

BACKPACKER TAX

TTF 2016 ELECTION SPOTLIGHT #3

Introduction

In 2015, the Federal Government announced new taxation arrangements for working holiday makers (WHMs), which quickly came to be known as the “backpacker tax”. The Federal Government’s intention is to remove the option for WHMs to be treated as Australian residents for personal income tax purposes, effective from 1 July 2016. This would effectively remove WHMs’ access to the tax-free threshold, installing a marginal rate of 32.5% from the first dollar earned. These new tax arrangements were coupled with an increase in the working holiday visa fee from \$420 to \$440.

Treasury estimates indicated that the backpacker tax would generate \$540 million in revenue across three years¹, with the assumption that the new tax arrangements would not have a significant dampener effect on WHM visa applications. This assumption was made despite WHM visa grants having fallen by 12% over the past two years in response to continued WHM visa fee increases. The cost of a WHM visa has more than doubled in the past five years.

Following sustained advocacy efforts from TTF outlining the price sensitivity of WHMs and the detrimental impact the backpacker tax would have on the tourism and agriculture industries, the Government announced at the start of the 2016 Federal Election campaign that the implementation of the new measures would be delayed for six months so the proposal could be reviewed. However, even with this six-month reprieve, the announced tax is already causing damage to the image of the industry with backpackers starting to choose other international destinations like New Zealand rather than Australia.

TTF and other industry organisations continue to argue that the 32.5% backpacker tax will have a major negative impact, resulting in a significant decrease in WHM visitors to Australia and leading to labour shortages for the tourism, agriculture and other sectors. It is imperative that any solution regarding the backpacker tax is applied equally to all sectors reliant on WHMs as a supply of labour.

What does industry want?

The tourism industry believes that Government revenue requirements can still be met through a combination of several policy levers:

1. Lower the proposed marginal tax rate on WHMs taxable income up to \$80,000 from 32.5% to 15%
2. Raise the age threshold for working holiday maker visas from 31 to 35, or older
3. Increase the duration an employee can stay with a single employer from six months to 12 months
4. Raise the caps applying to source nations for the WHM visa in aggregate by 20,000
5. Dedicate new funding to the promotion of Australia’s WHM program to compensate for the impact on demand that has already occurred

¹ \$100 million in 2016/17, \$220 million in 2017/18 and \$220 million in 2018/19, Federal Budget Papers 2015/16

The value of WHMs to tourism and agriculture

WHMs spend about 30% more than what they earn while in Australia and are an invaluable source of labour for agriculture and regional tourism operators who continue to face labour and skills shortages.² Having the right labour and skills in place to provide the level of customer service expected by international visitors is a growing concern for the industry. This is a gap which we often rely on overseas workers, including WHMs, to fill. Industry has been at pains to demonstrate to Government that disincentives to visit and work in these areas, such as the proposed backpacker tax, act to the detriment of the prosperity of Australia's regional economies.³

Regional tourism operators and tourism-dependent communities have expressed alarm at the impact of the proposed changes, both because of the impact on available labour and, more importantly, because of the likely loss of backpacker expenditure from local businesses. In many regional communities, backpacker tourism activity is a major income stream.

At a time when tourism is expected to make up for job losses in other industries across many regional areas, the proposed backpacker tax will further damage that aspiration.

The decline in WHM visas in Australia

A number of industry groups undertook a national survey of employers in the tourism industry. Of those who responded, 43% reported having seen a decline in the number of WHMs they employ. The main reason for the decline was the difficulty in attracting WHMs because of Australia's lack of competitiveness.

A key factor in Australia's competitiveness, especially for a cost-sensitive market such as the youth or backpacker market, has been the continued increases in the cost of the WHM visa (see Appendix 1). In the span of a decade, the WHM visa fee has more than doubled from \$180 in 2005 to \$440 in 2015.

The highest fee increase occurred in 2013/14 at 30%, or \$85, and resulted in 12,780 fewer visas being granted the following year. Since 2012/13, the number of visas granted has been steadily declining. Given the current 38,000 worker shortage facing the tourism industry and the reliance of the industry on overseas workers, especially in regional destinations, this decline has a significant impact on the productivity and overall competitiveness of the industry.

Considering currency fluctuations and exchange rates, the cost of the WHM visa is the highest for Australia's key international youth source markets, including Great Britain, the broader European Union, United States and New Zealand (see Appendix 2).

Beyond the visa fee, a number of other factors have been cited as reasons for reducing Australia's global competitiveness in the backpacker market, including Australia being considered a high-cost destination. The six month work limit with one employer is a disincentive for both employers and WHMs, with both training and rental accommodation difficulties. For example, many rental properties have a preference for 12 month leases, and employers are not able to fully leverage their investment in worker training given it takes an average of three months to train an employee.

² Tourism industry is currently facing a 38,000 workers shortage, which is projected to increase to 123,000 by 2020, Australian Tourism Labour Force Survey 2015

³ See Tan et al. (2009), *Evaluation of Australia's Working Holiday Maker (WHM) Program*, Albanese (2016), *Government Must Fix Backpacker Damage and Australian Tourism Export Council (2012)*, *The Importance of the Working Holiday Visa (Subclass 417)*.

Where does Australia sit globally?

The table below provides worked examples of outcomes for WHMs under current policy, proposed Government policy, proposed industry policy and if the current New Zealand, Canadian and United Kingdom tax laws were applied in the Australian context.

Table 1: Federal income tax paid by WHMs

Income (\$AUD)	Australia: currently	Australia: Proposed backpacker tax (32.5%)	Australia: Industry proposal (15%)	New Zealand: currently (10.5%)	Canada: currently (15%)	United Kingdom: currently (20%)
7,000	0	2,275	1,050	735	1,050	1,400
14,000	0	4,550	2,100	1,470	2,100	2,800
21,000	532	6,825	3,150	2,695	3,150	3,150

Australia’s international competitiveness in the youth market is likely to significantly diminish if the proposed marginal rate of taxation is set above the 15% mark. A 32.5% marginal tax rate would also make the WHM visa the most highly taxed temporary visa program in Australia (see Appendix 3).

It is important to retain competitiveness with other nations and to have a consistency of responses across our visa categories, ensuring that each is recognised for the value it provides. The WHM visa provides both a cultural exchange benefit and a contribution to the workforce, particularly in regional and remote areas.

Revenue implications of proposed industry policy package

Understanding that Governments are continuing to operate in an increasingly tight fiscal environment, the tourism industry has attempted to quantify the potential revenue impacts of its package of proposed policy reform options.

The key outcome from TTF’s calculations⁴ is that the **Federal Government will receive more than \$44 million in additional revenue from the implementation of the package of proposed industry policies in comparison to the Treasury revenue projection from implementing the 32.5% backpacker tax** [\$584.1 million over three years versus \$540 million over three years]. The industry’s package of proposed policies therefore makes good economic sense.

Proposed industry policy	Revenue (\$m p.a.)
Marginal tax rate 15%	101.5
Raise age to 35	31.2
Increase duration	44.3
Raise caps by 20,000	17.7
TOTAL	194.7

⁴ TTF calculations based on assumptions.

Additional policy proposals to increase Australia's competitiveness

In addition to the package of proposed industry policies outlined above, there are also a mixture of additional policy proposals which would assist in changing the current established arrangements and make Australia's WHM visa program more appealing. These measures include:

- Allow tourism and hospitality as an eligible regional occupation as part of the application for a 12 month extension to the WHM visa (second year visa)
- Expand the WHM visa program to more countries
- Allow multiple visa applications by individuals, enabling them to reapply whilst still 'in country' on an existing WHM visa or in an older age bracket
- Simplify the visa application and assessment processes
- Better promote and encourage application for second year visa options.

Conclusion

The tourism industry welcomes the opportunity to help shape a solution to the current impasse over the so-called "backpacker tax" as part of the Government's review of Australia's temporary visa programs, which was announced following extensive advocacy by TTF and the National Farmers' Federation.

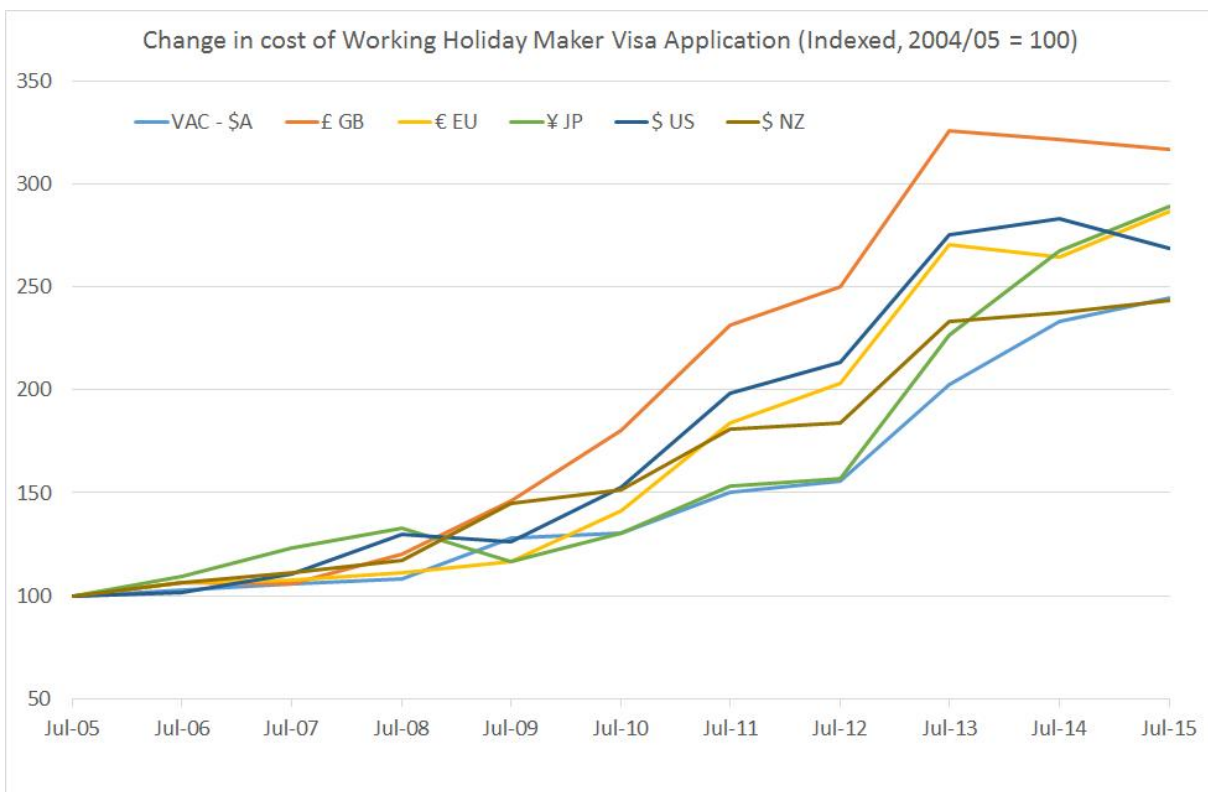
The industry is concerned that in its original proposed state, the new taxation arrangements for WHMs will make Australia uncompetitive, acting as a serious disincentive for potential backpackers to come to Australia. This will in turn have negative impacts on the productivity of both the tourism and agriculture sectors, particularly in regional and remote areas.

However, a measured review of the proposal and its likely impacts, which also takes into account of a range of options to make WHM visas more appealing to key international source markets is industry's preferred way forward. Any compromise solution to the backpacker tax must be applied equally across all sectors, recognising the value of WHMs to tourism, agriculture and other industries.

Appendix 1: Working Holiday Maker visa fees and revenue

Year	Visa Fee	Increase \$	Increase %	Visa Grants	Est. revenue
2005/06	\$180	-	-		
2006/07	\$185	+\$5	2.7%		
2007/08	\$190	+\$5	2.7%		
2008/09	\$195	+\$5	2.6%		
2009/10	\$230	+\$35	17.9%		
2010/11	\$235	+\$5	2.2%	192,922	\$45.3m
2011/12	\$270	+\$35	14.8%	222,992	\$60.2m
2012/13	\$280	+\$10	3.7%	258,248	\$72.3m
2013/14	\$365	+\$85	30%	239,592	\$87.5m
2014/15	\$420	+\$55	15%	226,812	\$95.2m
2015/16	\$440	+\$20	5%	N/A	N/A

Appendix 2: Cost of WHMs in source market currency



Appendix 3: Tax treatment of temporary visa categories in Australia

Taxable income (\$AUD)	Resident Tax Rates	Non-Resident Tax Rates	Seasonal Worker Program Tax Rates	International Student Tax Rates
0 - 18,200	Nil	32.5c for each \$1	15c for each \$1	Nil
18,201 - 37,000	19c for each \$1 over \$18,200			19c for each \$1
37,001 - 80,000	32.5c for each \$1 over \$37,000			32.5c for each \$1 over \$37,000
80,001 - 180,000	37c for each \$1 over \$80,000			37c for each \$1 over \$80,000