&E). It is not limited to new buildings, but includes any redevelopment with building works. Currently, residential and other property types have an allowance of 2.5 per cent per annum which means the building is written off over 40 years. Manufacturing and tourist accommodation has a capital works allowance of four per cent, with a hotel currently written off over 25 years. The tourism industry has consistently argued that hotels are in use 24 hours a day and depreciate much faster than other properties, making the current four per cent allowance is insufficient, i.e. that hotels have a shorter operational life than 25 years.

L.E.K. has produced a draft report[16] for the Investment and Regulatory Reform working group under the National Long-term Tourism Strategy, which recommends an additional 50 per cent capital works deduction bonus as a short term incentive (for three years) for tourist accommodation development. This would see the investment in the accommodation property being written off over 12.5 years instead of 25 years. L.E.K. has completed modelling which suggests that this incentive will significantly improve the economic return, and ability to obtain finance, for hotel operators and facilitate much needed investment in accommodation room stock and ancillary meeting spaces within accommodation properties. To ensure that a supply bubble does not occur as a result of this incentive, however, TTF recommends that the incentive should be for a limited period of time, for example three years.

TTF recommend that a 50 per cent capital works deduction bonus, with the remaining balance spread over 12.5 years at four per cent be made available to stimulate investment in new accommodation development. Accelerating the capital works deduction schedule from its current 25 years at four per cent better aligns the depreciation timeframe with the operational life of investments.

[16] Draft Tourism Investment and Regulatory Review, L.E.K., June 2011

b. Furniture, fittings and equipment depreciation

Australia cannot compete internationally, or meet anticipated tourism growth, with aging tourism product. The quality of Australia's accommodation product directly impacts on visitor experience and is in turn critical to growing tourism demand. Resort, hotel and other accommodation product is a combination of guest services and furniture, fittings and equipment (FF&E). Accommodation product is unique and FF&E is essential to the product's appeal. In a 24/7 tourist accommodation establishment, assets rapidly wear out and FF&E must be upgraded frequently to ensure Australia offers an innovative product.

A major concern, as raised in the *State of the Industry 2010* report by Tourism Australia, is the lack of Australians engaging in domestic travel. One of the main reasons according the report is the "lack of investment in product and experiences, which has eroded the value equation for domestic tourism". Refurbishment and renovation are two of the most important factors in keeping an accommodation establishment attractive to visitors.

In order to provide an incentive to hotels to refresh their properties, TTF recommends that accelerated depreciation on Furniture, Fittings and Equipment (FF&E) be made available, with 50 per cent of the expenditure on FF&E items being deducted in the first year and the remaining balance spread over the applicable timeframe in the depreciation schedules (i.e. seven years for carpets, seven years for bed mattresses as examples).

4. State-based taxes

Tourism industry respondents in the recent TTF-MasterCard survey reveal significant concern about the impact of state-based taxes on the profitability of their businesses:

- 82 per cent of tourism executives have indicated that **payroll taxes** have a 'medium' or 'high' impact on the profitability of their business;
- Almost three quarters have reported that **land tax** has a 'medium' or 'high' impact; and
- More than half have said that **stamp duty** has a 'medium' or 'high' impact.

In addition, many tourism businesses operate across jurisdictions and the fact that each state has differing payroll tax, land tax, and stamp duty regimes is unnecessarily burdensome.

> Overall, TTF recommends that there is a necessity to investigate areas of harmonisation between these regimes with a goal of standardisation.

a. Payroll tax

Tourism accounts for 2.6 per cent of Australia's gross value added but 4.5 per cent of total employment[17]. Tourism's share of total employment is higher than its share of industry gross value added, due to the labour-intensive nature of the industry. TTF highlights that labour costs represent approximately 35 per cent of a tourism accommodation providers' total operating cost.

As such, tourism is at a significant disadvantage when competing for investment dollars due to its labour intensive nature particularly because no payroll tax concessions are provided. While we acknowledge that office and retail property also attract payroll tax, this burden can be transferred to tenants at no cost to the investor. Additionally, this payroll tax burden can then be split over multiple tenants each using the payroll tax-free threshold. Hotels, in contrast, attract payroll tax for their labour intensive operations and only have the one payroll tax-free threshold.

Further, many tourism businesses operate across multiple jurisdictions and the differing payroll regimes across states creates an additional burden on tourism operators. Lower payroll tax would significantly improve hotel and other tourism businesses returns by decreasing the tax liability of the operators.

> TTF recommends that payroll tax be abolished to remove the excess burden of taxation on labour intensive industries such as tourism. Recognising the current constrained fiscal environment, a more immediate reform would be to harmonise the rate across states to the lowest rate of all the states.

b. Land tax

Tourism is primarily property-based. Tourism and leisure property includes hotels, motels, resorts, caravan parks, theme parks, attractions and hospitality and retail outlets. Land tax typically applies to these properties and tourism does not benefit from any exemptions. As tourism is essentially a combination of (labour-intensive) customer service and value-added improvement to property, the tourism industry bears a disproportionate burden of state taxation from land tax, as well as payroll tax as previously mentioned.

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[17] ABS Cat No, 5249.0, Tourism Satellite Account, 2009-10.

Current tax arrangements distort investment and efficiency through land tax exemptions being provided to agricultural land use if all or part of the land is used only for the business of primary production (agriculture, pasturage or dairy farming).

Land tax presents a significant burden to hotel owners. For example, a five-star hotel in Brisbane's CBD would pay approximately $250,000 per year in land tax. A way to increase hotel values and hence stimulate new hotel development would be to lower taxes such as land tax.

TTF recommends that land tax exemptions be provided for hotels to provide a level playing field across all industries. Recognising the current constrained fiscal environment, a more immediate reform would be to harmonise the rate across states to the lowest rate of all the states.

c. Stamp duty

Stamp duty, or transfer duty, is payable on the transfer of ownership of real property (such as land or buildings) and of non-real property (such as copyrights, goodwill, patents, partnership interests, options to purchase and units in a trust).

Conveyance duty rates and additional premiums on business transactions inhibit tourism product development and, as such, adversely impact on the attractiveness of Australia as an investment market. Stamp duty represents a significant impediment to investment and innovation in the tourism industry. As an example, a major five-star hotel in the Sydney CBD can sell for up to $200 million. This transfer of ownership would attract stamp duty of approximately $11 million (with stamp duty calculated at a rate of approximately 5.5 per cent), adding a significant cost to the transaction. An investor would only purchase such a hotel if they could extract greater value from the property asset than the value the current owner extracts (which is reflected in the sales price). This greater value would be achieved through enhanced productivity and innovation which are desperately needed in a competitive hotel market facing labour shortages.

However, the new owner must be able to extract greater value than the first $11 million which will be lost to stamp duty. Investors seek to balance transactional cost against investment gain, and if cost outweighs gain, then the investment will not occur.

TTF recommends stamp duty exemptions for the purchase of hotels in order to remove the deadweight cost on tourism innovation and the excess tax burden on tourism. Again, recognising the current constrained fiscal environment, a more immediate reform would be to reduce stamp duty to the lowest rate across the states.

AVIATION

a. Aviation fuel excise

Jet A-1 aviation turbine kerosene derived from biological feedstocks is not currently explicitly exempted from proposed carbon tax measures to raise excise on aviation fuels.

The government's Clean Energy Plan states that "emissions from the combustion of bio-fuels and biomass" will not be taxed. The proposed bill goes on to specify ethanol, biodiesel and renewable diesel as specific road transport fuels that will not incur fuel tax credit reductions or changes to excise, as these fuels are zero-rated under international carbon accounting rules, but bio-derived jet fuel is not specified in the legislation.

TTF believes this drafting anomaly needs to be corrected.

The implied Carbon Tax exemption for any bio-fuel product, regardless of use, needs to be made explicit in the case of Jet A-1 and aviation gasoline as the first step towards stimulating investment in a local sustainable aviation fuels industry.

The Sustainable Aviation Fuel Road Map produced by CSIRO in May 2011 estimated that a local industry refining synthetic Jet A-1 from biomass could create 12,000 new jobs in regional areas by 2030. The current uncertainty over whether aviation bio-fuels will be subject to excise acts as a barrier to forward fuel purchase options for bio-fuel and thus puts these jobs in doubt.

TTF believes government needs to investigate a series of measures to stimulate a sustainable aviation fuels industry in Australia, but that the first step is for the federal government to guarantee bio-fuels for aviation will be zero-rated for excise purposes.

b. Improved access to capital for aviation

The airline industry is highly capital-intensive and Australian carriers must look to offshore markets for a significant portion of their funding. In addition, the vast majority of aircraft lessors are not based in Australia.

At present, the key taxation impediments to aircraft financing are the imposition of interest withholding tax applying to interest payments made to offshore banks; withholding tax applying to payments to offshore lessors for cross-border aircraft leasing; and subjecting offshore lessors, who passively lease aircraft used by the lessee in Australia, to Australian income tax. As such, financiers often require borrowers or lessees to increase their payments to cover the withholding tax, effectively passing the burden back to Australian airlines and making operating costs higher.

Removal of these impediments will increase competitiveness between domestic and foreign investment, ultimately assisting companies to raise capital and become more competitive themselves in the global environment. This proposal supports the notion of capital export neutrality.

To improve access to foreign investment for Australian airlines and to improve their international competitiveness, TTF recommends that interest withholding tax on equipment leasing be removed.

c. Tax depreciation on aircraft

As a part of an overall strategy to address aviation industry carbon emissions, Australia's airlines are investing significant amounts of capital in new, fuel-efficient aircraft. In order to adequately assist the aviation industry to successfully achieve these goals, supportive government policy is vital. Newer aircraft also deliver significant improvements to noise output and safety, both of which have broader community benefits.

Many countries have more favourable asset depreciation regimes for aircraft. Singapore, for example, allows the depreciation of aircraft over three years and China, a rapidly-growing aviation market, over five years.

Any reduction in the statutory cap for aircraft would not only reduce costs, improve the international competitiveness of Australia's airlines and enable it to continue contributing to the Australian economy, but also encourage airlines to invest in more fuel efficient aircraft at a faster rate, helping airlines better achieve carbon emission reductions in line with the government's proposed climate change policy.

TTF strongly supports the reduction of the effective life statutory cap for aircraft from ten years to three years and the reintroduction of the investment allowance for aircraft assets. This would further support the current and future fleet growth and re-investment program and put Australian airlines on a level playing field with regional competitors.

d. Airline Fringe benefits tax

Since the introduction of the fringe benefits tax (FBT) in 1986, it has slowly compounded the day-to-day compliance burden of Australian businesses. While the call for FBT reform is not new, continuing amendments to personal income tax have mounted an even stronger case for its review.

Airlines and travel agents have to withhold tax against the fringe benefit of airline transport when they provide employees with free or discounted air travel on a stand-by basis. The advent of low-cost airlines and changes in employment conditions have made this fringe benefit less widespread and, as such, airline transport fringe benefit is applicable to an ever-smaller handful of taxpayers.

TTF recommends airline transport fringe benefits tax be removed from the FBT legislation as the time and cost incurred to calculate the taxable value of this fringe benefit is disproportionate to the revenue collected by the Australian Taxation Office.

TRANSPORT

a. Public transport fringe benefits tax

Existing inequity in the tax treatment of private and public transport and the expected impact of the carbon price on public transport fares have created the need for complementary measures to ensure that commuters have a real choice between public transport and private motor vehicle usage. As Australia moves toward a carbon-constrained economy and a tax and transfer system that rewards sustainable consumption choices, TTF believes there is a strong case to examine using taxation to encourage public transport patronage.

Recent reforms to fringe benefits tax (FBT) concessions for salary-packaged vehicles have removed incentives for motorists to drive further. However, the FBT rate applied to public transport fares (46.5 per cent) remains a significant disincentive for employers to encourage workers to make sustainable commuting choices.

Analysis of possible tax incentives based on efficiency, visibility, equity and simplicity suggests that an FBT exemption, as provided in the US Commuter Benefits scheme, would provide the most effective tax incentive for public transport users.[18] Furthermore, the requirement for employers to "opt in" means that tax-free fringe benefits or allowances would be closely linked to workplace productivity gains.

TTF recommends the provision of an FBT exemption for employer-provided public transport and carpooling expenses capped at an initial monthly rate of $75 per employee.

This measure would provide relief in the cost of commuting and increase take-home pay, as a proportion of transport expenditure is deducted from pre-tax earnings. For employers, a tax-free allowance decreases payroll tax liabilities and provides an opportunity to offer additional employment benefits to attract and retain quality employees.

For government, this tax provision would provide a complementary measure to offset the impact on public transport resulting from the carbon price. Furthermore, as seen in the US, the monthly allowance cap can be adjusted over time to stimulate transport demand as economic or environmental factors may dictate.

b. Regulatory reform for rental vehicles

Recent reforms to the national regulation of heavy vehicles create a solid foundation for the harmonisation of other national transport sectors. TTF believes the same reform principles should be applied to other industries operating vehicle fleets across state borders, such as the rental vehicle sector.

As in the road freight sector, the cost burden associated with managing fleets in different jurisdictions is unnecessary and does not provide any benefit to road users, businesses or taxpayers. This situation is cumbersome and costly for businesses and unnecessarily expends state resources in compliance enforcement.

[18] NSW Ministry of Transport: Tax Incentives for Public Transport Users, Ernst and Young, 2006, p12

National harmonisation of registration and compulsory third party (CTP) insurance requirements would assist the productivity and efficiency of an industry that is essential particularly to the tourism sector.

TTF recommends that the Australian government lead and work with state governments to harmonise registration and CTP regimes for the rental vehicle sector.

c. Road pricing reform

TTF supports the use of demand-side measures, such as a system of road pricing which determines registration and stamp duty charges retrospectively based on kilometres driven each year and the fuel efficiency of the vehicle. At present, energy efficiency has no bearing on either fee. In fact, current exemptions encourage energy inefficiency, such as for SUVs.

Linking road pricing with fuel efficiency and kilometres driven would provide a more comprehensive pricing mechanism that reflects an individual's greenhouse gas emissions and use of road networks. Those that pollute the most and use road infrastructure more frequently would pay more compared with those who own efficient vehicles and use them less frequently. Although this is a medium to long-term priority, it is important to inform public debate on this issue, which is currently dominated by misconceptions of a 'congestion tax' rather than the rationalisation of existing road charges.

TTF recognises that road pricing reform needs to be linked to improvements in the public transport and active transport networks to avoid inequities for those who live in areas with limited or no alternate transport options other than private motor vehicles. In a staged approach, registration and stamp duty reforms should focus on the fuel efficiency of newly purchased vehicles.

TTF recommends that the Australian government lead and work with state governments to implement road pricing reform by linking pricing with vehicle fuel efficiency and usage.

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