

Submission to Senate Economics Legislation Committee, Inquiry into Working Holiday Maker Reform Package

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1. Executive Summary

Tourism Accommodation Australia (TAA) and the Australian Hotels Association (AHA) welcome the opportunity to make a joint submission to the Senate Economics Legislative enquiry into the “Backpacker Tax” measures. The purpose of this submission is to provide comment on the Government’s package of measures announced on September 27, 2016 from the perspective of Australia’s diverse accommodation and hospitality sectors.

AHA is an organisation of employers in the hotel and hospitality industry registered under the *Fair Work (Registered Organisations) Act 2009*. TAA is a division of the AHA, and represents the needs and interests of the major hotels, motels and serviced apartments in Australia’s accommodations sector. Together, TAA and AHA have a diverse membership of more than 5,000 licensed hotel businesses, including pub-style hotels and three, four and five star international accommodation hotels located in each state and territory.

The accommodation sector contributes \$7 billion annually in GVA to Australia’s economy and employs 87,500 workers. 84% of these workers are Australians. Despite unemployment numbering over 700,000, the current labour shortage in the tourism and hospitality industry (2015 Deloitte Report) is 38,000 and expected to increase to 123,000 by 2020. In the accommodation sector in particular, the difficulties in securing labour will be exacerbated as room-supply increases 4.2% per annum until 2020. Temporary foreign workers such as working holiday makers are a key alternative labour source for accommodation businesses struggling to fill employment vacancies with local labour supply. Reducing the international competitiveness of Australia’s Working Holiday Maker programme would decimate this vital alternate labour source.

Consultation with industry regarding Working Holiday Maker policy is imperative in ensuring that the Government’s Working Holiday Maker proposals do not adversely impact upon Australia’s international competitiveness. On balance, the package of measures appears to favour the tourism and hospitality industries. The benefits of the new arrangements are expected to boost WHM visitation, increase industry productivity and grow the sectors’ economic outputs. Treasury’s economic modelling should be released to demonstrate that the proposed 19% tax rate will maintain Australia’s international competitiveness in attracting this vital source of labour.

2. TAA and the AHA's Recommendations to the Review

In September 2016, TAA and the AHA provided a joint submission to the Department of Agriculture and Water Resources' review of the tax arrangements for working holiday makers. Please find this submission attached.

TAA and AHA's submission to the review made 8 recommendations to the Government:

1. Scrap its proposed 32.5% Backpacker Tax and treat working holiday makers as residents for tax purposes;
2. Include work in the tourism industry as "specified work" for the purposes of applying for a second WHM visa;
3. Allow WHMs to work with the same employer for 12 months instead of 6 months;
4. Extend to commercial chains the same provisions that allow labour-hire companies to employ WHMs for longer than six months;
5. Ensure the cost of a WHM visa is internationally competitive, including ensuring that, in comparison with key competitors, the visa cost reflects its validity length;
6. Increase the maximum eligibility age of WHMs to 35 years;
7. Invest in an overseas marketing campaign to stimulate WHM visitation;
8. Establish consistency, equity and clarity in the treatment of non-resident visa holders

Adoption of the above recommendations would improve Australia's international competitiveness in attracting working holiday makers, particularly in regional areas, and ensure that Australia continues to attract a valued labour force to sustain future investment in the tourism and hospitality industries.

3. Outcomes of the Review

In response to the Department's review, on September 27, 2016 the Government announced a package of measures for working holiday makers. The Government was clear that the budgetary impact of the package was required to be revenue-neutral by meeting the revenue target announced in its 2015 budget.

The original measures announced in 2015 (including increasing the tax rate for WHMs to 32.5 per cent for all income up to \$80,000) were expected to raise \$540 million over the then forward estimates (2015-16 to 2018-19).

In the Explanatory Memorandum to the package announced on September 27, the Government advises that the change in the WHM income tax rate will reduce the \$540 million of revenue collected by \$300 million to \$240 million over the forward estimates. Other measures (Compliance for WHM employer registration; Lower visa application fees for WHMs; Tourism Australia advertising campaign) will cost \$50 million over the forward estimates. To make up for this \$350 million shortfall, the Government proposes raising an additional \$260 million from a 9% PMC increase and \$105 million from changes to the superannuation tax.

3.1 Removing the tax free threshold for Working Holiday Makers

WHMs are a vital source of labour for the tourism and hospitality industry. A tax free threshold for income up to \$18,200 remains TAA and the AHA's preferred option for ensuring Australia is competitive in attracting WHMs.

However we acknowledge that Government needs to meet revenue targets established in the budget.

Ultimately, ensuring Australia retains its international competitiveness in attracting WHM is paramount to achieving an increase in WHMs. This both assists industry to meet its labour shortages and assists government in balancing its budget.

On balance, the proposed 19% tax rate is a significant amelioration of the initially proposed 32.5% tax rate. Coupled with the measures aimed at increasing WHM flexibility and WHM supply, (incorporating Recommendations 4-8 from TAA and AHA's submission to the Review), we can support the 19% tax rate for WHMs for earnings up to \$37,000.

In particular, we commend the actions taken to improve the integrity of the system for WHMs, through the collection of the tax. We find the exploitation of vulnerable working holiday makers reprehensible and believe the Government's proposal for once-off employer registration with the Australian Tax Office is a light-touch regulation that will add integrity to the WHM Programme, protect the reputation of industries utilising WHM labour and prevent the exploitation of vulnerable workers.

3.2 Measures to increase WHM flexibility and WHM supply

Overall, TAA and AHA believe the balance of the package will favour the tourism and hospitality industries. The benefits of the new arrangements will boost WHM visitation, increase industry productivity and grow the sectors' economic outputs. After years of advocacy on the need to make the WHM programme more flexible and internationally competitive, we welcome the Government's proposals in this regard, which go part of the way to improving competitiveness.

3.2.1 Visa Cost

Australia's working holiday maker visa fee is currently \$440. The Government has proposed to reduce the fee to \$390 to make it more internationally competitive. We support this reduction as Australia is currently uncompetitive in the level of its WHM visa fee.

With a visa fee of NZD208 (23 months' validity), New Zealand has the lowest cost of entry for working holiday makers. Canada's visa entry fee is CAD250 (24 months), the United Kingdom's visa entry fee is GBP230 (24 months). When comparing the cost of entry in USD, the cost of the New Zealand working holiday visa (USD150.36) is less than half the cost of the Australian working holiday visa (USD334.07) for nearly double the validity length.

From FY2012/13 to FY2014/15, Australia's visa fee increased 50% from \$280 to \$420. Over this same period, the number of working holiday visas granted fell 12.2% from 258,248 to 226,812.

3.2.2 Maximum Age Increase

In the New Zealand and Canadian schemes, the maximum eligibility age of working holiday makers for applicants from selected countries is 35, not 30.

TAA and the AHA support the Government's proposal to increase the maximum age of working holiday makers to 35.

3.2.3 Twelve Months with One Employer

Work, Live and Age Eligibility Comparison of WHM Visas:

AUSTRALIA	462	Live and work for up to 12 months, but with a maximum of six months' work per employer.	Aged 18-30
	417	Live and work for up to 12 months, but with a maximum of six months' work per employer. If applicant has completed three months of specified work in regional/rural areas, they can apply for a second working holiday visa.	Aged 18-30
NEW ZEALAND		Live and work for up to 23 months. No restrictions on time period with one employer.	Aged 18-30, but a maximum age of 35 in a select few countries
CANADA		Live and work for up to either 12 or 24 months. No restrictions on time period with one employer.	Aged 18-30, but a maximum age of 35 in a select few countries
UNITED KINGDOM		Live and work for up to 24 months. No restrictions on time period with one employer	Aged 18-30

In Australia, working holiday makers can only stay with one employer for a maximum period of six months. Given the work entitlements in Canada, New Zealand and the United Kingdom, this restriction means that Australia is not internationally competitive.

However, there presently exists an exception for working holiday makers engaged through labour hire companies: WHMs can remain engaged by a labour hire company for a period in excess of six months, provided they are referred to a new business after a maximum period of six months. At a minimum, it is only logical that a commercial chain with operations throughout Australia be allowed a similar arrangement, so that working holiday makers could be employed with one employer for longer than six months provided they transfer business location.

TAA and AHA commend the Government for embracing this recommendation.

3.2.4 Global Advertising Campaign

Research undertaken by the Youth Hotels Association and Monash University indicates that at an income tax rate of 32.5, 54% of backpackers would no longer recommend Australia as a working holiday destination to their friends. Because of the ongoing uncertainty in key source markets about the working holiday maker taxation arrangements from January 1, 2017 and the perception that Australia is discouraging working holiday makers, we support the investment in an ongoing campaign to stimulate working holiday maker visitation.

Ultimately, achieving real growth in visitation requires a package of measures that improves both the affordability of the destination and the flexibility of work arrangements, and is seen to be internationally competitive.

3.3 PMC Increase

Having acknowledged our broad support for the overall WHM package, we would have preferred no change to the Passenger Movement Charge (PMC) and consultation on any proposed changes. The visitor economy already provides \$11 billion in taxes to the Government and there is a limit to our capacity to be further taxed.

We have appreciated the freezing of the PMC for the past 3 years. This freeze followed very substantial increases done without industry consultation in the Passenger Movement Charge by the previous government from \$38 to \$47 in 2008/09 (23.6%) and \$47.00 to \$55 in 2012/13 (17%).

Tourism is widely acknowledged as a key industry in the economic transformation of Australia and TAA and AHA would welcome a continuation of the government's freeze if fiscally possible.

4. Conclusion

The proposed 19% tax rate is a significant amelioration of the initially proposed 32.5% tax rate. Additionally, the Government's measures aimed at increasing WHM flexibility and WHM supply improve the international competitiveness of Australia's WHM programme.

In light of this, TAA and AHA make the following recommendations to this Senate Committee:

1. The Commonwealth Parliament should review the international competitiveness of Australia's Working Holiday Making Programme by January 1, 2018.
2. In the future, the tourism and hospitality industries should be adequately consulted prior to any legislative changes that affect either their ability to source labour or their international competitiveness.
3. That the Senate pass without delay the following legislation: *Income Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016*; *Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016*; and *Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2016*.