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## WORKING HOLIDAY MAKER TAX REVIEW

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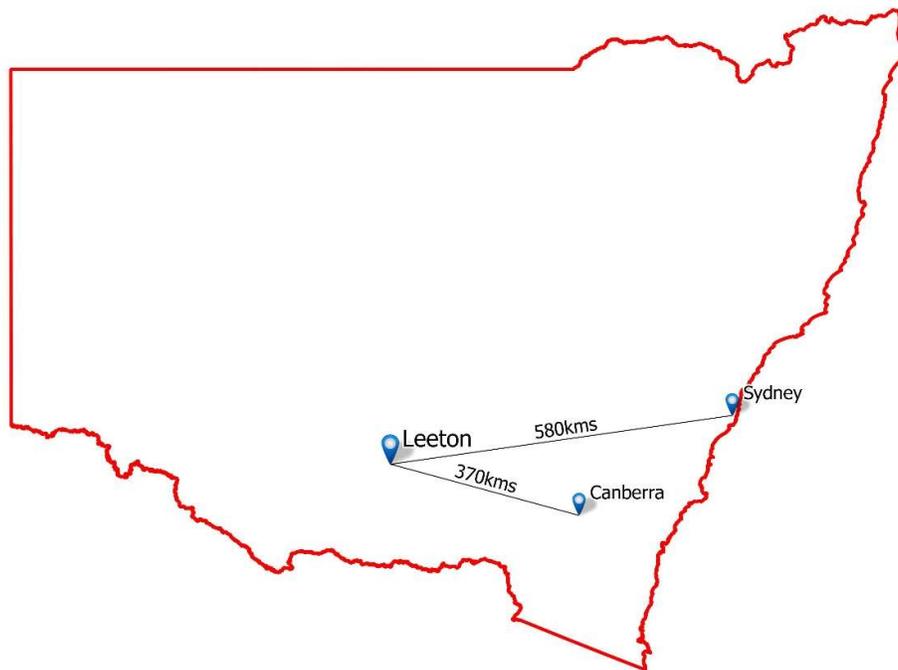


## Summary

- Backpackers fill an important semi-skilled and skilled labour requirement in a number of industries in the immediate region.
- Backpackers are international tourists who predominantly spend the majority of their earnings in Australia or on the way to some-where else.
- Backpackers contribute to the economic growth and prosperity of regional Australia.
- A working holiday maker tax of 32.5% will decimate the workforces of regional Australia and will create a disproportionate imbalance between metropolitan markets and regional markets which will make regional Australia uncompetitive.
- The working holiday maker tax will have a significant and negative impact in regional areas like the MIA and Leeton.

## The Leeton and Murrumbidgee Irrigation Area (MIA) background

Leeton Shire Council welcomes the Federal Government review led by Deloitte Touche Tohmatsu into the Working Holiday Maker (WHM) Tax Review and would like to impress upon the Government how vitally important the working holiday maker visas are for the productivity of agriculture, hospitality, retail and value-added industries in regional areas.



Leeton Shire Council is located in regional NSW, 580kms south west of Sydney. The region is reliant on irrigated agriculture, yet manufacturing is the largest employer by industry with 20.2% (2011 ABS) of our workforce employed in this sector – and growing. Our economy is changing as is the make-up of our workforce, which has had to adapt quickly.

Leeton Shire has a gross regional product of \$527m (id 2014-15), is a significant exporter of rice, grains, beef, nuts, citrus and wine and has very low unemployment rate of 3.7% (SALM March 2016).

Our local industries rely heavily on working holiday makers to run their businesses and the vast majority of industries interviewed for this submission admit that they would prefer to employ local staff rather than transient workers, however, local people do not want the lifestyle these intensive seasonal industries demand.

For instance, during the walnut harvest at Webster Inc backpackers are employed, which would make up a third to one half of their workforce (30 – 45 people) during peak harvest season, however, local people do not want to work 12 hour shifts over a 6 week period.

GrainLink during peak grain harvest over four locations employ backpackers which equates to one quarter of their workforce (employ up to 70 staff depending on the harvest volumes received) over an eight week period. According to Director GrainLink Paul Pearsall, “The backpacker tax would have a detrimental impact to our business.”

The citrus industry has long since been a large employer of working holiday makers and backpackers. Packing sheds as well as pickers are the main roles that backpackers fill and this is unlikely to change.

Pacific Fresh is one of the larger packing sheds in the Leeton area with a strong expansion agenda. The Director owned company produce fresh navels and high value niche citrus varieties for the export market with demand for these unique products leading the growth agenda. They also pack under contract for other companies. This season they employed 10 backpackers in their packing shed (they employ up to 60 people in the shed) and 15 backpackers in the field picking oranges.

Southern Cotton Gin is a director based local company that relies heavily on backpackers, grey nomads and gap year students for their seasonal skilled labour operating the gin during a six

month period (April-August). The Gin started five years ago and in the first year of operation 80% of their workforce consisted of backpackers. The gin operators would prefer to recruit and train local staff, however, the shifts are long (12 hours) “6 days on -2 days off” and local people are not interested in the shifts or this kind of work.

In their first year of operation the Southern Cotton Gin built a new cotton gin on a greenfield site, trained their workforce and was impacted by the 2012 flood event. Many of their backpackers visas ran out mid-season. This was disastrous for the company as it meant that they needed to shut down ginning to recruit a new workforce with a couple of weeks left of ginning season. Despite applying to the Department of Immigration for an exemption for extenuating circumstances, their application was rejected.

It is this in-flexibility amongst certain industries which becomes a restraint of trade for regional businesses. The same scenario has again happened this season for Southern Cotton Gin, whereby 55% of their workforce is the backpacker market and their visas ran out prior to the ginning season finishing. Again this means a halt in production for 10 days so that the Gin can recruit and train another 30 staff for 10 days work. This is inefficient and hurting regional Australia. The same can be said for a backpacker tax at 32.5%.

After interviewing [REDACTED] Gin Manager, about this issue she says that local people are provided with every opportunity to gain employment through a competitive recruitment process, but backpackers are happy to put in the hours for the money.

“Backpackers know the industrial laws and are there to make as much money as possible. The low dollar amount per hour at the Gin has a lot of overtime built into the award. A higher tax of 32.5% would certainly impact on our workforce and productivity.”

Companies are certainly not saying that they do not want a backpacker tax, but are asking for a more reasonable approach to the tax. Backpackers arrive in Australia and make their way to an area for work to fund their next adventure. The majority of the time they will be spending the money that they earned in Australia and contribute enormously to regional economies.

Figures obtained from Destination NSW for the period of April 2015 to March 2016 show that the Riverina region received 27,200 international overnight visitors – up by 40.4% last year.

The United Kingdom (18.2%) was the largest individual source market of visitors, followed by USA (13.5%) and New Zealand (12.2%).

**Origin share of visitors to the Riverina includes (DNSW 2016 march);**

Rank	Individual Market	Year ending	Year ending
		Mar 15	Mar 16
1	UK	17.7%	18.2%
2	USA	14.4%	13.5%
3	NZ	16%	12.2%
4	Canada	n/p	10.1%
5	Germany	n/p	6.3%

International overnight visitors spent \$33m in the region, this equates to on average \$56 a night.

A study conducted by **tns Australia in 2011 on Backpackers Uncovered – What do travellers really think of Australia** revealed;

- Australia is still seen as a dream destination for travellers with many coming here for an adventure.
- 2/3 of backpackers are from Western Europe, with the majority of those from the UK and Germany aged 18-24yrs.
- The ability to work while on their trip within Australia is important with almost half having worked, or planning to work.
  - Travellers are finding Australia expensive.
  - In terms of meeting expectations, New Zealand significantly out-performs Australia.

### **Australia's Competitiveness position**

The latest research from the Travel and Tourism Competitiveness Report 2015 indicates that Australia ranks number 7 in the world in terms of a competitiveness ranking, behind Spain, France, Germany, the US, UK, and Switzerland in general international travel.

Australia has remained competitive in the past in attracting seasonal and temporary foreign labour in the MIA including wages, entitlements and conditions. There are many areas that do offer competitive and fair conditions and these places are consistently rewarded with hard-working workers who often return to the area with a partner or friends. There are also contractors or operators who exploit young workers who need to be investigated. These operators are bad news for the region and more rigour needs to be in place to ensure contractors and enterprises operate within the law and seek to improve their standards (accommodation and work conditions).

The Harvest Labour Trail program used to be a successful program ten years ago, however, the program is no longer relevant as the types of jobs working holiday maker visas are attracted to has become more sophisticated than just picking fruit and perhaps there is opportunity for the backpacker industry to unite to develop an on-line portal which does not replicate Seek or other on-line job seeker portals, but offers a more holistic approach to this market. Given that most backpackers utilise word of mouth and social media to let others know about jobs or their experiences, this method is probably just as effective.

### **Costs / barriers – up-front fees**

The **tns Australia released Backpackers Uncovered – What do travellers really think of Australia** revealed, highlights that the bulk of backpackers do not pre-book prior to arriving in Australia. The study reveals that almost 2/3rds spent 6 months or less planning their trip. The study also highlighted that most backpackers thought Australia was expensive compared to other markets, yet the desire to still have an Australian experience is still high.

New Zealand and Canada are much more competitive than Australia and seem to reflect this with the volume of visas issued and backpackers who travel to those countries.

Australia must remain competitive in this space; to lose our stronghold in this working holiday maker visa market would hurt Australian companies who rely on these workers to remain in business.

Backpackers have provided the MIA (Murrumbidgee Irrigation Area) with significant volumes of labour for over 20 years. Initially, backpackers were relied upon to work on the harvest labour trail to sustain the local horticultural industry.

In the past ten years with the introduction of mechanised harvesting and the downturn in the stone fruit industry, backpackers have become a valuable source of labour supply for regional areas. In the last eight years there has been a shift in focus of purely labour harvest to more technical and skilled positions which has resulted in the successful growth of many agricultural industries and value-added processes.

Backpackers have always filled a 'void' in the local labour force. Most businesses would prefer to employ local workers for consistency, training, super, WorkCover; however, enterprises need work completed in reasonable time frames and are not able to wait. Backpackers have a reputation for working hard for a 'fair day's pay', they contribute to the local economy, bring an international tourism focus to an area, provide colour and multiculturalism to a region and can make wonderful ambassadors for regional living – if their experience is a good one.

### **Regulatory imposts on employers**

Leeton Shire Council has heard from many different operators who abide by the federal work place laws. The impost on business when hiring working holiday maker visas in terms of paperwork, superannuation, WHS, training and WorkCover is onerous, particularly if the worker decides to stay one day in employment. This is a continual source of frustration for business and streamlined processes need to be considered for this visa class sector.

Is it really worth providing a superannuation option for these workers if they are on average staying for three months in the country? Do backpackers sign up for an industry specific fund purely for these types of visa holders so that each different employer does not have to re-sign workers up to another company. How much in administration set-up, fees and charges must

this cost every time? It seems to make little sense and perhaps this could be an opportunity for new reform in this space.

### **Exchange rates and employment rates**

In 2011 when **tns Australia released Backpackers Uncovered – What do travellers really think of Australia**, they asked a question on the exchange rate and whether backpackers were impacted by the exchange rate – 63% said yes and only 37% said that they were not impacted.

At the time of this study, this certainly impacted on the length of stay and spend (less) when in Australia.

In saying that, Backpackers are primarily coming to Australia for an adventure, so for many of them to have the experience of working here is a boost for them and will allow them to stay longer and spend their money here.

Backpackers are flexible travellers and rely on word of mouth as to where the next great location is. This is highlighted in the **tns Australia released Backpackers Uncovered – What do travellers really think of Australia**.

Employment rates in the Riverina at present are the lowest in Australia at around 3.7%. There is still available work for people who are willing to work. A tax-rate of 32.5% will certainly have a dramatic impact on the current workforce.

It would be short-sighted for a government to expect their own social programs such as work for the dole would replace the Backpacker workforce. If job-start and new-start participants were willing they would be in the workforce and participating in active work.

Monash University's Dr Jeff Jarvis is currently undertaking a large scale survey on Working Holiday Makers in Mildura, Queensland and Melbourne to understand the impact the 32.5% tax rate will have on the backpacker market (August 2016). Some of the results from this survey include;

- 60% of backpackers would not have come to Australia on the working Holiday Maker visa "if I was to be taxed at 32.5% in every dollar I earn".

- Compared with 31% of backpackers who were asked the same question but taxed at 18%.
- 62% of those surveyed would consider New Zealand for a working holiday maker experience instead of Australia if they were to be taxed 32.5c in every dollar I earn.

Other startling results include:

- 57% would spend less time travelling around Australia if the tax changes come in and 70% would look for cash in hand jobs to avoid paying the tax.

Dr Jarvis has stated in his research Fact Sheet:

“It is clear that the proposed tax changes will have a significant impact on potential demand for Australia as a backpacker destination, with 60% of Working Holiday Makers surveyed indicating that they would not have come on such a visa if the tax rate was 32.5%. It will also erode the competitive position of Australia in comparison to both New Zealand and Canada. In addition only 22% of travellers in the sample would recommend to their friends to come to Australia on a working holiday maker visa if the tax was to come in.”

This result would devastate regional centres and as a result make our economies less efficient. “The wheels would fall off” regional Australia if this tax is introduced.

In 2004 SGS Economics and Planning undertook a study into **MIA Backpackers and Harvest Labour Study**. Whilst now out of date, this study identified that in 2004, 450 workers in the MIA contributed \$7.3m a year, not withstanding a multiplier effect and productivity effect on GRP and exports.

During a peak season from January to April and June to August that number rose to 750. During this time there was one backpacker accommodation in Griffith and one in Leeton. Now there are 5 in Griffith and one in Leeton.

### **Barriers**

Whilst the MIA / Riverina region is not a coastal area or destinational region, it has a steady stream of interesting work, the area has a strong culture of backpackers and they are well regarded by the community.

### **Short-term and Long-term agricultural and tourism labour needs**

Regional Australia, in particular the MIA and Leeton Shire has a growth agenda. One business in the immediate region is making their poultry processing headquarters in Griffith and will require an extra 800 workers. Our local labour market will be unable to support this growth, so this must be filled utilising international workers on different visa types. The region has season peaks and troughs and most local workers are seeking full time or steady part-time employment. Seasonal work is difficult to attract local workers and with the enormous growth objective in agriculture and the manufacturing value-add sector the region will be in enormous trouble if the backpacker tax at 32.5% is implemented.

The same can be said for many other industries in the Leeton area. There is growth in citrus for niche market export product; the cotton industry in the MIA region has seen phenomenal growth in the past five years, up to 30%, the beef processing industry, walnut industry, and export oaten hay and health food markets in Leeton Shire. These industries will need the right workforce to support their growth needs and will at times rely on backpackers to fill a void.

There is an opportunity to attract and expand the supply of seasonal and temporary foreign workers for the agricultural season, however there needs to be flexibility in this approach, as with the example provided from Southern Cotton Gin, it is this inflexibility which stifles business. If this approach were to be considered, government would need to consult and liaise with industry in relation to the red tape and conditions imposed on these types of programs.

The Pacific Island program which was in the early 2000's as a pilot in the MIA was unsuccessful. The program was expensive, there was no support on the ground for the workers, except through local church groups and from a grower perspective it was cheaper and less onerous to employ local people.

## **Recommendations**

Leeton Shire Council would like to see the following recommendations considered as part of the Federal Government's working holiday maker tax review:

- A study commissioned to understand the value of 417 and 46 visa holiday maker visa holders to regional economies like the MIA.
- A tour of affected areas such as the MIA region (Leeton and Griffith) arranged for decision makers to see for themselves the critical importance of backpackers as a workforce in the region.
- A reduced tax (18%) that will not unduly affect regional industries, including backpacker related businesses and backpackers themselves, introduced.
- Alternative tax reforms that target big business who have off-shore accounts as well as other more sensible revenue raising tax objectives options.