

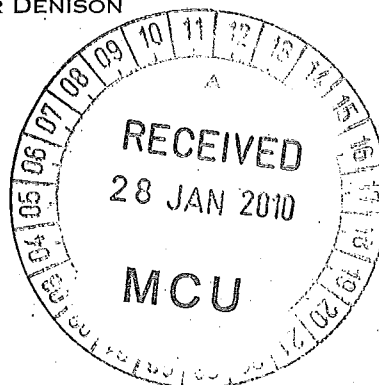


Andrew Wilkie MP

INDEPENDENT MEMBER FOR DENISON

24 JAN 2011

The Hon Julia Gillard MP
Prime Minister
Parliament House
Canberra ACT 2600



Dear Prime Minister *Julia,*

I am writing on behalf of my constituents Mr Geoff Copping, Mr Phil Capon and Mr Steve Old regarding their proposal to make entertaining in restaurants tax deductible within limits. All three are significant players in the Tasmanian hospitality industry and their idea has widespread support.

Restaurants in regional Australia were badly damaged by the introduction of Fringe Benefits Tax with some reportedly losing close to 40% of their trade. Changes in business structure and culture, the global financial crisis and Queensland floods are putting further pressure on the industry.

My constituents advise me that if the Government were to adopt their proposal the hospitality industry in regional Australia would receive a \$3 billion boost. According to their economic modelling, the extra revenue collected from GST and other taxes would make it either cost neutral for Government, or generate a positive return.

I would be grateful if you could forward their proposal to the appropriate Minister and Department for analysis and costing as per Clause 5.1 (e) of our Agreement. A copy of the background briefing paper, *Deductible Dining*, is enclosed.

Yours sincerely

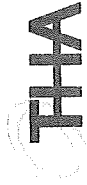
Andrew Wilkie MP
Independent Member for Denison

EMPLOYMENT-FOOD PRODUCERS-SUPPLIERS
HOSPITALITY SALARIES-EMPLOYMENT
THRIVING ECONOMY-BUSINESS NETWORKS

YOU BENEFIT
YOU BENEFIT
YOU BENEFIT

SAY YES! to tax deductible dining and benefit

Support your local hospitality business and spread the word
look up www.deductibledining.com.au and register your support.



Corporate Hospitality and the Taxation System – a proposal for change

Background:

Hospitality has been used in Australia as a business tool by small, medium and large businesses for many years. Taking clients or potential clients to lunch or dinner is a positive way to maximise a client base and discuss business in a less formal and more personal environment.

Business in the Australian corporate environment relies on strong personal relationships. These relationships are developed and strengthened in the convivial hospitality environment.

In 1986 a major change occurred in the Australian taxation system. The introduction of the Fringe Benefits Tax (FBT) incorporated a direct tax on the use of entertainment by businesses, large and small. A number of reasons were cited for the introduction of the tax on entertainment, one being that it would make tax payable on what was seen as corporate “long boozy lunches”.

This tax had a devastating impact on many restaurants and hotels throughout Australia. Restaurateurs in the industry reported a significant reduction in trade as soon as the FBT on entertainment was introduced.

Now with the current financial downturn nationally and a decrease in industry turnover this proposal to government will not only enhance our industry but will also stabilise the food distribution businesses, food production, staff and income and help bring back taxes for federal and state governments.

In 2008, the situation with regard to business dining and entertainment is as follows:

- GST is payable
- FBT is payable
- The cost is not deductible as a business related expense

Issues:

There are at least six reasons why a change in the taxation treatment of business entertainment is warranted:

- Low Profitability - The dining sector is plagued by low profitability and high levels of business failure. According to the ABS, the average profit margin for restaurants and cafes is 4.0% before tax. Profitability is even lower in regional areas because of the lower prices that can be charged to customers while input costs such as raw product prices are the same or higher than in metropolitan centres. The hospitality sector in regional areas like Tasmania has an approximately 25% business turnover rate each year.
- Changing Corporate Culture - Since the introduction of FBT corporate culture in Australia has changed significantly. It is not accepted behaviour for any employee (from the CEO down) to spend significant amounts of time and money on “long boozy lunches”. In twenty-first century Australian corporate culture, dining and hospitality is more likely to be used as a vehicle for making personal connections with clients. Spending vast quantities on food

and alcohol will not impress potential or existing clients but is more likely to have the opposite effect.

- Major Corporations continue to use hospitality - Major corporations based in the metropolitan centres of Sydney, Melbourne and Brisbane continue to spend significantly on hospitality. Many of these organisations have centralised their operations further in the last 20 years and have less of a regional presence. They escape the non-deductibility or FBT issues by employing in-house catering which has a different tax treatment to dining in restaurants and hotels and has been exploited as a loophole.
- Small Business not using hospitality - Small and medium sized businesses do not use hospitality as a business tool because of the current taxation treatment. The current taxation system provides no incentive when they can receive deductibility for other marketing or business development strategies.
- Impact on Regional Areas - Regional Australia is dominated by small to medium sized businesses. This means that hospitality spending from corporate clients tends to be much lower in regional Australia than the major cities. Regional restaurants and hotels rely more heavily on local leisure business or tourists (if they are in a tourist zone) for their dining trade, both groups being more seasonal than corporate dining.
- Seasonality and Employment - The heavy reliance on leisure dining in regional areas means that the hospitality industry is far more prone to seasonal variations. Seasonal volatility makes full-time employment difficult to offer and a lack of full-time opportunities means that the industry loses its young workers to other industries or to the major metropolitan centres.

Proposal:

The proposal to resolve this issue is a simple three-step process.

1. 1% of all business turnover spent on genuine hospitality expenditure by a business is fully deductible (up to a maximum cap of \$25,000 per annum).
2. 1% of all business turnover spent on genuine hospitality expenditure by a business is FBT exempt (up to a maximum cap of \$25,000 per annum).
3. All hospitality expenditure above 1% of turnover or \$25,000 per annum attracts FBT and is not deductible.

Results:

- ✓ Simple to administer (much simpler than FBT)
- ✓ The small amounts for each business remove the risk of large scale rorting (less open to rorting than current FBT)
- ✓ Major benefits to Australian hospitality industry profitability with particular benefits in regional areas
- ✓ A more vibrant business and hospitality scene in regional Australia
- ✓ Small to medium sized businesses will have an additional tool at their disposal to increase their client and revenue base
- ✓ Increased employment in the hospitality industry, especially full-time employment in regional areas
- ✓ Increased investment in the hospitality industry

The proposal would result in a small budgetary cost:

- ❖ Decrease in FBT and company tax, partially offset by
- ❖ Increase in GST, PAYG and hospitality industry company tax

Deductible Dining

Changes to Restaurants and Hotels for Regional Services and Hospitality

13/01/11

*The Honourable, Andrew Wilkie
Member of Australian Parliament
for Denison, Tasmanian*

Following conversation with Ministers over the years I have included most information which has been part of our intended national push to Federal Government for support of our industry over the past few years.

With an opportunity to highlight this concept, this will be a good way to support our industry, also being such an incentive for businesses and governments it would also bring support from all other areas such as banks, credit card companies that will get extra returns from our proposed increases from our *deductible dining concept*.

As a State Board and also many of us sitting on National Hospitality Boards we would prefer to talk clearly about our concept to move forward. Steve Old our State General Manager of Tasmanian Hospitality Association is available on 0418 363 566 and my contact Geoff Copping is 0418142346.

As a state association we believe it is time to push this again, especially with current ongoing national financial issues and also on supporting our industry across Australia for regional tourism. Over the next few months we will be pushing this again nationally to restaurants and hotels and supporters of our industry across Australia.

We have included next, a brief overview of our concept plus all other actual detail after.

Quick Basics of our Deductible Dining Plan

- When FBT came in, back then we lost close to 40% of our industry trade.
- No incentives today for small businesses to get involved in FBT, and because of this no return for Federal government of small business FBT spends.
- Get an agreement from government to give our industry a boost by giving all businesses a 1% spend of turnover up to a maximum of \$25,000 then into FBT.
- This concept will grow restaurants and hotel turnover nationally by close to 3 billion dollars.
- Food producers and suppliers to our industry will get close to \$990 million extra turnover.
- Employment will grow nationally with up to \$ 971 million with up to 34000 jobs and stability for training and regular full time staff.
- Stimulates and brings back stability for Tourism, to our industry nationally and especially in suburbs, small regions and towns by returning to us an extra customer base and dollar resource back from local businesses.
- State and Federal Governments will collect extra money from GST, wage taxes and product taxes.
- No cost or input by government and a positive for all and will support international tourism service in every region
- As a concept we would like Government to finally look at our concept, discuss all financials with us and return to us a yes or no of our concept, so we know as an industry to go forward or not.

If government took this concept on board, with our current expected growth we expect to see across both areas of our industry an estimated growth of 3 billion dollars, with industry average percentage breakdown seeing growth from suppliers nationally of \$971 million and wages by \$990 million, (34000 extra jobs) \$272 million extra in GST, extra wage taxes and all other costs.

There is no cost to state or federal government of this proposal, it is a positive for all industries associated and connected with hospitality.

Our hospitality industries nationally employ over 400,000 people Australia wide and this does not cover all other industries that are employed to service our industry.

Several years ago our association in Tasmania developed a proposal for the future of our industry with primary restaurateurs and hoteliers, and we put forward our proposal to the then minister for Small Business and Tourism the Honourable Fran Bailey.

During that meeting we put forward some concerns we had over dining and hospitality in the regional areas of Australia, and how changing patterns economically were affecting our stability and future growth. Given recent economic issues around the world, we now have even greater concerns for the growth and prosperity of our industry.

The then Minister supported our proposal and organized a meeting with the Prime Minister of the time who also supported it – but then no interest by the Treasury Department to talk with us and see the reality of what FBT did back then and now what it has done to our industry.

We believe as an industry we have been part of Australia's growth in tourism and national dining experiences, along with being part of delivering quality in service and skills; this vision we have is a positive outcome for the benefit of Australians and International visitors to our country.

This presentation covers many areas of concern which we have highlighted below in our documentation, along with our financial estimates; I also have available many industry and associated media reports. This problem is having massive detrimental effects in regional Australia and is impacting on staffing levels, service delivery standards and the ongoing training standards within the hospitality industry.

Nationally, our position is supported by the Restaurant and Catering Association (RCA) of Australia and also the Australian Hotels Association (AHA); both associations have had excellent contact with government over the years and have been fighting for similar change. But we in Tasmania, as a regional area of Australia, desperately need the Government to stand up and deliver support for our industry and every state.

Current supporters of our deductible dining concept.

***Tasmanian Hospitality Association
Restaurant and Catering Association of Tasmania
Australian Hotels Association
Small Business Council of Australia
Food Distribution Association of Victoria
Chef Association of Australia
The Fosters Group***

Back Ground of Concept

Over the past thirty years restaurants and hotels have delivered industry growth which has been a major part of tourism, along with developing a range of skills which were not part of our industry back then. Now our industry has a major presence and we believe our skills are recognized world wide, through major television and most sectors of the media. Our industry also forms a major attraction now for Australians, their life style and also a standard which has grown our international tourism customer base and expectations.

Unfortunately over the past twenty odd years we have also seen two major changes which have not been noticed economically by government and also in business demographics.

With the introduction of Fringe Benefits Taxes and IT technologies, many difficulties were felt by regional businesses. Firstly fringe benefits took most businesses away from entertaining in restaurants and hotels in our regional areas; local businesses and the primary consumer back then, the major corporate companies, most of who had offices in regional areas.

Along with FBT there also came a time of massive IT technologies and changes in major business structures. Big companies have moved their management structures away from most regional areas, back into all our major cities, Melbourne, Sydney and Brisbane.

What is Regional in our Industry

Regional for us is specifically all areas out of the major cities, even the outer suburbs of such major cities. Our industry players no matter where they are still have to meet all the same national work place standards today as any major city centre, along with providing ongoing training for our employees and to meet increasing and ever changing customer and tourism service standards.

Whether it's Cairns, Ballarat, Geelong, Sunshine Coast, Launceston and so on, these are our ***regional*** areas that are clearly serviced by our industry, but nationally we believe government has not seen these changing trends. They have been looking simply at

national figures, which are now out of date, given the effect on us and how our major city areas compete unknowingly against us.

Regional areas are very much more driven by the ever changing economy of the nation, we as regions have to be more competitive if we are to meet our market. This is basically a mix of two customers which currently is our local consumers and tourists, a market sector of two.

As a result of business structure changes our **regional** areas miss out on that previous part of the market which is the big spender and brings year long stability to this industry and that is, *the big corporate market*.

This part of the market is not only missed from our **regional** areas but is also normally up some **100%** on spend per customer than, our current consumer, our locals and the tourists who are only with us during specific times of the year.

Percentages and returns

With these developing economic changes, and our current national restaurant industry returns with a national average of 3.39 % and in some regional areas like Tasmania as low as .33%, we believe it is time government looked at these changes in a **regional** way, and the effect this has on not just us as an industry, but also on our national needs for training. We believe this explains why Australia wide we are in decline in staff and skill delivery.

For years now our leading players, best chefs, waiters, baristas, simply run to the bigger cities where they will earn a bigger dollar and rarely return to our regional areas, simply because we can not compete.

Restaurants, Caterers and other Hospitality businesses across Australia have to meet all national workplace standards and with the introduction of all such procedures we are finding it hard to maintain our industry, especially when returns are so low and diverse.

We are an industry that has enormous potential across the whole of Australia and is a major part of delivering what our international tourist requires given that major tourism areas are typically in these **regional** areas.

Another growing concern,

Recently a growing problem for regional areas has been the increase in return for producers of all major produce. The major cities are paying premium prices for quality produce, and is primarily driven by big city corporate spends.

Fishermen in Tasmania are currently catching premium produce, sending it direct to the major city markets and our local wholesalers, then buying and bringing it back to Hobart to sell to local business increasing the cost to our local, low spending, regional customers.

Government Interest

Other industries have had enormous support from government especially in research and development. Agriculture for instance does have State and National departments that research and develop strategies for their industries. We have colleges and training institutions but no funds injected into such a potential industry that will only grow.

Restaurants, Caterers and Hotels Australia wide would be one of the countries biggest employment sectors and we need more support, particularly if all sectors of our industry are to grow. We cannot expect training from colleges to be the deliverers of all our expectations. We are hands on industry and as we always say, ***“Trainees are like provisional drivers, but we actually need formula one drivers”!***

What is our option to stabilize and grow with support by Government?

With the introduction of FBT back in the eighties we saw then 40 % of our business walk away. Over the past twenty years specific areas of dining declined, this included restaurants that were aimed at that higher end of the market. The big city centers initially also declined, but quickly trends and concepts changed. As earlier mentioned the corporate sector and the market in the big cities allowed restaurants there to quickly re-grow.

With the mass move of the corporates back into these major cities and customer spends there spiraling, the current difference in customer base is now the major factor of difference to our regional areas.

So what can happen?

Small to medium businesses are still located in all regional areas and suburbs of Australia and always will be, such as manufacturers, car dealerships, builders, electricians, local retailers, etc. The introduction of our deductible spend for such small to medium businesses would bring another level of customer base back into all our regional areas.

Tourism in all our areas is seasonal and our local customer base is being driven by ongoing economic changes including, petrol, interest, cost of goods etc. nothing in these market sectors will change.

During a recent study of the Gold Coast (a regional area) you can clearly see the changes to our industry within that market. Developers of premium buildings are looking for service driven establishments but only attracting the lower end of customer areas, such as Cafes, Subways, McDonalds etc.

With the expectation that developers have of a premium end product and service, they can not understand why such establishments don't survive. It's simple, even in such big tourist areas the locals and tourists simply won't spend the money. There are thousands of small to medium size businesses in all areas who could bring back this stability year round.

The outcome!

This presentation we believe would be of benefit to both government and our industry across all **regional** areas of Australia.

We have engaged an economic advisor to put forward a strategy which we can discuss and developed further. With the introduction of another level of customer base we will see stability in all areas, including more growth in full time employment, more training regionally and positive potential to maintain trained staff in their home and regional areas.

The concept is based on simple economic principles and can be further developed; however our original proposal is based on the allowance of deductible entertaining for small to medium business of say 1% of turnover. Anything over \$25,000. Would then become part of FBT.

For a business with a turnover of \$2,500,000 this would mean \$25,000.00 would be spent in our regional areas. Our proposal shows that if this sum is spent in regional areas and the traditional break down of costs from our industry will see all areas of supply also increased such as the growth of beef, seafood, chicken, vegetables and all other costs, with employment stability and increased extra staff, state and federal government will increase revenue from extra GST and payroll taxes and for our industry, a win, win situation.

With such development of opportunity we believe this **would grow our businesses by around 15%**, with such growth, this would see an average business grow in turnover of some **\$120,000.00**.

Because of normal industry structures that do not change, we will see growth in all economies for government and stability for ourselves. ***We estimate that this would bring one extra full time (\$38,000) position to each such average business or two to three casual roles. Such a business would make a net amount of around \$4,360.00, not a lot but it is stability in the areas we need.***

Having researched these proposals over the past few years we clearly see further needs with the world economy changing, regardless of where restaurants and hotels are this will bring back stability that we believe is not currently seen as a major factor.

Many years ago one of London's leading Chefs "Nico Ladenis" wrote in a book that he had wanted to move from the centre of London to a more relaxed regional area, after moving he immediately noted how his business changed as all the local customers would only spend so much and had life styles of washing cars, mowing lawns etc. This took up other parts of their life, he couldn't get good staff and specifically noted the difference in the style, the spend and type of customer, he immediately went back to London.

Regional areas form major parts of Australia and we also form a major part of **Tourism for Australia**, Governments spending money on Tourism promotions to get tourists here is good but, if we don't deliver in our regional areas with improved skills, they will not return, or could pass on tourism wise, *"the bloody wrong message"*. We are an industry that is very hands on in development and can only sustain growth through training and ongoing support of our local staff.

We understand that changes to taxes and laws are not easily driven; we understand that a Ralph Report some years ago had made some recommendations for changes. The changes in the demographics are now out there and we see them very clearly in our **regional** areas.

We know that treasury believe that it is the same every where, FBT is a big earner for government, but we know that the majority of small businesses do not want to get involved in the business side of FBT, the major split is what we now see as a reality. It is a big loser not just for us as an industry; this will cost the government billions in spending where we as an industry can deliver.

Fringe benefits have been good income for government but with such changes by the big Corporates in their locations, their structures and where their money is spent it is time for government to see the bigger picture and support us.

We are a small group but collectively a major contributor to Australia's work place in Hospitality and Tourism, Australia wide.

This is not a negative reaction from us to government, we believe we will deliver more to them by this new proposal than is presently produced. The outcome will be a more stable and competitive industry especially with extra financial changes expected.

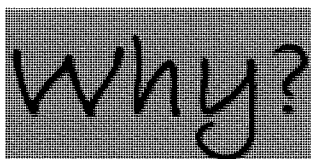
Yours sincerely

Geoff Copping, Phil Capon and Steve Old
Tasmanian Hospitality Association

Average costs and extra industry and government benefit

Food Supply	660,000,000.00
Beverages	255,000,000.00
Soft Drinks	60,000,000.00
Credit Card Fees	21,000,000.00
Advertising	60,000,000.00
Wages	1,050,000,000.00
Super	11,000,000.00
Insurance	47,000,000.00
Electricity	29,000,000.00
Gas	24,000,000.00
Telephone	13,000,000.00
Other Consumables	12,000,000.00
GST	300,000,000.00
Paye	158,000,000.00

"We Deserve, Tax Deductible Dining".



**If you're a restaurateur or small business owner,
read this concept and see how you can benefit...**

- 1). Since FBT came in some 18 years ago we have seen a decline in business and corporate dining, in regional area of Australia's, particularly from all types of small business operators, who form the backbone of income and investment in these regional areas, and these businesses unlike the big corporates, have never wanted to taken on the complex FBT issues.
- 2). Restaurants in suburban and regional areas now only get local diners and a few tourists with a low average spend of around \$40 per head. Australia's major cities with all the large corporates are driving the prices of products, salaries, staff competition and bringng to these big city restaurants a minimum average spend of \$80 per head and good luck for them.
- 3). Major corporations have continued to use dining as a business tool and have added benefits by way of in house dining , but small businesses cant do this, have been ignored and this has caused a major loss and stability for the Australian hospitality industry in all sectors.
- 4). This balance could be restored by the Federal Government introducing tax deductibility and FBT exemptions for businesses, of 1% of their turnover up to a maximum of \$25,000 per year on spends in hospitality, restaurants, hotels, etc. From our economic advice government makes no loss and this will bring back to regional restaurants Australia wide 10 to 15 percent more business.
- 5). Introducing this simple and inexpensive change would provide a massive boost to regional Australia through increased investment, employment and services.

"This simple change to the Australian taxation system would benefit all small businesses, the engine room of economic growth throughout Australia."

"We want you to help spread the word."

**For more information look at this web site
www.deductibledining.com and if you support the idea let
us know.**

Miss Julia Gillard.

Mr. Tony Abbott

"We want a fringe of, Tax Deductible Dining".

Why?

If you're a restaurateur or small business owner,
read this concept and see how you can benefit...

1). Since FBT came in some 18 years ago we have seen an exodus by the big corporate companies, because of computerization, IT technologies etc, move their offices from our regional areas back into the central areas of our major cities.

2). Restaurants outside of these cities from a suburb to a regional area now only get our local diners, a few tourists, workers and the average spend is half \$40.00.

3). The big cities now with all the major corporates are driving our prices of products, our salaries, staff competition and bringing to these big city restaurants a minimum average spend of \$80.00

4). We are asking
Miss Julia Gillard and Mr. Tony Abbott for a deduction across Australia for all businesses of 1% of their turnover up to a maximum of \$25,000 on spends in hospitality, restaurants, hotels, etc.

5). With regional areas of Australia, like, Ballarat, Geelong, Cairns, Launceston, the Gold Coast, Macquarie Harbour and even suburbs of Melbourne and Sydney, all have these types of businesses, from small to medium and such a deductible threshold, will bring back another dining customer to our restaurants year round and more economic stability.

"We have gathered support from many, including The Australian AHA, Small Business Council of Australia, Food Distribution Association of Victoria, Restaurant and Caterers Australia, State politicians, our Industry in every state, restaurant owners, small businesses and more."

"We want you to help spread the word."

For more information look at our web site www.deductibledining.com and if you support the idea let everyone know.