



371 Nierinna Road
Margate TAS 7054

2nd September 2016

To whom it may concern,

Re: Australian Government'Working holiday maker visa review

Please find attached a submission to the Australian Government'Working holiday maker visa review made by the Australian Blueberry Growers Association.

Yours sincerely

A handwritten signature in black ink, appearing to read "Greg McCulloch", is written over a faint, light-colored rectangular stamp or watermark.

Greg McCulloch
President
ABGA

Australian Blueberry Growers Association

The Australian Blueberry Growers' Association is the representative association of blueberry growers formed in the mid 1970's in order to consolidate and progress the Australian industry. The main goal of the Association is to ensure an Australian blueberry industry that produces quality fruit and is profitable and environmentally sustainable. In 2013/14, the Australian blue industry had a farm gate value of \$120 million.

At present, the ABGA is made up of 168 members from six states. It is overseen by an experienced and passionate elected committee led by President Greg McCulloch; a commercial blueberry grower from Tasmania. It is estimated that 95% of Australia's blueberry production comes from members of the association.

Introduction

The ABGA begins its submission by noting the Deputy Prime Minister's statement about the deferral of the so called backpacker tax as quoted on ABC news online from 17th May 2016:

"I'm just very happy that today we have got a further extension so we can continue on attracting season (sic) workers to Australia to 1 January to give us enough time to get to a longer term solution".

The ABGA commends the Deputy Prime Minister for being a voice of the reason in the government and recognising that the removal of the tax free threshold for Working Holiday Maker Visa holders (backpackers) will have a deleterious impact on the horticultural sector's ability to attract seasonal workers.

The ABGA also agrees with the Deputy Prime Minister's assertion that a longer term solution is required and we will outline in our submission what we believe such solutions could involve.

It is important for the Australian Government and in particular the Department of Treasury to understand the labour requirements and work practices that are utilised by the Australian horticultural sector. This includes properly considering the actual source of labour that is utilised by the sector and the type of employment arrangements that exist, where workers are paid a piece rate rather than an hourly wage. This means workers are paid solely according to their productivity.

Labour source

The Australian blueberry industry, as with the broader horticultural sector relies on a mix of both local and foreign (backpacker) labour in order to harvest its crops. Depending on the region, the ratio of backpackers to locals can range from 30:70 to 90:10. Such ratios have nothing to do with any preference for engaging backpackers over locals rather they reflect the reality of the situation, where the local labour source is simply not available or severely limited. This is despite the fact that in major blueberry growing regions, the unemployment rate is well above the national average.¹

¹ Small Area Labour Market March 2016 – Coffs Harbour – Nth 6.2%, Sth 6.9%, Yarra Valley – 8%, Burnie 8.4%, Devonport 8.3%

In a perfect world, the industry and sector would employ only locals. There are a variety of mostly anecdotal reasons as to why local residents are not attracted to working in the horticultural sector, including pay rates, travel distances and the loss of welfare benefits as income is progressively earned. However there is very little empirical evidence as to what the actual motivations and barriers are, and until such time as there are changes, including to tax and welfare policies (which may or may not provide an incentive for local residents), then the horticultural sector will continue to place a heavy reliance on backpackers to ensure the timely and efficient harvesting of crops.

Method of engagement and payment

The Australian blueberry industry, as with the broader horticultural sector engages backpackers either directly or through labour suppliers. Backpackers have the same legal protections and entitlements as locals under the Fair Work Act.

It is common practice for persons engaged in the blueberry industry to undertake harvest (picking) work to do so under a piece rate agreement which means they are paid for the amount fruit they pick based on their productivity. By definition this means that although every worker receives the same piece rate, the more fruit that is picked then the more income which is earned. Such arrangements have been an important part of the horticultural sector for a number of years.

Assuming that even if backpackers continued to come to Australia and work in the horticultural sector even after the tax free threshold were to be removed, the impact on their productivity would be significant. This is because, as described above those undertaking seasonal picking work (be they backpackers or locals) are paid according to their productivity. Conventional economic theory and reality shows that the more a person is taxed, the less productive they are likely to be because the incentive of earning additional income is cancelled out, or at the very least negatively impacted in the knowledge that more of that income is being taken away in tax.

This is a crucial issue and one that the government needs to be better understand because the sector relies so heavily on workers being willing and able to pick fruit efficiently and productively when the fruit is ripe to pick. Therefore any decline in productivity could have disastrous consequences and result in crops not being harvested at the most optimal times.

Backpacker earnings

The ABGA is not aware of the Treasury having publicly provided details of the earnings figures they relied upon to calculate how much the removal of the tax free threshold will raise through increased income tax. It is therefore difficult to tell whether the Treasury has utilised accurate data or alternatively data that has caused them to overstate (or understate) the quantum of revenue that will be raised.

The ABGA has sampled the wages data of approximately 3,000 backpackers who worked in the industry at some point in time during the period July 2015 to the end of July 2016. The average gross income for these workers was \$15,380. For the sake of transparency, it would be informative to know what if any average gross income figure the Treasury applied in calculating the projected revenue from removing the tax free threshold for backpackers.

The other flaw in the Treasury modelling is that it assumes the number of backpackers will remain unchanged. Evidence to date would suggest that backpacker numbers would reduce

significantly if the tax free threshold is removed proving such an assumption to be naïve and reflective of Treasury's lack of understanding about the labour requirements of the sector.

If the tax free threshold were to be removed, there is also the risk that less reputable employers in the sector will engage backpackers illegally and not report their income. Even the hint of this occurring and it will do the industry no favours, unfairly taring all with the same brush so to speak.

Henry Sherrell of the Migration Council makes a valid point by noting: *“The bigger tax take (from the backpacker tax) will reduce the incentive to work legally. An increasing number of employers will offer working holiday visa holders the opportunity to work off the books and be paid in cash. The temporary workers themselves will ask for this, tipping more employers into the black market for labour. By moving to cash, wage expenses for employers will be reduced while net wages for working holiday visa holders will, in many cases, be greater than their taxed rate.”*²

Mr Sherrell also illustrates the impact of a 32.5 per cent tax rate on a piece rate worker. Citing the example of a piece rate which is the equivalent of \$16 per hour, the tax would be \$5.20 per hour. This would make \$12 per hour cash in hand a revenue-maximising measure for the visa holder.

Alternatives to the ‘Backpacker Tax’

- **Flat 15% tax rate**

The ABGA believes the flat rate of 15% tax on all payments made to Pacific Seasonal Workers would be more appropriate for backpackers than removing the tax free threshold. It more accurately reflects the marginal tax rate that would usually apply to Australian residents earning a similar level of income to participants in the scheme. Pacific Seasonal Workers are also not required to lodge tax returns unless they have other Australian income outside of the Seasonal Worker Programme

- **Higher tax on superannuation**

Another alternative to removing the tax free threshold is the option of applying a higher tax on backpackers superannuation or having employers accrue an amount equivalent to the superannuation entitlement and paying this accrued amount to the ATO upon the employee completing their employment.

If the government ultimately decides that it will proceed with the removal of the tax free threshold and apply the so called backpacker tax, for the sake of the horticulture sector, the ABGA hopes that the government explores options that include expanding or creating new sub visa categories (that aren't affected by the removal of the tax free threshold) that the sector can access to ensure they continue to have a reliable source of labour. For example, this could include expanding the scope of the Pacific Seasonal Worker scheme to include additional countries and an increase to the numbers of workers allowed under the Scheme.

END.

² Insidestory.org.au – A story that writes itself: Working Holiday Visas, tax incentives and illegal labour, 22nd May 2016