

Department of Agriculture & Water Resources  
GPO Box 858  
Canberra City ACT 2601

**RE: Working holiday maker visa review**

**Submission by the Australian Taxpayers' Alliance**

**Introduction**

1. The Australian Taxpayers' Alliance (ATA) welcomes the Australian Government's establishment of a review into the supply and taxation of labour performed by working holiday maker visa holders.
2. The ATA is a non-partisan grassroots advocacy organisation dedicated to representing Australian taxpayers, promoting efficient government, and reducing our regulatory burden. The ATA has over 25,000 members nationally.
3. The ATA notes that Working Holiday Makers (WHM) play a vital part in supporting regional and rural Australia, particularly in the provision of seasonal services in the agricultural sector and that they provide a net gain to the economy of over \$1.14 billion annually.<sup>1</sup> The ATA further notes research has concluded that while 0.511 Australians were displaced in employment by each WHM, on average, 0.613 Australians gained a job through their total spending demonstrating conclusively that WHMs are a *net boost* to employment in Australia.<sup>2</sup>

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<sup>1</sup> Phillips, Janet. Working Holiday Makers and Australia's Horticultural Industries. Parliamentary Library, Parliament of Australia. March 2012 Accessed online on:

[http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/FlagPost/2012/March/Working\\_holiday\\_makers\\_and\\_Australias\\_hospitality\\_and\\_horticulture\\_industries](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2012/March/Working_holiday_makers_and_Australias_hospitality_and_horticulture_industries)

<sup>2</sup> Glenys Harding et al, 'The working holiday maker scheme and the Australian labour market' Workplace Relations and Small Business and the Department of Immigration and Multicultural Affairs (Cth) (2002).

4. The ATA submits that working holiday makers are a critical component of the Australian economy and that any attempts to increase the degree of taxation upon 417 and 462 visa holders would have deleterious effects upon economic growth and development, particularly in regional and rural Australia, with flow on effects including increased prices for Australian consumers. It is noted that, in the context of weakening economic growth due to the slowing down of the mining boom, and the cooldown of international commodity prices, these negatives consequences would significantly outweigh any additional taxation revenue gained by the Commonwealth.
5. The ATA further submits that in addition to the negative economic effects of any increase in the tax burden paid by 417 and 462 visa holders, any proposal to tax visa holders differently to resident taxpayers violates fundamental principles of equality and fairness under the law, and should be opposed for this reason.

#### **Australia's competitive position**

6. The ATA notes Australia is historically competitive in attracting seasonal and temporary visitors who arrive with the intention of finding short term employment. While Australia's international reputation as a prime tourist location due to climate, natural attractions, hospitality, and multicultural society contributes to this, equally important is the taxation and regulatory frameworks under which temporary visitors would operate. As such, the relative low levels of taxation paid by working holiday makers, and the relative flexibility of the present working holiday visa system, represents a key component of this. With a lower average tax burden than Canada & and New Zealand, Australia remains in a strong position to compete in the international short term labour marketplace. However, in order for this advantage to continue, it is submitted that policymakers must continue to offer working holiday makers better opportunities than they would find elsewhere. As such therefore, it is critical that Australia's present competitive advantage in terms of our tax policy be retained.

7. The ATA further notes that demand for 417 and 462 visas has softened in recent years, with a decrease of over 30,000 since 2013, attributable in part to the increase in visa fees.<sup>3</sup> As such, given the economic desirability of attracting working holiday makers, a policy framework be enacted to boost Australia's attractiveness as a destination.

#### **Comparative taxation on income earned**

8. The ATA recognises that 417 and 462 visa holders earn a mean income of \$15,000 per annum (of which 80% is spent on food, travel and accommodation in Australia).<sup>4</sup> As such, the *average* working holiday maker remains underneath the tax-free threshold in Australia of \$18,200, making Australia presently one of the most competitive nations internationally for short term employment.
9. The ATA submits that were legislation to impose a 32.5% tax rate from every dollar earned, Australia would no longer hold a competitive advantage for working holiday makers as working holiday makers would pay *double* the taxation rate expected from non-resident workers in New Zealand and Canada. As such, there would inevitably be a sharp decline in the number of working holiday makers in Australia and that any additional revenue gained would not be worth the disruption to our agricultural sector through significantly reduced numbers of WHM.
10. In the alternate, it is submitted that if a discriminatory tax system penalising WHMs as opposed to resident workers was implemented, it is recommended that it should fall in line with taxation rates similar or less than the rate required in other OECD nations like New Zealand and Canada.<sup>5</sup>

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<sup>3</sup> Steen, Adam & Peel, Victoria. Economic and Social Consequences of Changing Taxation Arrangements to Working Holiday Makers. Journal of Australian Taxation. Vol. 17 Issue 1 2015 pp 225 – 249 p 243

<sup>4</sup> Backpacker Tax Review Survey Guide. Cotton Australia. August 2016 Accessed online on:  
[http://cottonaustralia.com.au/uploads/resources/Backpacker\\_Tax\\_Review\\_Survey\\_Guide\\_250816.pdf](http://cottonaustralia.com.au/uploads/resources/Backpacker_Tax_Review_Survey_Guide_250816.pdf)

<sup>5</sup> Petition Launched Against Proposed Backpacker's Tax. National Farmer's Federation. February 2016, Accessed online on:  
<http://www.nff.org.au/read/5182/petition-launched-against-proposed-backpackers-tax.html>

### **Comparative superannuation or equivalent entitlements**

11. The ATA submits that the short term nature of employment conducted by working holiday makers should be reflected in a regulatory framework most adaptive to this situation. As such, entitlements such as superannuation or leave for individuals not intending to reside in Australia on a long term basis represent an unnecessary regulatory and economic cost. Therefore, the ATA holds that WHMs should be classified under a similarly legislative regime to casual workers as opposed to those earning full – time remuneration.

### **Costs and barriers to entry**

12. It is noted that working holiday makers currently face considerably higher combined costs of the Passenger Movement Charge and the Working Holiday Visa than our international counterparts (see figure 1). It is submitted that these barriers should be reduced to incentivise working holiday makers to make Australia their destination of choice.

*Figure 1*

13. At \$55AUD, Australia's Passenger Movement Charge is the second highest departure tax in the OECD and is "a serious demand inhibitor"<sup>6</sup> to our tourism industry.<sup>7</sup> This stands in contrast to Canada, whose border charge is almost half at \$25 AUD<sup>8</sup> and New Zealand, whose policy makers concluded that the revenue of the departure tax "would have been offset by a depression in tourism numbers" and did not implement \$35 border charge in the 2013 budget.<sup>9</sup>
14. The costs of a Working Holiday Visa have similarly been subject to ongoing increases that have been directly correlated to a drop in international visa applications. Since the cost of a Visa application has surged to \$420, applications "fell from 139,090 in the second half of 2012 to 116,632 in the first six months of 2013."<sup>10</sup> This is in stark contrast to Canada, charging only \$250 AUD and New Zealand charging \$186 AUD.

#### **Regulatory imposts on employers**

15. The ATA submits that employers in both the agricultural and tourism sectors currently comply with extensive environmental,<sup>11</sup> workplace and licencing regulations<sup>12</sup> in accordance with federal and state industrial labour legislation. These regulations currently impose a heavy cost, particularly to Small and Medium Enterprises,<sup>13</sup> and that these be removed in order to facilitate greater opportunities and stimulate the Australian economy.

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<sup>6</sup> Op Cit p 7

<sup>7</sup> Tourism and Transport Forum. Australian Tourism Industry Submission to Join Review of Border Fees, Charges and Taxes. November 2014 p 4

<sup>8</sup> Padova, Allison. Taxes and Surcharges on Airline Tickets. Parliamentary Information and Research Service [Service D'information et de Recherche Parlementaires] Economics Division. 22<sup>nd</sup> February 2006

<sup>9</sup> Tourism and Transport Forum. Australian Tourism Industry Submission to Join Review of Border Fees, Charges and Taxes. November 2014 bid p 6

<sup>10</sup> Ibid p 8

<sup>11</sup> Environment Protection and Biodiversity Conservation Act 199. Federal Register of Legislation. Compilation No. 51 Includes Amendments up to Act No. 47, 2016. Accessed online on: <https://www.legislation.gov.au/Details/C2016C00777>

<sup>12</sup> Cully, Mark. Australian Industry Report 2015. Department of Industry, Innovation and Science, Office of the Chief Economist. Page 84 Accessed online on: <http://www.industry.gov.au/Office-of-the-Chief-Economist/Publications/Documents/AIR2015.pdf>

<sup>13</sup> A Deregulation Plan for SMEs. National Australia Bank, Government and Public Affairs Policy Department. December 2014 p 2

**Exploitation of and protections for vulnerable workers, including evaluation of illegal labour hire practices and non-compliance with laws and regulations**

16. The ATA notes that any and all protections of workers can only exist when workers continue to participate in the formal economy. The implementation of a 32.5% tax rate from the first dollar earned would significantly reduce the affordability to work in Australia legally, and “encourage informal work and tax avoidance.”<sup>14</sup> On hearing the policy announcement, there has already been “evidence of this ... in the agricultural and tourism industry and these businesses have faced government action regarding labour hire exploitation.”<sup>15</sup>

17. The Australian Taxpayer’s Alliance recommends the retention of the present equitable & realistic tax policy to ensure that employees and employers currently under the Working Holiday Visa remain under the formal economy, to ensure the full protection of employees. As such therefore, it is submitted that any amendments to the current system of taxation would increase the exploitation of vulnerable workers and as such should be avoided.

**Capacity to match employers with available workers, including regulatory arrangements in relation to the role of labour hire companies**

18. The capacity to match employers with employees is currently undertaken by a range of private providers.<sup>16</sup> The ATA notes that where there is an information deficit in matching potential employers and working holiday maker employees, the Federal Government has already facilitated a reliable and comprehensive service, Harvest Trail.<sup>17</sup> While it remains unclear as to why such a service may not be provided by the market, at present the ATA recommends no changes to this program.

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<sup>14</sup> Recommendations to Grow the Australian Working Holiday Maker Scheme. Gary O’Riordan, Travel and Tourism Solutions. April 2016 p 12

<sup>15</sup> Ibid p 12

<sup>16</sup> These include but are not limited to: Global Work and Travel Co, Backpacker Job Abroad, Travellers at Work, Work Stay, The Job Shop, Urban Central, Youth Hostels Australia, Wise Employment, Backpack Around, Banana Barracks, Aussie Jobs.

<sup>17</sup> Harvest Trail. National Harvest Labour Information Service. Job Active powered by Job Search, June 2016 Accessed online on: [www.harvesttrail.gov.au](http://www.harvesttrail.gov.au)

### **Changes to the use of volunteer or unpaid labour**

19. The ATA recognises the value of unpaid labour and volunteering in the creation of a vibrant civil society, as well as in building bridges across cultures and religious-ethnic groupings. As such, the ATA recommends reinstating policies that encourage working holiday makers to fill severe labour shortages.<sup>18</sup> The ATA therefore recommends the removal of the additional restrictions onto voluntary labour schemes that came into effect from the 31<sup>st</sup> of August 2015 and endorses the Department of Immigration and Border Protection's previous contention that "*many legitimate and worthwhile agencies ... employ volunteer workers to deliver valuable community services,*"<sup>19</sup> and to restore voluntary labour as a means of fulfilling the requirement of a visa extension.

### **Australia's exposure to changes in exchange rates, economic growth and employment rates in source nations which may affect Australia attracting seasonal and temporary labour**

20. The ATA recognises the importance of maintaining a competitive edge for international short-term labour during fluctuating conditions for global travel. It is noted that despite "improving economic conditions in key source markets post the GFC ... the number of youth travellers granted a WHM visa has decreased by 12% from June 2013 to June 2015 and has been heightened by 13.9% after December 2015."<sup>20</sup> Recent studies also indicate almost two thirds of holiday makers have been negatively impacted by exchange rates.<sup>21</sup> These external factors must be taken into consideration when considering the imposition of an additional cost for working holiday makers. The ATA therefore supports the contention that policy makers must increase, rather than remove the incentives to find employment in Australia and that this provides further justification for the retention of the present taxation arrangements.

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<sup>18</sup> Blueprint for Australian Agriculture 2013 – 2020. National Farmer's Federation and Sefton & Associates. February 2013, p 40

<sup>19</sup> Wilson-Brown, Traci. Letter to Hon Peter Dutton MP. WWOOF Pty Ltd. 17<sup>th</sup> October 2015

<sup>20</sup> Recommendations to Grow the Australian Working Holiday Maker Scheme. Gary O'Riordan, Travel and Tourism Solutions. April 2016 p 3

<sup>21</sup> Backpackers Uncovered: What do Travellers Really Think of Australia? Tourism Australia. May 2011, p 26

### Short-term and long-term agricultural and tourism labour needs

21. Labour shortages have been cited as *“one of Australia’s most pressing economic problems, with businesses in rural Australia struggling to secure both skilled and unskilled labour.”*<sup>22</sup> Although this a national challenge not limited to agriculture, it is noted that the largest decline in employment over the past 10 years has been in agriculture by more than 27.2%.<sup>23</sup> It is therefore a short-term and long term imperative to secure a stable and ongoing demand for international short term labour, particularly to meet with seasonal demand.
22. It is further noted that the changing demographics of rural and regional Australia indicate that the *“majority of Australian farmers are male, and the average age is around 52.”*<sup>24</sup> Working holiday makers provide an increasing level of diversity in the sector, the *“majority aged between 18 – 24 and almost half of them female.”*<sup>25</sup> and it is submitted that this is something that should be celebrated and encouraged by all levels of government<sup>26</sup>
23. The ATA further notes the significant financial contributions that working holiday makers make to the Australian economy. A study by the National Institute of Labour indicates that *“the average working holiday maker spent \$13 218 and earned \$4756 ... a net gain to the economy of \$1.14 billion.”*<sup>27</sup> It furthermore noted that *“after offsetting the jobs taken by WHMs, it is estimated that this expenditure created approximately 8500 fulltime jobs in 2007–08.”*<sup>28</sup>
24. It is further noted that seasonal short term labor in the agricultural sector, due to its very nature, struggles to attract a domestic workforce and as such, international WHMs represent the best possible solution for the industry, providing significant flow on effects to the wider economy.

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<sup>22</sup> Blueprint for Australian Agriculture 2013 – 2020. National Farmer’s Federation and Sefton & Associates. February 2013, p 40

<sup>23</sup> Ibid p 40

<sup>24</sup> Op Cit p 40

<sup>25</sup> Backpackers Uncovered: What do Travellers Really Think of Australia? Tourism Australia. May 2011, p 10

<sup>26</sup> Ibid p 10

<sup>27</sup> Phillips, Janet. Working Holiday Makers and Australia’s Horticultural Industries. Parliamentary Library, Parliament of Australia. March 2012 Accessed online on:

[http://www.aph.gov.au/About\\_Parliament/Parliamentary\\_Departments/Parliamentary\\_Library/FlagPost/2012/March/Working\\_holiday\\_makers\\_and\\_Australias\\_hospitality\\_and\\_horticulture\\_industries](http://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/FlagPost/2012/March/Working_holiday_makers_and_Australias_hospitality_and_horticulture_industries)

<sup>28</sup> Ibid

**Opportunities to expand supply of seasonal and temporary foreign workers for the agricultural sector**

25. The ATA submits that flexibility is key in driving the supply of short-term international employment. It notes that a core priority in facilitating optimal employment opportunities is removing the restriction to work for one employer for a limited time period of 6 months.<sup>29</sup> Due to the time and training investments, even in lower skilled jobs, even if utilised by only a small percentage of WHM, the potential stability this could offer employers as well as employees would be of considerable benefit and as such may provide an added incentive to favour Australia as a destination of choice.
26. The ATA further submits that the government consider a merger of 462 and 417 visas, to allow WHM on the 462 visas to have more relaxed entry requirements, and allowing for the possibility of an extension for a second year thereby attracting further workers.

**Consistent tax treatment between different classes of temporary work visa holders.**

27. One of the four primary pillars of taxation law is that of equality. To treat nonresident WHM differently to Australian residents or other temporary work visa holders is an affront to this fundamental principle. As such, it is submitted that the tax free threshold should be maintained.

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<sup>29</sup> Working in Australia: 6 Months with One Employer. Department of Immigration and Border Protection. Accessed online on: <https://www.border.gov.au/Trav/Work/Empl/WHM-six-months-one-employer>

## Recommendations

28. Due to the significant benefits of WHMs to the Australian Economy, and the requirement that Australia remains a highly desirable location for seasonal and temporary foreign labour, the ATA makes the following recommendations:
- a. Maintain the current income tax structure for all Working Holiday Maker Visa holders, with a tax free threshold of \$18,200 AUD per annum.
  - b. Repeal superannuation entitlements for Working Holiday Makers who earn over \$450 per month.
  - c. Increase the limit of 6 months with the same employer to 12 months.
  - d. Allow voluntary labour to count for the purposes of a visa extension for 417 visas.
  - e. Merge the 462 visa into the 417 visa to provide further incentive for short term foreign labour workers to travel to Australia.
  - f. Halve the current Passenger Movement Carriage to \$27.50
  - g. Halve the current Working Holiday Visa cost to \$210
  - h. Retain the present system of taxation. In the alternate, if an additional level of taxation is deemed necessary, that it remain lower than the rates of New Zealand or Canada.
29. The ATA warmly thanks the Department for the opportunity to present this submission, and notes its wiliness to provide further information and testify in person should the need arise.



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