

05 September 2016



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

By email: workingholidaymaker@agriculture.gov.au

To whom it may concern

SUBJECT: CPA Australia submission to the working holiday maker visa review

CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. Against this background and in the public interest, we provide this short submission to the working holiday maker visa review.

As outlined in the attached, CPA Australia is concerned about the broader economic impacts of the proposed changes to the taxation of income earned by Working Holiday Visa holders.

We consider the proposal carries significant risk of adverse second round consequences, including labour shortages in industries reliant on backpackers, increasing incentives for tax evasion, and employers dropping out of the tax system.

CPA Australia is concerned that income tax levied at 32 cents in the dollar, and from the first dollar earned on working holiday makers, is significantly at odds with other broader and interrelated economic priorities. It also impacts significantly on Australia's competitiveness in attracting this highly mobile workforce.

Enclosed are:

- CPA Australia's submission to the Inquiry into tax residency rules for temporary working holiday makers, dated 1 April 2016
- Our opinion editorial on the backpackers' tax published in The Weekly Times on 24 August 2016

If you have any questions regarding this submission, please do not hesitate to contact our Head of Policy – Paul Drum on 03 9606 9701 or at paul.drum@cpaaustralia.com.au.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Stuart Dignam', written over a light grey rectangular background.

Stuart Dignam
General Manager – Policy & Corporate Affairs

Encl.

01 April 2016

Senator the Hon Richard Colbeck
Minister for Tourism and International Education
Parliament House
CANBERRA ACT 2600

By email: senator.colbeck@aph.gov.au

Dear Minister

SUBJECT: Inquiry into tax residency rules for temporary working holiday makers

CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders.

Against this background, we welcome the opportunity to provide this short submission to the inquiry into tax residency rules for temporary working holiday makers.

Australia is continuing to undergo the structural economic change of shifting from our over-reliance on the mining sector to the non-mining sectors of the economy. In this regard two of the most important non-mining sectors - as you have rightly highlighted - are agriculture and tourism.

Both of these sectors rely, to a significant extent, on workers under the Working Holiday Visa program. This program has been in place for decades, enabling young adults from eligible countries to work in Australia while having an extended holiday. Much of the activity undertaken by these visa holders is in rural and regional Australia and is seasonal in nature.

CPA Australia is concerned about the broader economic impacts of the proposed changes to taxing Working Holiday Visa holders.

Under the current arrangements a non-resident worker earning \$38,000 would pay income tax of \$3,897. But from 1 July 2016 they do not get the benefit of the resident's tax rates, and instead will be taxed at 32.5 cents in the dollar. So on earnings of \$38,000 they will now pay \$12,350 income tax - a threefold increase.

When this measure was announced in 2015 by former Treasurer Joe Hockey, it was reported that this policy would save the budget \$540 million over the next four years – averaging out to \$135 million a year.

Based on a report from the Parliamentary Budget Office¹ Working Holiday Visa holders stay an average of 8 months, earn an average of \$5,000 but spend \$13,000, making them among our highest spending visitors.

In 2014-15 there were 226,800 Working Holiday Visas granted, based on these numbers this equates to them contributing \$2.9 billion to the Australian economy during their stay.

The economic multiplier effect for every dollar spent on tourism is \$1.92 - more than mining at \$1.66, retail trade at \$1.81, and education and training at \$1.38.

Economically this policy measure seems short sighted with the potential to damage our ability to attract holiday makers eligible for the Working Holiday Visa program. We need to remember that "backpackers" have choices and the potential savings to the budget from this measure will be academic if they decide not to

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come to Australia. There are already signs that Working Holiday Visa applications are in decline with a 5.3 per cent reduction from 2014 to 2015.

We consider the proposal carries significant risk of adverse second round consequences, including increasing the incentive for tax evasion as workers and employers drop out of the tax system.

CPA Australia is not suggesting that Working Holiday Visa holders have an income tax-free holiday. However, for the reasons outlined briefly above, income tax levied at 32 cents in the dollar, and from the first dollar earned, is significantly at odds with other broader and interrelated economic priorities. It also impacts significantly on Australia's competitiveness in attracting this highly mobile workforce.

It is essential the Government continues to implement appropriate policy settings that support the growth sectors of tourism and agriculture as the economy transitions from the construction phase of the mining sector. We commend you for revisiting this proposed tax change and for listening to the very real concerns of the agriculture and tourism sectors.

If you have any questions regarding this submission, please do not hesitate to contact our Head of Policy – Paul Drum on 03 9606 9701 or at paul.drum@cpaaustralia.com.au.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Stuart Dignam', with a long horizontal stroke extending to the right.

Stuart Dignam
General Manager – Policy & Corporate Affairs

Government knew all along backpacker policy could not survive

24 Aug 2016

Last week's announcement of yet another review into the backpacker tax has taken the issue well and truly into Groundhog Day territory.

One has to have some sympathy for Assistant Minister Luke Hartsuyker, who has been appointed to lead the latest round of pass the parcel.

It raises the question – how many reviews does it take to justify a policy reversal we all know must and will eventually happen?

I don't think it's cynical to suggest the review is just an investment in face-saving. The public submission process is open for three weeks and there is "public engagement" being led by Deloitte Touche Tohmatsu, a top-tier consulting firm whose services do not come cheap. Does anyone really think any new information will come forward through this process?

There is broad agreement that backpackers should have to pay some tax on the money they earn while in Australia. The 32.5 per cent proposed under the Government's policy has been roundly criticised and has already had an impact on the number of people applying for working holiday visas.

A compromise position, most likely the 19 per cent suggested by the National Farmers' Federation months ago, is where this will end up.

Since it was first raised in the 2015 Budget, everyone has known that it is a flawed policy that will not achieve the predicted budget savings. You can't tax backpackers who are not here and people will not come for a working holiday if the tax is implemented at this level.

At the start of the year the Government appointed then Tourism Minister Richard Colbeck to head a cross-departmental review of the policy. He was particularly well-qualified to conduct the review, having spent many years as the Parliamentary Secretary to the Minister for Agriculture.

There is broad agreement that backpackers should have to pay some tax on the money they earn while in Australia.

By all accounts then-Senator Colbeck engaged effectively with stakeholders and the agriculture and tourism industries were left with the impression that the issue was resolved. Yet when the Budget was handed down the supposed "savings" from implementing the original policy were still there. No change.

To try and get the issue off the agenda in the election campaign the Government announced a six-month implementation delay to allow for more consideration of the issue.

But the issue was not off the agenda – it was significant for electorates throughout the country. People kept raising their concerns during the campaign and were effectively told "trust us"; once the Coalition was returned the tax would be killed off. Well, it is proving more persistent than a noxious weed.

Given the major, complex issues facing the country, it beggars belief that this issue can't be resolved.

The Government knows the numbers behind the policy don't add up, none more so than Treasurer Scott Morrison, who, in his previous job at Tourism Australia said that "continuing to drive our backpacker and business tourism markets remains a priority".

Maybe we need a review as to why the Government will not just make a decision instead of wasting time and money on this face-saving exercise.

Alex Malley is chief executive of CPA Australia.

[This article originally appeared on The Weekly Times.](#)