



SUBMISSION

Senate Standing Committee on Economics Inquiry into Working Holiday Maker Reform Package

Submission supported by



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Senate Standing Committee on Economics
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Parliament House
Canberra ACT 2600
By email: economics.sen@aph.gov.au

Dear Sir/Madam,

The Australian Tourism Export Council (ATEC) and its sub-committee the Backpacker & Youth Tourism Advisory Panel (BYTAP) welcome the opportunity to present this submission to the Senate Inquiry into the Working Holiday Maker (WHM) reform package.

ATEC has long represented the interests of the backpacker sector, and has actively lobbied for various reforms to the WHM scheme over many years.

The working holiday maker program was introduced in 1975 with the main purpose to "promote international understanding by enabling young people to experience the culture of another country". Since then, the scheme has grown from 2,000 participants to over 200,000. Notably however, the number of WHM visa grants has been falling from a high of 264,974 in 2012/2013 to 214,500 in 2015/16. Many would argue that this decline is a result of both a high visa fee and the impact of the government's proposed taxation changes. The most recent statistics from the Department of Immigration and Border Protection show concerning declines in WHM arrivals, with the first 417 down 8.1%, the second 417 down 12% and an overall decline across both 417 and 462 sub-classes of 5.4%. The government's notion of 'global circumstances' driving WHM numbers down since 2012/13 is flawed, as the number of WHM visas issued by New Zealand, which did not increase its fee in the same manner, has grown very strongly over the same period.

In the 2015/16 Federal Budget, the government announced that it intended to introduce new taxation arrangements for working holiday makers (the so-called "backpacker tax") to be implemented from 1 July 2016. The proposal removed the tax-free threshold for working holiday makers which is currently set at \$18,200 and instead levelled a marginal rate of 32.5% from the very first dollar earned in Australia. Treasury forecasted revenue associated with the change of \$540m over three years. Industry remains concerned that the government is relying on flawed modelling conducted by Treasury.

Various industry groups from both the tourism and agriculture sectors objected to the proposed taxation changes and have recommended the Federal government reverse this measure. The rationale for the industry's position is well articulated in our earlier submission to the review process. ATEC also participated in the consultation process conducted by Deloitte Touche Tohmatsu during August and September.

Indeed, the resultant report prepared by Deloitte was very clear on the options available to government regarding the "backpacker tax" reform, and highlighted both the significant impacts of the initial decision and the alarming "knock-on" effects of the measures, before they were even implemented.

Federal Treasurer Scott Morrison announced on 27 September 2016 that the review of the working holiday maker scheme was complete, and that Cabinet had reached agreement on a revised proposal for the taxation arrangements, and other policy settings, for working holiday makers.

In summary, the government's revised package proposed the following:

- Raising the age limit for eligibility for the WHM visa from 30 to 35
- Lowering the WHM visa fee from \$440 to \$390
- Allowing an employer with premises in different regions to employ a WHM for 12 months, with the WHM working up to six months in each region
- \$10m in funding (over three years) for a Tourism Australia global youth advertising campaign
- Employer registration with the Australian Taxation Office, including a compliance package to support this measure;
- Increase tax on WHM superannuation payments when they leave Australia to 95%
- Increase the Passenger Movement Charge (PMC) from \$55 to \$60 from 1 July 2017.

It is important to articulate the tourism export industry's reaction to the Treasurer's proposal objectively and pragmatically. Firstly, ATEC supports and congratulates the government on the reforms relating specifically to the WHM scheme, particularly the changes to the age limit and the visa fee. Industry appreciates the response from government was based on indisputable evidence that the current policy settings were suffocating growth in the WHM sector.

ATEC is also pleased that the government listened to tourism and agriculture sectors in relation to the marginal tax rate of 32.5% and acted accordingly by correcting it to a more acceptable 19%. ATEC also supports the government's decision on the superannuation tax, though we note that there would be few WHMs who actually claim their super on departure – these funds are absorbed into consolidated revenue – another significant contribution made by the travelling global population to Australia's bottom line.

The allocation of additional funds to Tourism Australia for a much-needed global youth campaign is also welcomed and ATEC is pleased to note that there is an industry-driven advisory panel already established to contribute to the development of this campaign.

ATEC's objective position in its submission was to implement measures that GROW the working holiday maker scheme for the benefit of all stakeholders: the tourism industry, the agriculture industry, government and the working holiday makers themselves. By investing in growth strategies, such as increasing the age limit and extending the 'work with a single employer' time limits, the subsequent flow of revenues will naturally follow.

It can be argued that whilst the reforms noted above were welcomed by industry, the government could go further to injecting growth and therefore stimulating demand. These measures could include:

- Raising the current caps applying to source nations for 462 visas where the allocations are exhausted (for example Portugal, Greece and Spain). Current caps of 100, 200 or even 500 are pointless and do not allow for or promote growth – particularly from nations where demand is high. WHM allocations in Poland were sold out in less than 24 hours and China (with a total cap of 5000, rolled out in phases) had 100,000 hits on the website in the first 24 hours¹. It is clear there is latent demand which is being stifled by existing WHM policy;
- Continuing to expand the WHM programme to more countries (for example, Latin American nations) and at a faster rate where feasible;
- Allowing multiple WHM visa applications by individuals – repeat visitation is a key factor in demand-driving strategies implemented by Tourism Australia and state tourism organisations: the WHM scheme should reflect that strategy by promoting multiple working holiday opportunities;
- Developing / investing in technology to deliver 'matching' between WHM and employer.

¹ Department of Immigration & Border Protection, Tourism & Visas Advisory Group meeting 2016

However, ATEC cannot support the government's measure which proposes an increase in the Passenger Movement Charge from \$55 to \$60. Despite an agreed bi-partisan freeze on the PMC, the \$5 increase was proposed without any industry consultation or impact analysis by Treasury.

The Passenger Movement Charge (PMC) was introduced in 1995 replacing the then "departure tax", initially to recover the cost of customs, immigration and quarantine, and to offset the cost of issuing short-term visitor visas. Since its introduction, the cost of the PMC has more than doubled, making it the second highest departure tax among OECD countries, after the UK's Air Passenger Duty (APD).

Modelling by the International Air Transport Association (IATA) suggests that holiday visitors (as distinct from those travelling to visit friends or relatives) are most sensitive to departure taxes such as the PMC, with every price increase of 10% estimated to generate a decline of 5-7% in the number of leisure passengers travelling globally.²

It is patently clear that increasing the PMC puts all the other growth stimulating measures at risk. By levying the travelling population 9% more in tax, on top of existing visa fees and other charges associated with visiting Australia, you risk a contraction in visitor arrivals, with travellers potentially opting for an alternative destination. It is counter-productive and sends the clear message to travellers that Australia is using tourism as the cash cow of the Australian economy.

Tourism industry research indicates that this financial year, the PMC will recover more than three times the cost of providing border management and passenger facilitation charges. Next financial year, should the PMC rise, the government's profit will be almost five times the cost of providing border services³.

Submissions to this inquiry from the Tourism & Transport Forum (TTF) and the Australian Federation of Travel Agents (AFTA) examine in detail the over-collection of the PMC and the resultant government revenue, which is also forecast to increase at 5% per annum over the forward estimates. ATEC supports this analysis and echoes the sentiment expressed in these submissions, specifically the commentary around the economic impacts of increasing (and removing) 'departure taxes' and clear global examples of same.

Of greater concern is the notion that the WHM tax reform package relies on an increase to the PMC.

Industry engaged the services of KPMG to conduct modelling around the amount of tax and superannuation revenues from working holiday makers. The review by KPMG was based on data from the Department of Immigration and Border Protection that there were at least 100,000 foreign working holiday makers in Australia in 2015-16, and upon Treasury's calculations, assumed that each earned on average an annual gross sum of \$13,000.

There were, in fact, 137,376 WHMs known to be in Australia as at 30 June, 2016.

But, still using the very conservative estimate of 100,000 WHMs, and assuming that each paid a tax rate of 19% on average gross earnings of \$13,000, KPMG concluded that the government would generate tax and superannuation revenues of \$864.5 million between the 2016-17 and 2019-20 financial years, without the need for an increase in the Passenger Movement Charge.

KPMG further concluded that even with gross annual earnings of \$10,000 per WHM, tax revenue of \$665 million would still be collected during the period in question, again without any need to increase the PMC.

² International Air Transport Association (2013) IATA Economic Briefing: The Economic Benefits of Abolishing the Passenger Movement Charge in Australia

³ Tourism & Transport Forum and the Australian Federation of Travel Agents (2016) "Traveller taxes: 'facewashing' or wringing out the travel industry?"

KPMG concluded: “The inclusion of the increase in the PMC in the revised WHM policy appears to be incongruous with the remainder of the package. Under reasonable assumptions about the number of WHMs and average income per WHM it is not necessary to increase the PMC to generate tax revenue from the package that is greater than that reported in the 2015-16 Budget.”

ATEC actively encourages all political parties to call for a review of the Passenger Movement Charge. In 2015, the government commissioned a joint review of border fees, charges and taxes prior to the 2015-16 Commonwealth Budget that focused on identifying where border charging arrangements could be improved to better support future border operations and outcomes for industry.

The review was led by the Australian Customs and Border Protection Service (ACBPS) and the Department of Immigration and Border Protection (DIBP) and was conducted jointly with the Department of Agriculture given similarities in certain charging arrangements.

ATEC, along with other key leadership industry organisations lodged a submission to the review and articulated several measures which government could consider which could both meet (or exceed) government revenue targets and simultaneously addressing long-standing industry issues which impact growth. The tourism industry proposed structural change to the PMC, amongst other measures, and supplied tangible options for reform of the PMC which could be acceptable to both industry and government.

None of the recommendations detailed in the industry’s submission were considered. In fact, the review outcomes merely resolved to increase visa application fees, and, **“In keeping with its election commitment, the government decided not to increase the Passenger Movement Charge”⁴.**

ATEC again calls on government to freeze the PMC at its current level to avoid any further damage to inbound arrivals. We reiterate our view that the working holiday maker tax reform package and the passenger movement charge must be considered separately, and the latter should not, under any circumstances, be used to “fund” the budget shortfall stemming from flawed Treasury modelling. It would be timely to commission a full review of the passenger movement charge with a view to re-structuring the tax to be more globally competitive, achieve (potentially exceed) government revenue targets and deliver further funding opportunities to drive tourism demand and conversion.

In the context of this inquiry, ATEC recommends that the Senate Standing Committee on Economics supports the passage of the WHM reform package, **with the exception of the amendment to the Passenger Movement Charge.**

1. VOTE NO on the Passenger Movement Charge Amendment Bill 2016;
2. VOTE YES on Income Tax Rates Amendment (Working Holiday Maker Reform) Reform Bill
3. VOTE YES on Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016
4. VOTE YES on Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2016
5. All major parties agree to continue the freeze of the Passenger Movement Charge at its current level which is expected to grow tax receipts to the government by 5% a year;
6. Engage in active and objective consultation with the tourism industry regarding any future proposed changes to taxes on the tourism sector.

It is critical that we position Australia competitively, and as an attractive destination for all tourists and visitors. We must not make it harder for a genuine potential tourist to choose Australia.

ATEC and BYTAP firmly believe that the focus should be on a growth strategy – if the work and taxation arrangements are attractive, and other barriers to growth including visa caps, age limits and fees are

⁴ (2015) Department of Immigration and Border Protection website, <https://www.border.gov.au/about/access-accountability/plans-policies-charters/plans/joint-review-of-border-fees-charges-and-taxes> Joint Review of Border Fees, Charges and Taxes

addressed then more will come and greater revenue for government will ensue. Without the need to pass on tax increases to all travelling consumers departing Australia.

The Australian Tourism Export Council and its Backpacker & Youth Tourism Advisory Panel thanks the Senate Standing Committee on Economics for the opportunity to present industry's views and would be pleased to discuss the measures further.

Yours sincerely,

Peter Shelley
MANAGING DIRECTOR
Australian Tourism Export Council Ltd

About the author

The Australian Tourism Export Council (ATEC) is the peak export industry body representing the thousands of companies throughout Australia via a network of regional branches that provide tourism services to foreign visitors. Whilst the tourism export sector is experiencing positive growth, ATEC's role is to maximise opportunity for Australian businesses in both existing and emerging markets, and to ensure any impediments to that growth are managed and kept to a minimum.

ATEC at a glance...

- Started as a group of ten keen exporters known as **inbound tour operators** who wanted to collaborate on promoting Australia to the overseas traveller
- Today, those ten operators have grown to an export association of more than **900 direct stakeholders**, and close to 5000 indirect
- Members are scattered across Australia and include accommodation providers, attractions, tour operators, inbound tour operators, transport operators, restaurants and professional corporates and we count amongst our constituents more than **40 regional tourism organisations**, who collectively in turn represent thousands of SMEs.



ATEC is a 45 year old industry organisation servicing a member footprint of thousands of businesses, small & large



ATEC members attract & service international visitors from over 50 countries and trade in more than 25 foreign currencies



ATEC members directly employ more than 400,000 Australians



ATEC members collectively hold 20,000 years of experience in tourism exports

Our core functions are to...

- Facilitate **business-to-business** opportunities for our members;
- Provide **business development** advice, opportunity and support to our members;
- Foster and promote excellence in **service delivery** and business **best practice** management;
- Represent the **collective views** of our membership to governments and other external stakeholders;
- Liaise with industry and government to facilitate **cohesion** between commercial imperatives and policy development;
- Raise the **profile** of the tourism export sector to the broader community.

In 2001, ATEC convened the Backpacker Tourism Advisory Panel (BTAP, later BYTAP incorporating 'youth' in the scope) and this panel has championed the interests of the backpacker sector since its inception. Importantly, BYTAP is an industry panel, with representatives both directly from industry as well as the state backpacker associations, Adventure Queensland and Backpacker Operators' Association (BOA) in NSW.

BYTAP has actively sought to elevate the profile of youth tourism – particularly in relation to the contribution the sector makes to regional Australia. BYTAP has worked closely over the years with Tourism Australia and the various state and territory tourism organisations in driving demand to travel to destination Australia, as well as to ensure policy development is executed in consultation with key stakeholders.