

30 August 2016

Department of Agriculture and Water Resources  
GPO Box 858  
Canberra City ACT 2601  
Australia  
(via online portal  
<https://online.agriculture.gov.au/dawr/servlet/SmartForm.html?formCode=work-hol-review> )

Dear Sir / Madam

**Re: Working holiday maker tax review**

**Background**

The Shearing Contractors' Association of Australia (SCAA) was formed in 1927 and is the national industry association that represents the interests of Australian shearing contractors. The Association has approximately 200 members who are engaged to facilitate the shearing and crutching of the majority of the larger flocks of Australia's 71 million sheep.

At some point in each working year, most of the nation's shearers and shed staff work for a SCAA member. In other words, the Association's members have great 'reach' into the \$2.7b wool industry and the 52,000 Australian farming enterprises that grow and sell their wool.

**The nature of wool harvesting Industry**

The wool harvesting industry relies on a highly transient and a seasonal workforce to complete each year's wool harvest. The industry is dynamic and resourceful as it predominantly consists of family run enterprises. In order to be successful in this highly competitive industry, these businesses need to 'get the job' done with whatever workers are available (skilled and unskilled), in a vast range of different work places (in terms of standards) and environmental conditions

Working holiday makers (WHM) or as commonly referred to as 'backpackers', are a smaller but integral part of the workforce used to harvest the Australian wool clip. The greater demand for these workers occurs at peak times and although the peaks will vary from region to region, generally there are two peaks being Autumn and spring.

In the first instance the use of the unskilled workers is less than ideal but what WHMs lack in pre-existing skills prior to their employment, are more than made up for by their enthusiasm and energy to become part of the 'team'. Anecdotally, shearing contractors say they will have an 80% success rate for WHMs staying in the job for more than a month in comparison to comparison to a rate of around 20% for resident workers who start in the industry.

**Role of the WHM in the Shearing Shed**

It should be noted that backpackers in the first instance, are engaged as shedhands not shearers. Shedhands is a term that covers the role of 'rouseabout' and 'woolroller'. The rouseabout is the person who picks up the shorn fleece and 'throws' it onto the

wool table for the removal of stained wool and wool that contains a lot of seeds and 'burs'. The woolroller is person doing the skirting and helping present the fleece to the 'woolclasser' who grades the wool.

Although the backpackers first few days on the job are difficult and their skill level is less than ideal, the role of a shedhand can be taught on the job and although it does take considerable weeks to become proficient, their contribution to workflow and 'getting the job' done, is essential.

### **Remote Area Work**

More importantly, it should be noted that backpacker labour is used relatively more frequently in the remote, less urban areas of Australian wool growing regions. This trend has occurred as a result of less Australian residents wanting to leave the comforts, routines and commitment of their urban life to fulfill the lesser paid, casual role of shedhand. Conversely many WHMs are excited about visiting more remote, less 'touristy', genuine farming and livestock operations, taking up shedhand positions where as resident workers will not.

### **Payment and shortage of Resident workers**

Shedhands are not highly paid from an Australian resident's perspective. Consequently not many permanent residents have made long term careers of being shedhands and hence the role of shedhand has the largest shortages in the industry, in the peak times and this again highlights the vital need for WHMs to fill this gap.

Most Australian residents who make careers in the shearing industry start out as shedhands but quickly make the transition to becoming a learner shearer, woolclasser or a 'woolpresser'. Shedhands are the lowest paid workers in the shearing industry making a maximum weekly (38 hours) gross wage of \$1,050 less food and board (found deduction) of \$149 leaving a taxable income of \$901 per week.

It is inaccurate to assume that this weekly income of \$901 per week can be extrapolated to annual income of \$46,800 per year: Firstly, the employees are casual and the \$901 includes holiday and sick pay. Secondly, not only is shearing work seasonal, it is very intermittent within each week in that not many shearing jobs run for multiple, 'back-to-back' weeks, resulting in many 'short' weeks and part days, during a normal working year.

As most shedhands are engaged by the day and only guaranteed a minimum of two hours work for 'turning up' for work (except on a single day job or the last day of a multi-day job, where there is a minimum pay of 4 hours). Furthermore, where lambs are being shorn, shedhands may not be required for work those days (the farmer or contractor will 'make do' to save on wages). All in all, SCAA members report that it is rare to issue a PAYG Payment summary to a shedhand for more than \$25,000 with the majority of PAYG Payment summary issued to shedhands is for far less.

An Australian resident on welfare, who receives free medical and possibly additional benefits, are not financially much worse off than a shedhand who makes less than \$25,000 per year, which explains the lack of full time shedhands working in the industry. Resultantly, the low annual incomes for 'professional' shedhands, explains why resident Australians avoid the physically demanding occupation leaving employers to rely on backpackers to fill the critical gaps in the workforce

Backpackers working as shedhands would initially be paid the inexperienced award rate (less than of 65 days experience) of \$26.29 per hour less \$3.73 per hour for food and board to earn a gross rate of \$22.55. Should they become subject to a 32.5% tax on all income, this would leave them with an after tax amount of \$15.22 per hour or a maximum of \$578 for the week and as explained above, it would be rare for them to even earn this amount.

The actual effect of a 32.5% tax on all 'backpackers' could be dramatic and costly to the wool harvesting industry hitting hardest to those wool growing enterprises who are more remote, with very small labour pools already available to them. This in turn could lead to a loss of productivity through wool clips being 'late shorn' which degrades the value of the wool (spinning length) or farmers choosing to sell off their wool growing sheep, in favour of other commodities.

### **The Cash Economy**

The Federal Government needs to be aware of the reality that, the figures presented above of \$15.22 per hour / a maximum of \$578 per week net to the employee, will open up the incentive for employers to come to a 'cash' agreement with WHMs. It is not too difficult to 'hide' say a \$120 per day cash payment to WHMs as there are potential savings to the employer of \$2.50 per hour for Superannuation, \$2.30 per hour for workers compensation and \$1.58 per hour for payroll tax giving a total 'on-costs saving of \$6.40 per hour or \$244.76 per week.

It would be naive to believe the growth of the employment of WHMs and a 'cash' economy, leaving the industry with more uninsured workers and lower payroll tax revenue for the states.

### **Alternatives**

The wool harvesting industry understands the Federal Government's call to fill the tax revenue gap of \$540m million over the next 3 years. That said, in light of Tourism Research Figures that show \$13,300 average backpacker earnings of \$13,300 with most WHMs spending the same amount while they are here.

Therefore the question begs that isn't the \$180 million per annum earned in taxes, just reducing the income to domestic Australian businesses by the same amount and consequently reducing the taxable income of these businesses, their owners and their workers? Shouldn't the real economic and tax questions be focused on the net income the balance of trade with WHMs and their contribution to the Australian economy as a whole? In other words, should policy makers be looking at the dollars spent in Australia by WHMs versus net outgoings of working holiday makers (Australian dollars earned in Australia but spend outside of Australia)?

Should the Federal government be looking at a visa arrangements where WHMs are only taxed on dollars that are expatriated to an offshore account, similar to withholding tax and in other words, as long any money that is earned in Australia, is spent in Australia, it is tax free because it will be picked up by Australian business and taxed accordingly?

From a tourism marketing perspective, are we not running the risk that the 32.5% tax will drive traditional WHMs to other competing destinations, creating a 'net' negative effect on the economy in balance of trade terms ?

### **In Summary**

WHMs provide labour-force certainty for those in the more remote wool growing agricultural businesses that rely on this sector. The removal of this labour supply will have productivity costs to the wool growing sector

The financial reality of a 32.5% flat tax and the resulting lower net income for WHMs will provide a real incentive for the employers to pay WHM labour cash, which will be untaxed and the workers will be uninsured.

Has the greater economic impact of such a change in the net income of WHMs been considered fully in terms of balance of wider economic costs?

For questions or further information, please contact the writer

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