

Head Office

Industry House
486 Albert Street
East Melbourne, VIC 3002
Australia

Postal Address

GPO Box 4352QQ
Melbourne, VIC 3001

Tel: (03) 8662 5333

Fax: (03) 8662 5462

E-mail: vecci@vecci.org.au

Web: www.vecci.org.au

18 April 2005

The Secretary
Senate Economics Legislation Committee
Suite SG.64
Parliament House
CANBERRA ACT 2600

Dear Mr Hallahan

Re: Inquiry into the *Tax Laws Amendment (2005 Measures No.1) Bill 2005*

I am writing in response to your letter of 17 March 2005, inviting submissions on the *Tax Laws Amendment (2005 Measures No.1) Bill 2005*.

As the peak body representing over 300 accommodation businesses throughout Victoria, the Hotel Motel Accommodation Association Victoria (HMAA VIC) is greatly concerned about the potential impacts of the proposed Bill.

If enacted, this Bill will likely reduce significantly the number of international tourists travelling to Australia. This would be particularly unfortunate given that the accommodation and tourism industries are barely recovering from a series of 'negative shocks' over the past few years, including the September 11 attacks and subsequent widespread fear of international terrorism, the SARS and avian flu outbreaks, rural drought, bushfires, war in Iraq and sharply-rising insurance premiums.

This legislation will require every retail travel agent that sells Australian tourism product to fill out a Business Activity Statement and remit the GST relevant to the sale for the period to the Australian Taxation Office (ATO). The same will apply to every on-line operator.

Consequently, the main impact of this Bill would be to discourage foreign tour operators from offering Australian tour packages for sale overseas. These operators will simply substitute alternative destinations that do not have these higher compliance and transaction costs. In fact, it appears that Australia would be the only country in the world demanding such extra-territorial GST compliance.

Among those tour operators that continue to sell Australian tourism product, there is likely to be a very high incidence of non-compliance, given the difficulty and expense that the ATO would face in enforcing the legislation.

In summary, the expected revenue impact from this legislation will be quite low, due to foreign tour operators reducing sales of Australian tourism product and compliance rates being low. Compounding this, the expenses faced by the ATO in enforcing compliance will be very high in proportion to the revenue gained.

Apart from these administrative concerns, the legislation runs counter to Government policy, as espoused in the recently-announced Tourism White Paper, to "assist the tourism industry to capture, maintain and grow future market share". Extending the GST to include tourism products booked overseas (which are essentially exports in any meaningful sense) counteracts the White Paper's aim, and is also inconsistent with the treatment of other exports, which are GST-free.

For example, the legislation appears similarly inconsistent with the GST treatment of domestic air travel that is booked overseas as part of an international flight (which is GST-free). Indeed, the legislation

renders the GST **discriminatory** against all tourism exports except air travel, with no explanation or rationale provided for the difference in tax treatment.

The HMAA argues that if GST is to be extended to tourism exports, the method adopted should be one that will not encourage non-compliance, and is easy to administer. Accordingly, we recommend that the Government consider an input taxing model, similar to the approach proposed by the Australian Tourism Export Council.

If you wish to discuss this important matter further, please do not hesitate to contact me on telephone (03) 8662 5405.

Yours faithfully



Harry Korpetutuncu
Chairman

