



Increasing the Temporary Skilled Migration Income Threshold

Party: Australian Labor Party

Summary of proposal:

This proposal would increase the Temporary Skilled Migration Income Threshold (TSMIT) from \$53,900 per year (unindexed) to \$65,000 and would be indexed annually by wage price index (WPI) which would effectively increase the minimum wage for temporary skilled migrants. Only new visa holders would be eligible for the increased threshold.

This proposal would commence from 1 July 2022.

Costing overview

This proposal would be expected to increase the fiscal and underlying cash balances by around \$132 million over the 2022-23 Budget forward estimates period. These impacts are driven by changes in both administered revenue and expenses.

The proposal would have an ongoing impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

The departmental expenses for this proposal are immaterial and would be expected to be absorbed by the Department of Home Affairs.

The small difference between the fiscal and underlying cash balance impacts of this proposal is due to a timing difference between when goods and services tax is recognised and when it is collected.

Uncertainties

The estimates provided are particularly sensitive to the following factors.

- The estimated number of visa applicants over the medium term. There is a high level of uncertainty regarding this projection, as it is heavily dependent on the impacts of COVID-19 on travel or migration.
- Broader economic effects on the labour market and domestic production associated with increasing the TSMIT have not been included in the costing due to their uncertainty. For example, increasing the TSMIT would be expected to reduce demand for migrant labour in the short term, and it is uncertain how the Australian labour market would respond.
- The increase in consumption (and therefore, increase in indirect taxes paid) by 482, 187 and 186 visa holders who experience an increase in salary because of this proposal is uncertain and has not been included in this costing.
- Income support and transfer payments made to affected visa holders are expected to decrease in response to this proposal. However, the rate of this change is uncertain, and therefore this impact has not been included in this costing.

- It would be expected that this proposal would result in an increase in the level of expenditure for the Pharmaceutical Benefits Scheme, Medicare Benefits Scheme and other healthcare programs. However, these impacts are uncertain, and have not been included in this costing.

Table 1: Financial implications (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	Total to 2025-26
Fiscal balance	6.8	21.7	38.0	65.6	132.1
Underlying cash balance	6.8	21.7	38.0	65.6	132.1

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) PDI impacts are not included in the totals.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- The projected baseline number of visa applications lodged from 2026-27 to 2032-33 would remain fixed at the estimated number of visa applications in 2025-26; this reflects the significant uncertainty surrounding visa application projections.
- All prospective 482, 186 and 187 visa holders who would have earned between the current and proposed TSMIT would have their incomes increased to the proposed TSMIT.
- Employers of skilled migrants would be able to pass on the net cost of the increased TSMIT to consumers.
- Visa holders will remain in Australia for the entire length of their visa.

Methodology

The number of 482, 186 and 187 visa applications and visa holders in Australia would be expected to decline reflecting a decrease in demand for migrant labour due to the proposed increase in the TSMIT. The decrease in demand was estimated by multiplying the number of individuals affected by this proposal (i.e., those currently earning between the current and proposed TSMIT) by the change in their average salary and the respective price elasticity of labour demand.

- The price elasticity of labour demand for 482 visa holders was estimated to be -0.5, and -0.4 for 186 and 187 visa holders over the period to 2032-33.¹ This is based on research from the Australian Fair Pay Commission. It is assumed that the labour demand for permanent migrants (i.e., 186 and 187 holders) would be more inelastic than the demand for temporary migrants.

The financial implications of decreased visa application charge (VAC) revenue were calculated by multiplying the decrease in the number of estimated 482, 186 and 187 visa applications by their respective indexed VACs.

The decrease in 186, 187 and 482 visa applications would also result in a decrease in Skilling Australia Fund (SAF) levy revenue. This was calculated by multiplying the decrease in the number of estimated

¹ The labour demand elasticity is a measure of the responsiveness of labour demand to changes in wages. It measures the percentage change in the number of people employed after percentage change in employees' wages. An elasticity of -0.5 means that for a 1% increase in wages, there would be a 0.5% decrease in the number of people employed.

482, 186 and 187 visa applicants by their respective SAF levy amounts. This impact would be offset by a decrease in payments under the SAF.

The income and indirect tax related financial implications were calculated as the sum of:

- a decrease in income and indirect taxes collected because of a decrease in the demand for migrant labour. This was calculated by multiplying the average income and indirect taxes paid by affected migrants by the decrease in the number of estimated 482, 186 and 187 visa holders.
- an increase in income taxes collected because of an increase in the salary for 482, 186 and 187 holders who stay in Australia for the length of their visa. This was calculated by multiplying the additional income and contributions tax that would be paid after an increase in salary (due to the increased TSMIT) received by the number of remaining affected 482, 186 and 187 visa holders in Australia. The increase in indirect taxes has not been estimated, as the increase in consumption is uncertain.

The reduction in GST collected by the Australian Government (and paid to the states and territories) was estimated based on the decrease in the number of estimated 482, 186 and 187 visa holders.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.²

Data sources

The Department of Home Affairs provided estimated visa application lodgement and VAC prices over the 2022-23 Budget forward estimates period.

The Treasury provided data on the average incomes, superannuation and level of consumption for 186 visa holders, as well as economic parameters, as at the 2022-23 Budget.

Australian Government, *2019-20 Budget*, Australian Government, 2019.

Department of Home Affairs, *Temporary resident (skilled) report 30 September 2021 – summary of key statistics and trends*, Department of Home Affairs, Australian Government, 2021.

Department of Home Affairs, *Australian Migration Statistics, 2019-20*, Department of Home Affairs, Australian Government, 2020.

N Mowbray, D Rozenbes, T Wheatley, and K Yuen, *Changes in the Australian Labour market over the Economic Cycle, Research Report No. 9/09*, Australian Fair Pay Commission, 2009.

² https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

Attachment A – Increasing the Temporary Skilled Migration Income Threshold – financial implications

Table A1: Increasing the Temporary Skilled Migration Income Threshold – Fiscal balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
VAC revenue	-1.0	-1.5	-2.0	-2.8	-3.5	-4.5	-5.5	-6.7	-8.1	-9.6	-11.3	-7.3	-56.5
SAF levy revenue	-0.9	-1.4	-1.8	-2.5	-3.1	-3.9	-4.6	-5.5	-6.4	-7.4	-8.5	-6.6	-46.0
Income and indirect tax revenue	7.0	21.0	36.0	62.0	96.0	129.0	168.0	213.0	267.0	330.0	402.0	126.0	1,731.0
Total – revenue	5.1	18.1	32.2	56.7	89.4	120.6	157.9	200.8	252.5	313.0	382.2	112.1	1,628.5
Expenses													
Administered													
GRA – Payments to the States	0.8	2.2	4.0	6.4	9.4	12.8	16.7	21.3	26.7	32.9	40.0	13.4	173.2
SAF Levy Payments	0.9	1.4	1.8	2.5	3.1	3.9	4.6	5.5	6.4	7.4	8.5	6.6	46.0
Total – expenses	1.7	3.6	5.8	8.9	12.5	16.7	21.3	26.8	33.1	40.3	48.5	20.0	219.2
Total (excluding PDI)	6.8	21.7	38.0	65.6	101.9	137.3	179.2	227.6	285.6	353.3	430.7	132.1	1,847.7

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

Table A2: Increasing the Temporary Skilled Migration Income Threshold – Underlying cash balance (\$m)^(a)

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
<i>VAC revenue</i>	-1.0	-1.5	-2.0	-2.8	-3.5	-4.5	-5.5	-6.7	-8.1	-9.6	-11.3	-7.3	-56.5
<i>SAF levy revenue</i>	-0.9	-1.4	-1.8	-2.5	-3.1	-3.9	-4.6	-5.5	-6.4	-7.4	-8.5	-6.6	-46.0
<i>Income and indirect tax revenue</i>	7.0	21.0	36.0	62.0	96.0	129.0	168.0	214.0	268.0	330.0	402.0	126.0	1,733.0
Total – receipts	5.1	18.1	32.2	56.7	89.4	120.6	157.9	201.8	253.5	313.0	382.2	112.1	1,630.5
Payments													
Administered													
<i>GRA – Payments to the States</i>	0.8	2.2	4.0	6.4	9.4	12.8	16.7	21.3	26.7	32.9	40.0	13.4	173.2
<i>SAF Levy Payments</i>	0.9	1.4	1.8	2.5	3.1	3.9	4.6	5.5	6.4	7.4	8.5	6.6	46.0
Total – payments	1.7	3.6	5.8	8.9	12.5	16.7	21.3	26.8	33.1	40.3	48.5	20.0	219.2
Total (excluding PDI)	6.8	21.7	38.0	65.6	101.9	137.3	179.2	228.6	286.6	353.3	430.7	132.1	1,849.7

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

Table A3: Increasing the Temporary Skilled Migration Income Threshold – Memorandum item: Public Debt Interest (PDI) impacts – Fiscal and underlying cash balances (\$m)^{(a)(b)}

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
<i>Fiscal balance</i>	0.10	0.4	1.1	2.3	4.4	7.6	12.2	18.6	27.3	39.0	54.4	3.9	167.4
<i>Underlying cash balance</i>	0.10	0.4	1.0	2.2	4.1	7.2	11.6	17.8	26.3	37.6	52.6	3.7	160.9

- (a) As this table is presented as a memorandum item, these figures are not reflected in the totals in the tables above. This is consistent with the approach taken in the budget where the budget impact of most measures is presented excluding the impact on PDI. If the reader would like a complete picture of the total aggregate, then these figures would need to be added to the figures above. For further information on government borrowing and financing please refer to the PBO's online budget glossary³.
- (b) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms. A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

³ [Online budget glossary – Parliament of Australia \(aph.gov.au\)](https://aph.gov.au)