



To provide opportunity for all, but especially young people, for education by personal development, fostering friendship and bringing about a better understanding of others and the world around them.

21 October 2016

Senator Chris Ketter
Chair, Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Senator,

YHA Australia submission to Working Holiday Maker Reform Package

I am writing with regards to the above review, to raise YHA Australia's concerns on the proposed reform package for Working Holiday Makers, as announced by the Treasurer on 27 September 2016.

Background

YHA has been operating budget accommodation for travellers in Australia for over 75 years, and has a network of 85 youth hostels across the country. YHA hosts guests from more than 180 countries each year, recording over 1.5 million overnight stays annually across Australia. Many of YHA's guests are on Working Holiday Maker visas (subclass 417 – the Working Holiday Visa - and subclass 462 – the Work & Holiday Visa). YHA has a long history of supporting this important reciprocal cultural exchange of youth across continents.

Deloitte report

YHA made a submission to the review of the Working Holiday Maker scheme undertaken by Deloitte in September 2016 on behalf of the Federal Government. That submission (that includes further information) can be viewed on the website of the Department of Agriculture and Water Resources. As a member of the Backpacker Youth Tourism Advisory Panel, YHA also contributed information to the submissions of the Australian Tourism Export Council (ATEC) and the Tourism and Transport Forum (TTF).

The Deloitte report mentions in the Executive Summary that there are four potential policy options to mitigate the impact of the proposed 'backpacker tax', namely:

- 1. Removing or expanding the age limit of the visas**
(YHA welcomes the proposal to extend the age of the visas to up to 35, and notes that research by Dr Jeff Jarvis of Monash University shows that these older Working Holiday Makers are also higher yielding.)
- 2. Removing or expanding country caps on the 462 visa and extending the visa to additional countries**
(See YHA's comments below.)
- 3. Removing the limit on workers being employed for a maximum of six months with a single employer**
(YHA welcomes this initiative being subject to working in different locations as it will assist with regional dispersal of backpackers.)
- 4. Expanding the second year extension to the tourism sector**
(YHA supports this proposal as it would assist with shortages of labour in the regional tourism industry, however the reform package does not include this initiative.)



Caps on the 462 visa and extending the visa to additional countries

In the reform package proposed, the government has opted not to pursue the option of removing caps on the 462 visa subclass (all countries except the USA are subject to caps on this visa type). This is counter-intuitive, as increasing the caps would be a simple method of pursuing a growth strategy for the Working Holiday Maker scheme in Australia. Some countries, such as Malaysia, have caps as low as 100; Portugal has 200; Argentina 700. These visa allocations are exhausted quickly. See **Appendix 1** for an infographic with more detail, showing that the capped countries currently send less than 10% of the Working Holiday Makers to Australia each year.

To assess the potential economic value to Australia, the impact of expanding the availability of the Working Holiday Maker visa for four key countries has been estimated by the Australian Tourism Export Council (ATEC). For the purposes of this exercise, the four countries are Poland and Spain – both currently capped at 200 and 500 places respectively – and Brazil and Switzerland – both currently not included in the Working Holiday Maker program, however with potential for an agreement to be negotiated. Drawing on the existing ratio of total visitation to Australia and participation in the Working Holiday Maker program, a modest extension of the program by increasing the caps on just four key countries and/or adding new countries to the program (uncapped) could deliver an annual boost to GDP of \$15M; \$38M within 5 years, or between \$76M - \$195M over 10 years in present value terms (*source: ATEC Position Paper 'The Importance of the Working Holiday Visa', February 2012*).

Proposed tax rate

YHA believes that the proposed tax rate in the reform package for Working Holiday Makers of 19% from the first dollar earned is too high. Research conducted in May and July 2016 in Melbourne and Tropical North Queensland by Dr Jeff Jarvis (copy available on the Department of Agriculture and Water Resources submissions website) indicates that a tax rate of 18% (being close to the proposed 19 percent) would impact negatively on demand for the visa. The research shows that 31% of the respondents stated that they would not come to Australia on a Working Holiday Maker visa with such a tax rate, and only 47% would advise their friends to come on such a visa. A rate of 19% also erodes our competitive position against New Zealand and Canada.

Generally, Working Holiday Makers are mobile and willing to do seasonal agricultural work in regional areas, doing jobs that Australians will not themselves do. Working Holiday Makers are also generally happy to pay a fair level of tax, but not at a rate much higher than Australians as that acts a barrier and a deterrent - and is against the Australian concept of 'fair go'. There is also a precedent in the flat rate of 15% which is already in place for the Pacific Islanders 'Seasonal Worker Program', and which equates to the effective marginal tax rate paid by an Australian working full time on a minimum wage and enjoying a tax-free threshold on initial earnings.

Visa fee

YHA supports the reduction in the visa fee from \$440 to \$390 from 1 January 2017. The two rapid increases in the visa fee from \$280 to \$420 (up by 50%) in a single year in 2013 and the further increase to \$440 in 2015 have been a major cause in the overall reduction in visas issued per annum, by some 50,000 in the peak. The explanation of 'global circumstances' is unsound as the number of visa issued by New Zealand, which did not increase its fee in the same manner, has grown very strongly over the same period. Demand for visas is price elastic.

Government modelling

It should be noted that the examples provided in the reform package Explanatory Memorandum regarding how Working Holiday Makers would be taxed are of 'Pierre' who earns \$75K per annum, and 'Fabio' who earns \$50K in nine months in Australia. These are unrealistic and inflated examples, as it is well documented in the research to date that the average Working Holiday Maker earns approximately \$13K in Australia, all of which (plus more that they bring with them) that they spend here, both on living and travelling around Australia.



Overall, the Treasury modelling appears flawed as it seems to be based on current rates of arrivals on Working Holidays continuing. Whereas, if the tax is too high, less participants will come (and conversely, if the tax is reduced, the research shows that more Working Holiday Makers will come – and the government will get more tax revenue, and more income will flow through the economy from the multiplier effect as they disperse through the country spending their earnings here).

As a member of the Tourism Visa Advisory Group of the Department of Immigration & Border Protection I have concerns about the weaknesses of the modelling. In making good policy settings on fees and taxes there is a need for understanding of actual behaviour and motivations. YHA recommends investment in quality research to bring up to date the previous National Institute of Labour Studies research completed in 2008 that is now nearly ten years old.

Permit multiple Working Holiday Visas (non-concurrent)

There is also potential to grow the Working Holiday Maker scheme by the government providing an option for participants who have completed one visa to commence a second (non-concurrent) visa. This would encourage repeat visitation from the 1.3M Working Holiday Makers who have come to Australia in the last ten years. Parameters could be set around such an initiative (e.g. mandating a gap of one or two years between visas) however there is demonstrable desire and capacity – particularly with the upper age limit of the visas being lifted to 35.

Assuming an estimated 11.6% uptake of a multiple visa, this would generate a boost to Australian GDP of \$41.7M in Year 5 (allowing for a phasing in of uptake). Based on an estimated employment multiplier effect, these repeat Working Holiday Makers would also generate over 1,500 jobs by Year 5, many in regional Australia. In present value terms the GDP boost associated with additional multiple Working Holiday Maker visas equates to \$275M over 10 years (*source: ATEC Position Paper 'The Importance of the Working Holiday Visa', February 2012*).

Summary

In conclusion, the Working Holiday Maker scheme has enjoyed bi-partisan's support for most of its history, and the fundamental idea of work being incidental to the cultural, educational and social objectives has remained core to the scheme. The visa scheme is essentially a *holiday* visa, with limited working rights attached (as opposed to vice-versa). It is an important cultural exchange.

Please refer to **Appendix 2** for a table summarising YHA's assessment of the impact of each of the proposed items in the reform package.

I will be pleased to provide further detail on the issues, and to appear at the inquiry and can be contacted as below.

Yours sincerely,

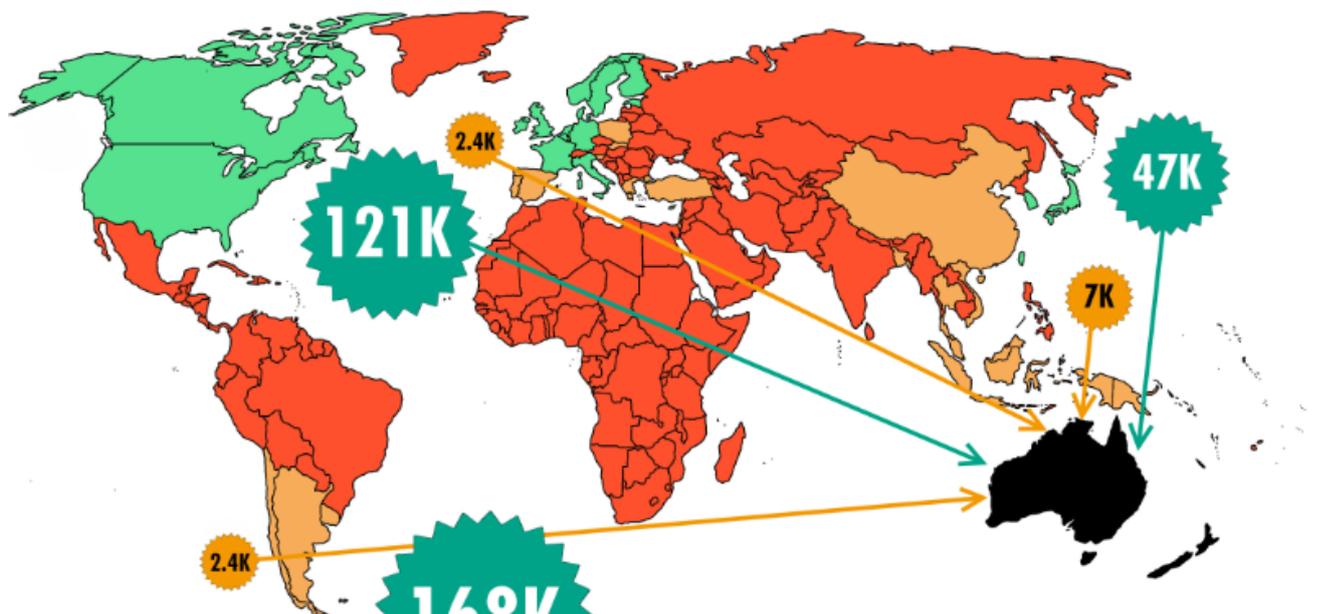
Julian Ledger, **CEO**
YHA Australia



Appendix 1: Infographic of visa caps

VISA CAPS

on Working
Holiday
Makers



NO CAP

Working Holiday Visa (417 subclass)

UK 34,000	Hong Kong 4,000
Germany 24,000	Sweden 4,000
France 18,500	Belgium 2,000
South Korea 18,000	Denmark 1,500
Taiwan 15,000	Finland 1,500
Japan 10,000	Estonia 1000
Italy 9,000	Norway 500
Canada 7,000	Others 100
Ireland 5,000	USA 9,000* (462 subclass)
Netherlands 4,500	

CAPPED

Work and Holiday Visa (462 subclass)

China 5,000	Portugal 200
Chile 1,500	Slovak Republic 200
Indonesia 1,000	Slovenia 200
Argentina 700	Uruguay 200
Greece 500	Vietnam 200
Israel 500	Bangladesh 100
Spain 500	Malaysia 100
Thailand 500	PNG 100
Poland 200	Turkey 100

No arrangement

Stats from the Dept of Immigration, July 2015-June 2016.



Appendix 2: Summary of backpacker tax changes from 1 January 2017 – subject to approval by Parliament

Policy	Impact	Comment/recommendation
Working Holiday Makers (WHMs) taxed 19c from first dollar they earn (up to \$37,000 when normal tax brackets apply)	Improvement on the 32.5% tax rate originally proposed. Removes access to tax free threshold previously claimed by those who met residency test by living in one place for at least six months. So worse for those who were able to claim tax back but better for those that did not.	Support a lower tax rate – however, the tax rate at just under 20% of income from first dollar earned is high. Will it be accepted as ok by backpackers? Some employers and their employees will try to avoid by paying cash. 15 cents is the same as Seasonal Worker Program. Change does remove incentive to act as resident and not travel around.
Maximum age for WHM visa increased from 30 to 35 years old	Good initiative, long desired. Could have gone further and allowed more than one WHM visa per person to maximise uptake of older travellers to return to Australia.	Supported - should lead to growth in WHM arrivals especially higher spending ones.
Visa application cost reduced \$50 to \$390	Good concession and actively called for since the double increases in 2013. Propose no further increases and monitor influence by anticipated growth in numbers. Fee still high compared to NZ and Canada although the Australian program remains much bigger.	Supported - may see some reversion of people back to choosing Australia instead of NZ. Good news story for Tourism Australia campaign to consumers and agents (although note the UK Pound down over 20% against \$AUD since mid-2016).
\$10m marketing budget for Tourism Australia to repair the country's reputation as a working holiday destination.	Spread over three years 2015/16 - \$2.5M, 2016/17 - \$5.0M, 2017/18 - \$2.5M. Significantly more than the \$4 million spent on the last youth focussed 'Best Jobs in the World' campaign. Supplementary funding and in kind support being sought from State Tourism Organisations (STO's) and industry. Industry advisory panel set up to guide planning.	Supported - industry has representation on the Tourism Australia advisory panel. Initial countries targeted are UK, Ireland, France, Italy, Canada and Germany. Chance to participate in co-operative marketing overseas and with STO's onshore to achieve dispersal.
WHMs will now be allowed to spend 12 months working for the same employer in six-month stints in two different locations – stays were previously capped at six months	Designed to facilitate movement around the country. Definition of different locations not yet available. Makes Working Holiday Makers more attractive employees for employers like hotel chains which can offer multiple locations. Note: Northern Australia policy already allows 12 months with one employer (on a two year trial, but take up is currently low).	Supported - should lead to more movement around the country by those who previously staying in a single city. Also to Working Holiday Makers increasing earnings e.g. with hotel chains with regional operations. Motivated relevant workforce.

<p>Passenger Movement Charge increased \$5 to \$60. To be included in 2017/18 budget with effect from 1 July 2017</p>	<p>First increase since 2012 but raises much more than is required to provide border services. Affects outbound Australian as well.</p>	<p>Not supported – damaging to travel and tourism and not warranted.</p>
<p>Tax on WHMs superannuation when they leave Australia increased from 38% to 95% (meaning they now get no super, in effect)</p>	<p>Part of the Government’s package to achieve revenue neutrality. The 9.5% of WHM super is effectively retained by government. Unknown if many backpackers claimed their super back after leaving in the past – awareness was probably not high so net impact not expected to be great.</p>	<p>Supported - subject to revised lower tax rate proposed</p>
<p>Employers register with the ATO for their WHMs to be taxed 19% (otherwise WHMs will be taxed 32.5%) and record location employed</p>	<p>Could be a disincentive for small employers</p>	<p>Neutral – further information required on what registration involves. Support initiatives which reduce exploitation of Working Holiday Makers especially by labour hire contractors</p>
<p>No change to the low caps on the number of 462 WHM visas for certain countries</p>	<p>Wide consensus that the WHM scheme is good for Australia. There is little logic to the caps which discriminate against applicants from countries on the 462 visa.</p>	<p>Support an increase in the caps on the 462 visa by an aggregate of at least 20,000 visas per annum.</p>