Monday, 4 April 2016

Senator the Hon Richard Colbeck
Minister for Tourism and International Education
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Minister

On behalf of the coalition of tourism industry organisations listed above, please accept our gratitude for chairing a roundtable meeting of tourism and agriculture industry stakeholders on 21 March 2016 to discuss the proposed new taxation arrangements for working holiday makers (the so-called ''backpacker tax'').

This correspondence outlines the joint position of the tourism stakeholders, including TTF; the Australian Federation of Travel Agents; the Accommodation Association of Australia; Restaurant and Catering Australia; Tourism Accommodation Australia; Australian Tourism Export Council; Australian Regional Tourism Network; the Business Events Council of Australia and the combined state Tourism Industry Councils.

Tourism currently supports about 1 million jobs in Australia and generates nearly $100 billion in economic activity. The visitor economy already makes a significant $11 billion contribution to tax revenues from the products it sells. It has been described as a super-sector of the future with the potential to be the rising star of the Australian economy as the mining and manufacturing industries wane.

To achieve these outcomes, tourism needs policy settings that allow the sector to reach its potential without being hampered by regressive taxation and regulatory imposts.

The ''backpacker tax'', visas and passenger movement charge

The Federal Government announced in the 2015/16 Federal Budget that it intends to remove the option for working holiday makers (WHMs) to be treated as Australian residents for personal income tax purposes, effective 1 July 2016. This removes WHMs' access to the tax free threshold; installing a marginal rate of 32.5% from the first dollar earned.

Treasury expects this to generate $540m in revenue across 2016/17 ($100m), 2017/18 ($220m) and 2018/19 ($220m).[1]

This comes on top of the nearly $100m the Government receives from WHM visa issuance – which has doubled in the past five years, whilst visa grants have fallen by 12%. Government has brought in a series of increases to WHM visas costs over the past decade (see Appendix 1) and this has seen the local source market cost of WHMs increase sharply (see Appendix 4).

[1] 2015/16 Budget Papers.

International travellers already provide an $800 - $900 million bonus annually for Government coffers from the over-collection of PMC.

Industry Position Overview

Various industry groups objected to this measure in its response to the 2015/16 Federal Budget; and have recommended the Federal Government reverse this measure in their 2016/17 pre-budget submissions. In short, WHMs spend around 30% more than they earn whilst in Australia and are an invaluable source of labour for agriculture and regional tourism operators that face labour and skills shortages (currently 38,000 and projected to be 123,000 by 2020); so disincentives to come and work in the these areas in fact work to the detriment of Australia, particularly regional economies.[2] WHMs are also likely to provide valuable additional supply of labour in construction centres (notably Sydney).

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 – importantly – because of the likely loss of visitor expenditure that will disappear 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 industry sectors across many regional areas, the proposed measures are likely to damage that aspiration.

Industry welcomes greater flexibility of the WHM visa product. Consideration should be given to reform that encourages greater use – such as including employment for 88 days in tourism and hospitality in regional Australia as part of the 12-month extension for the working holidaymaker second visa and increasing the age for eligibility to 35, or higher, and allowing for 12 months with the same employer. Growing demand for the WHM visa product is vital to meet the needs of industry. While it is acknowledged that visa fees are not a central part of the current discussion, industry believes the increase in WHM fees over recent years has been a key catalyst for the downward trend in WHM grant rates.

The tourism industry believes the effective marginal rates of taxation (MRT) should not be so high as to provide a strong incentive for cash economy transactions with workers.

Where does Australia sit?

Table 1 below provides worked examples of outcomes for WHM under current policy, proposed Government policy, indicative industry options 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 the WHM								
Income ($A)	**AUS**	**AUS (Gov – 32.5%)**	**AUS (Ind - 19%)**	**AUS (Ind - 17%)**	**AUS (Ind - 15%)**	**AUS (Ind - 13%)**	**NZ (10.5%)**	**CAN (15%)**	**UK (20%)**
7000	zero	2,275	1,330	1,190	1,050	910	735	1,050	1,400
14,000	zero	4,550	2,660	2,380	2,100	1,820	1,470	2,100	2,800
21,000	zero	6,825	3,990	3,570	3,150	2,730	2,695	3,150	4,200

Australia is likely to significantly diminish its international competitiveness in the youth market if the proposed marginal rates of taxation are set above the 15% mark.

[2] 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).*

Table 2: Comparison with other Temporary Visa Categories in Australia

Resident Tax Rates		Non-Resident Tax Rates		Seasonal Worker Program Tax Rates		International Student Tax Rates	
Taxable Income	Tax on this Income	Taxable Income	Taxable Income	Taxable Income	Tax on this Income	Taxable Income	Tax on this Income
0 - $18,200	Nil	0 - $80,000	32.5c for each $1		15 c for each $1	0 - $18,200	Nil
$18,201- $37,000	19c for each $1 over $18,200				15c for each $1	$18,201- $37,000	19c for each $1
$37,001- $80,000	32.5c for each $1 over $37,000				15c for each $1	$37,001- $80,000	32.5c for each $1 over $37,000
$80,001 - $180,000	37c for each $1 over $80,000	$80,001- $180,000	37c for each $1 over $80,000		15c for each $1	$80,001 - $180,000	37c for each $1 over $80,000

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

Reasons for Decline in WHM visas in Australia

A number of industry groups sent out a national survey to members with the responses representing the views of employers only. While 57% of respondents advised that they were employing the same number of WHM as previously, 43% advised that they had seen a decline.
The main reason for the decline was the difficulty in attracting WHM because of our lack of competitiveness.

Feedback was mixed with the following answers predominating:

- *The feedback we receive is that Australia - in particular Sydney/Darwin - is too expensive to survive on a low/average wage. It is therefore our opinion that to remove the low tax threshold for backpackers would be devastating for the hospitality industry, in particular to attract Chefs to work in our Hotels.*
- *We employ a number of Taiwanese WHM whose goal in coming to Australia is to save money. With high tax rates, they see other countries as more attractive.*
- *Six months is too short for them to be able to rent accommodation, less and less of them are coming to work in Australia. High tax and the low chance to have the next visa are the contributing factors.*
- *High rates of tax and cost of the work Visa are the key reasons.*

Policy Options that will maintain our competitiveness

If the government is determined to change the current established arrangements, **a compromise position** might consist of a mixture of the following:

1. Lowering the proposed marginal rate of tax on declarable earnings up to A$80,000 from 32.5% to 19%, 17%, 15% or 13%, to coincide with other overseas worker rates;
2. Raising the age threshold for working holiday maker visas to 35 or higher (from the current 31);
3. Increasing the duration an employee can stay with a single employer from six months to one year;
4. Raising the caps applying to source nations in aggregate by 20,000;
5. Capturing compulsory employer superannuation payments as an industry levy;
6. Allowing tourism as an eligible regional occupation for a second year visa (as announced for Northern Australia);
7. Expand the WHM programme to more countries;
8. Allow multiple visa applications by individuals (so they could reapply whilst still 'in country' on an existing WHM visas or in an older age bracket);
9. Simplify the visa application and assessment processes; and
10. Promote the WHM more extensively in existing participating countries; and
11. Better promote and encourage second year visa options.

Possible Revenue Implications

Industry has attempted to quantify the potential impacts of several policy reform options beyond the Government's proposal in the 2015/16 Federal Budget. Two packages (A and B) for reform have been considered and indicative tax revenue estimates presented below in Tables 1 and 2 of Appendix 5. Package A attempts to illustrate the tax revenue impacts generated by reforms described under options 1 and 5 above, with potential indicative revenue flows of between $193 million and $154 million per annum once fully implemented. Package B attempts to illustrate the tax revenue impacts of reforms described under options 1, 2, 3 and 4 above, with potential revenue of between $247 million and $169 million per annum once fully implemented.

Industry's preferred position

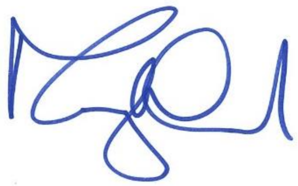
The tourism industry is convinced that Government revenue requirements can be met through the combination of several policy levers – some aimed at WHMs paying a reasonable amount of tax and the other at boosting the total number of WHMs earning income in Australia. Industry therefore supports the implementation of Package B described above, under the 15% MRT scenario. Government should consider implementing:

1. Lowering the proposed marginal rate of tax on declarable earnings up to A$80,000 from 32.5% 15%;
2. Raising the age threshold for working holiday maker visas to 35;
3. Increasing the duration an employee can stay with a single employer from six months to one year; and
4. Raising the caps applying to source nations in aggregate by 20,000; and
5. Capturing compulsory employer superannuation payments as an industry levy.

Conclusion

The tourism industry welcomes the opportunity to help shape a solution to the current impasse over the so-called ''backpacker tax''. The industry is concerned that in its original proposed state, the new taxation arrangements will make Australia uncompetitive, acting as a serious disincentive for potential working holiday makers to come to Australia, which will have negative impacts on both the tourism and agriculture sectors, particularly in regional areas. However, a measured review of the proposal which also takes account of a range of options to make working holiday maker visas more appealing is industry's preferred way forward.

Yours sincerely



Margy Osmond

CEO, Tourism & Transport Forum Australia (TTF), on behalf of the tourism industry roundtable.

Appendices

Appendix 1: WORKING HOLIDAY MAKER VISA FEES & REVENUE

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

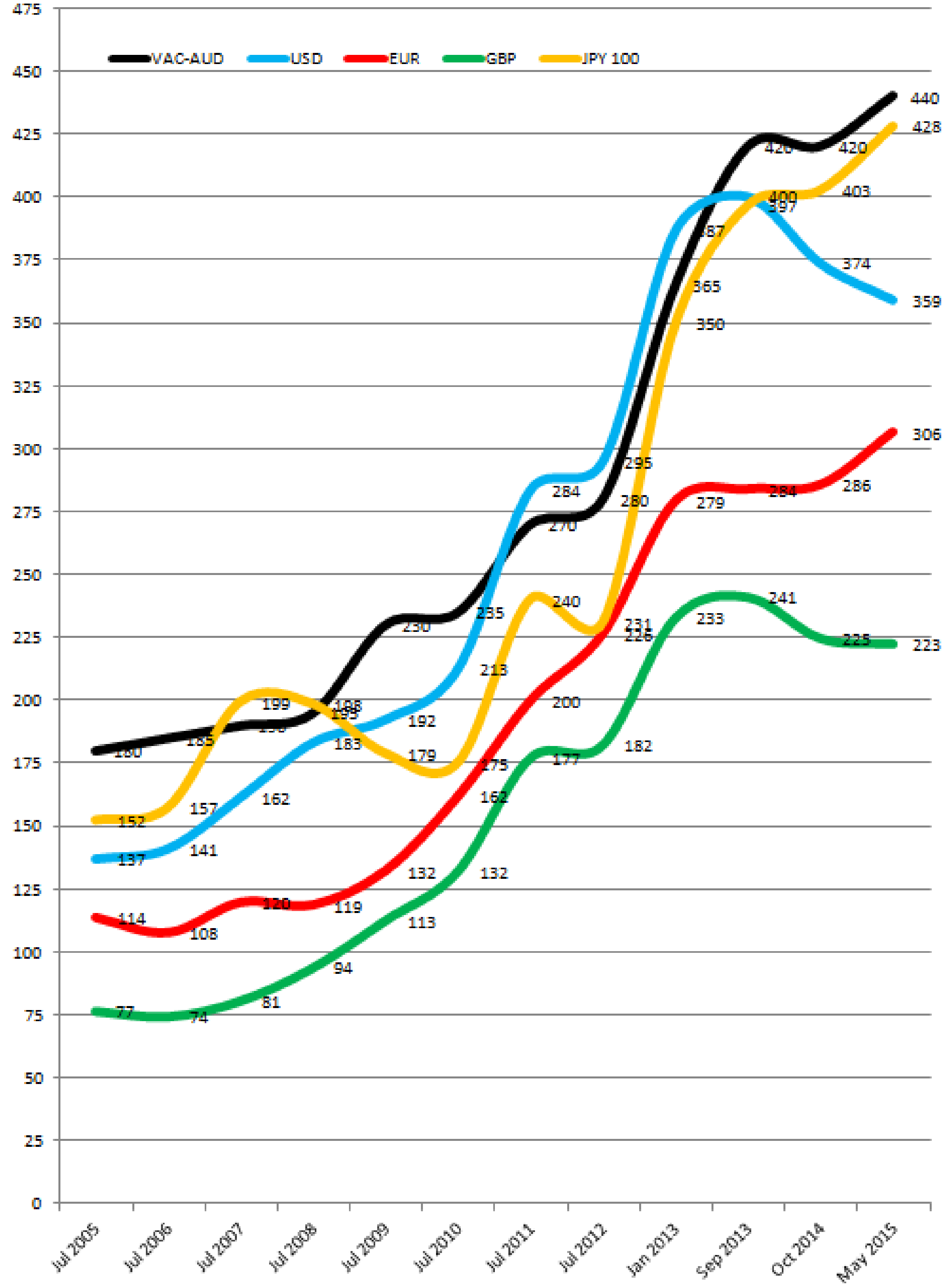
Source: Courtesy ATEC.

Appendix 2: Backpacker visitation indicators

	June 2011	**June 2012**	**June 2013**	**June 2014**	**June 2015**
Visa Cost	$270	$295	$365	$420	$440
Visas granted	192,922	222,992	258,248	239,592	226,812
Arrivals	572,000	564,000	581,000	593,000	596,000
Nights	42,500,000	45,500,000	49,000,000	47,500,000	46,630,000

Appendix 3: local cost of WHM visas

Relative cost of Visa Application Charges (VAC) in each foreign currency for key working holiday tourism markets 2005~2011 - in FX



Source: YHA.

Appendix 4

PLEASE NOTE: The revenue estimates presented below are intended to be indicative only and are also cumulative in nature and therefore should not be treated in isolation. For example, the superannuation (industry levy) reform option will upscale any pool of tax revenue by approximately 9.5%; so its effects are contingent on whether the underlying pool of income earners are in the 18 – 31 age bracket or in the 18 – 35 age bracket.

This is particularly important for interpretation of Table 2 below. That is, the estimated revenue for increasing the duration of employment with one employer (presented in row four of Table 2) is influenced by both the lower marginal rate of taxation that applies and also assumes the age threshold for working holiday maker visas has been raised to 35.

Table 1 – Estimated taxation revenue generated by Package A ($millions per annum)

Marginal Rate of Tax	19%	17%	15%	13%
Under Lower MRT	128.6	115.1	101.5	88.0
+ Super (Industry levy)	64.3	65.0	65.6	66.2
Total revenue ($m)	**192.9**	**180.0**	**167.1**	**154.2**

Table 2 – Estimated taxation revenue generated by Package B ($millions per annum)

Marginal Rate of Tax	19%	17%	15%	13%
Under Lower MRT	128.6	115.1	101.5	88.0
+ Raise Age to 35	39.6	35.4	31.2	27.1
+ Increase Duration	56.1	50.2	44.3	38.4
+ Raise caps by 20,000	22.4	20.1	17.7	15.3
Total revenue ($m)	**246.7**	**220.7**	**194.7**	**168.8**