

KPMG submission to the  
Senate Economics Legislation Committee  
Tax Rates Amendment  
(Working Holiday Maker Reform) Bill  
2016 and related Bills

20 October 2016

# Comments

1.1 Thank you for the opportunity to make a submission to the Senate Economics Legislation Committee in relation to *Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016* and related Bills.

1.2 The Bills propose to:

- define a working holiday maker as an individual that holds a Subclass 417 (Working Holiday) visa, Subclass 462 (Work and Holiday) visa, or certain other bridging visas. Working holiday taxable income is also defined by reference to this definition;
- from 1 January 2017, to apply a 19 per cent income tax rate to working holiday maker taxable income derived from Australian sources on amounts up to \$37,000, with ordinary marginal tax rates applying to taxable income exceeding this amount;
- require employers of working holiday makers to register with the Commissioner of Taxation (Commissioner), allowing such employers to withhold tax;
- from 1 July 2017, to increase the rate of the departing Australia superannuation payments tax to 95 per cent for certain payments working holiday makers;
- allow the Commissioner to disclose certain information to the Fair Work Ombudsman to help protect working holiday makers from unfair employment arrangements;
- require the Commissioner to give the Treasurer, for presentation to the Parliament, certain statistical information; and
- from 1 July 2017, to reduce Subclass 417 and 462 visa application charges from \$440 to \$390 but increase the passenger movement charge from \$55 to \$60.

1.3 From a tax perspective, KPMG considers that:

- retaining the current legislation regime will perpetuate the uncertainty over the current residency test and the associated tax compliance risks;
- classifying all working holiday makers as residents and thus entitled to a tax-free threshold would be overly generous and wrong based on general tax principles;
- on the other hand, a 32.5 per cent tax rate up to \$87,000 appears somewhat draconian and not internationally competitive;

- the proposed compromise of a 19 per cent rate up to \$37,000 is considered a reasonable compromise; and
- linking the tax treatment to certain types of visa seems administratively attractive and simple.

1.4 From the view of the visa system as a whole, KPMG would note:

- the significant contribution that working holiday visa entrants make to the economy;
- raising the age limit from under 31 years to under 35 years would increase the pool of individuals eligible to apply for the working holiday makers visa; and
- from 1 January 2017, working holiday makers will be allowed to work for the same employer for up to 12 months (from 6 months currently) on the proviso that the second 6 months is worked in a different location. This affords greater flexibility for the working holiday makers visa holder and bodes well for employers with multiple sites/offices in various locations.

1.5 Accordingly, KPMG, supports the Government's compromise position in these Bills.

1.6 KPMG would like to take this opportunity to ask the Australian Parliament to consider a review of the entire Visa system. This is clearly beyond the terms of reference of this inquiry. We do however believe that a root and branch review of the rules surrounding the visa system would give rise to long term economic benefits. If the Senate Economics Reference Committee would like us to make a submission on this point, we would be pleased to do so.