

22 March 2019

Team Manager, Technical Services
Office of the Chief Tax Counsel
National Office
Inland Revenue Department
PO Box 2198
Wellington

By Email: public.consultation@IRD.govt.nz

Dear Sir/Madam

**TOURISM INDUSTRY AOTEAROA SUBMISSION
INCOME TAX AND GST – TAX IMPLICATIONS OF PROVIDING SHORT-STAY
ACCOMMODATION**

Tourism Industry Aotearoa (TIA) welcomes the opportunity to comment on Inland Revenue's consultation documents *PUB00303/a-g: Income Tax and GST – Tax implications of providing short-stay accommodation* ("consultation documents").

TIA is the peak body for the tourism industry in New Zealand. With around 1,600 members, TIA represents a range of tourism-related activities including hospitality, accommodation, adventure and other activities, attractions and retail, airports and airlines, transport, as well as related tourism services. TIA's main purpose is to shape tourism for the ongoing benefit of Aotearoa and our people. This includes working for members on advocacy, policy, communication, events, membership and business capability.

Our comments below represent the views of TIA as a collective whole and may not necessarily represent the views of individual members.

The IRD refers to 'short-stay accommodation'. TIA and others often refer to 'peer-to-peer accommodation' but for the purpose of this submission we will use the IRD's terminology.

Introduction

In line with global growth in tourism, international visitor arrivals to New Zealand have grown significantly over the last five years, with more than 3.8 million arrivals in 2018. This growth is predicted to continue albeit at a lower rate, with MBIE forecasts anticipating more than 5 million international visitors in 2024.¹

Significant advantages flow from managing tourism effectively in New Zealand. Tourism can help grow our economy, bring prosperity to the regions and lift our quality of life. However, such growth creates challenges, including ensuring that New Zealand has both the quantity and quality of accommodation our visitors expect.

The recent rapid growth in short-stay accommodation has been both positive and negative for New Zealand tourism. Increased supply supports times of peak demand in main centres plus encourages greater regional dispersal by providing new accommodation options in regions with limited commercial accommodation. However the low-cost structure of most short-stay accommodation has significantly changed the competitive landscape.

¹ <https://www.mbie.govt.nz/immigration-and-tourism/tourism-research-and-data/international-tourism-forecasts/>

Unlike many other countries, the commercial accommodation sector in New Zealand has not opposed the entry of 'disruptors' and has recognised that the consumer benefits from greater choice. However, commercial operators have long been concerned about a 'level playing field'.

We support any government initiative seeking to level the playing field between the various accommodation providers, and making it easier for all New Zealand short-stay accommodation providers to meet their tax obligations, as IRD's proposals do. However, we consider IRD should also strengthen its audit activity to ensure that providers of short-stay accommodation meet their tax obligations.

TIA supports IRD clarifying and simplifying the tax obligations for taxpayers providing short-stay accommodation in their own homes

TIA's commercial accommodation members are subject to a full range of regulatory, compliance and tax obligations. Many of the short-stay accommodation providers are either not subject to these obligations, or choose not to comply with them. Frequently commercial accommodation providers face additional charges (e.g. local government rates) that short-stay accommodation providers do not.

There exists an inequitable tax treatment of hotels, motels, holiday parks and backpacker hostels on the one hand, and short-stay accommodation providers on the other.

It is therefore not surprising that many commercial operators hold the view that home owners providing short-stay accommodation receive favourable tax treatment, or may not be fully meeting their tax obligations.

Although the consultation documents do not propose significant changes to current practice, they do clarify and simplify tax obligations for those taxpayers providing short-stay accommodation in their own homes.

TIA welcomes this clarification and simplification in a quite confusing area. It will, in our opinion, make it easier and more likely for more taxpayers providing short-stay accommodation in their own homes to pay their fair share of tax.

TIA considers IRD should focus on ensuring that taxpayers providing short-stay accommodation meet their tax obligations

We understand that in recent years IRD has focussed on taxing New Zealand's black economy. Our members are required to comply with New Zealand tax laws but as noted above we have concerns that not all New Zealanders providing short-stay accommodation are meeting theirs. In our view, the risk of non-compliance has increased with the growth of short-stay accommodation.

The consultation documents provide much needed rulings clarifying and simplifying the tax rules which apply to providers of short-stay accommodation. However, we consider the rulings should be complemented by IRD focusing more of its audit activity on providers of short-stay accommodation.

TIA supports the introduction of a standard cost methodology for short-stay accommodation providers but recommend IRD should provide further information on how it calculated the standard cost

The consultation documents propose that rental income below a standard cost is not taxable. Income earned above the standard cost will be. Generally, the standard cost

method will only be available to natural persons who are not GST registered and whom don't rent out rooms for more than 100 nights in the year. The nightly standard costs are:

- where a short-stay accommodation host owns their domestic accommodation, \$50; and
- where a short-stay accommodation host rents their domestic accommodation, \$45.

We agree with the introduction of this standard cost methodology as it makes it easier for taxpayers to meet their tax obligations. We also agree with the proposal to adjust the nightly standard-cost figures by applying a Consumers Price Index adjustment each year.

IRD has said that the nightly standard costs are based on average costs relating to the use of domestic accommodation. The costs have been calculated based on data from Statistics New Zealand, current market values of chattels that short-stay accommodation hosts typically provide for use by guests, and estimates of bedroom sizes relative to average New Zealand house sizes.²

We do not think IRD's explanation sufficiently justifies the standard costs set, for example it does not provide a breakdown of any actual costs used in its determinations. We consider that IRD should provide more detailed information about how it calculated its nightly standard costs on its website.

The changes are consistent with the draft Aotearoa New Zealand Government Tourism Strategy

The Government released its draft Aotearoa New Zealand Government Tourism Strategy in October 2018 ("the Strategy"). Broadly, the Strategy sets out how the Government will work with the tourism sector, iwi, local government, communities, and other stakeholders to take advantage of the opportunities offered by both international and domestic tourism growth. The final Strategy is to be launched in May this year.

One of the success factors of the Strategy is that "*Tourism generates secure, sustainable funding streams for central government, local government and regions, that can readily adjust to changes in visitor numbers.*"³

The consultation documents are consistent with this aspect of the Strategy in that they seek to ensure that taxpayers are returning tax to the Government on any taxable income they earn from providing short-stay accommodation. Potentially, this tax revenue can then be used to support the sustainability of New Zealand's tourism sector.

Should you want to discuss this submission with us please contact TIA Hotel Sector Manager, Sally Attfield, on 021 993 656 or sally.attfield@tia.org.nz.

Yours sincerely



Chris Roberts
Chief Executive

² PUB00303/b, page 4.

³ Aotearoa New Zealand Government Tourism Strategy (Draft) October 2018, page 7.