

7 September 2016

The Hon. Luke Hartsuyker MP
Assistant Minister to the Deputy Prime Minister

Via online portal: agriculture.gov.au/workingholidaymaker

Dear Minister

Re: Working Holiday Maker Visa Review

I write to make a submission on behalf of the Tourism & Transport Forum Australia (TTF) to the Government's review of the budget decision to no longer consider working holiday makers as residents for tax purposes which would apply a new 32.5 per cent tax rate on every single dollar they earn. TTF commends the Government for reconsidering this decision which will be highly damaging to Australian tourism.

TTF is the peak national body for the tourism, transport and aviation sectors across Australia. We are a CEO forum representing some of the leading institutions and corporations in the Australian visitor economy.

Background and Summary

In the 2015/2016 Budget the Federal Government announced that it would remove the option for working holiday makers (WHMs) to be treated as Australian residents for personal income tax purposes, effective 1 July 2016. This removes the WHMs access to the tax-free threshold, installing a marginal rate of 32.5 per cent from the first dollar earned. This decision has been paused for review of the impacts upon the tourism and agricultural sectors. In simple terms, if implemented from 1 January 2017, a working holiday maker earning an average \$21 per hour and paying 32.5 cents in tax from the first dollar they earn, will only have \$14 left for accommodation, food and transport with no capacity to save to further their travels around Australia and no incentive to work.

The Treasury indicated that the new tax was expected to generate \$540m in revenue across 2016/17 (\$100m), 2017/18 (\$220m) and 2018/19 (\$220m)¹. Treasury analysis assumed that the new tax arrangements would not have a significant dampener effect on WHM visa applications. This assumption was made despite WHM visa grants having fallen by 12 per cent over the past two years in response to continued WHM visa fee increases. The cost of a WHM visa has more than doubled in the past five years and stands at \$440.

This submission will address the impact of the proposed increased taxation on working holiday makers, why it must be rescinded, and proposes some alternative solutions based upon encouraging additional WHM visits.

¹ 2015/16 Federal Budget Papers, *Budget Paper No. 2 Revenue Measures*

What does industry want?

TTF encourages the Government to:

- **Scrap** the WHM tax that had been scheduled to commence on 1 January 2017;
- **Undertake** an urgent marketing and promotional campaign, funded by **additional** government resources, to **restore** confidence in Australia as an attractive and competitive destination for WHMs;
- **Promote** the WHM visa more extensively within existing participating countries;
- **Encourage** tourism development in Australia, as identified in the nationally agreed Tourism 2020 strategy;
- **Support** domestic regional economies by enabling expansion in availability of WHM workers and their resultant local expenditure; and
- **Establish** consistency, equity and clarity in treatment of visa holders.

The Australian tourism industry

Tourism is a super growth engine driving innovation and job creation. Australia’s visitor economy – the web of activities that encompasses travel and tourism – supports the jobs of almost one million people and contributes more than 5.5 per cent of Australia’s GDP.² Tourism is one of our future economy industries that has the potential to collectively add hundreds of billions of dollars to the Australian economy over the next 20 years.³

International visitors to Australia have continued to grow, as the following table shows:

Table 1: International Visitors to Australia, year ending June 2016⁴

Visitors	7.2 million	10% increase (year on year)
Nights	248 million	5% increase (year on year)
Expenditure	\$38.1 billion	14% increase (year on year)

Tourism has the capacity to fill the jobs vacuum left by declining mining investment and the perennial slowdown in manufacturing and generate hundreds of millions of dollars in taxation revenue. Like other future economy industries such as agribusiness, funds management, international education and technology-based services, tourism is well-positioned to take advantage of the incredible growth in demand from Asia’s burgeoning middle-to-upper class.

Strong growth in emerging countries like China and a return to better economic fortunes in Europe and North America following the global financial crisis have all contributed to a greater number of international travellers and a corresponding increase in visitor expenditure. The United Nations World Tourism Organisation (UNWTO) estimated that there were some 1.2 billion international tourists travelling globally in 2015.⁵ This represented an increase of more than 50 million travellers - twice the size of the Australian population - compared to the same period in 2014.

² Australian Bureau of Statistics (2014) Tourism Satellite Account 2013-14 and Tourism Research Australia (2015) State Tourism Satellite Accounts 2013-14

³ Deloitte (2013) Positioning for prosperity? Catching the next wave

⁴ Tourism Research Australia (June 2016) International visitors in Australia

⁵ United Nations World Tourism Organisation (UNWTO) (2015) UNWTO Tourism Barometer, vol. 14

Australia is well-positioned to take advantage of the enormous demand coming from the Asia Pacific region. With our relative proximity to key markets, favourable time zones and growing aviation and cruise ship access, Australia should be aiming to take a more competitive share of outbound travel occurring in our region and beyond.

For example, recent research underlined the value of improved engagement with Chinese tourism, highlighting that an initial positive tourism experience has the potential to develop into deeper economic engagement worth many billions of investment dollars, resulting from activities ranging from repeat visits, tertiary education, real estate or business investment, preference for Australian goods in China, right up to permanent migration⁶.

Australia should not jeopardise the tangible economic, social and cultural benefits from expansion of our tourism industry by introduction of damaging and counter-productive barriers to our international competitiveness, such as the proposed WHM tax. The reputational damage and impact on regional economies from removal of flexible, willing and proficient labour resources from young tourists eager to experience Australia beyond the major metropolitan centres will be significant and on-going. This impact will be compounded by the removal of the visitor expenditure by these young tourists from the local economies.

Value and importance of working holiday makers to the economy

Objectives and operation of the WHM program

The WHM programme's purpose is to foster closer ties and cultural exchanges between Australia and partner countries, with particular emphasis on young adults. It has been in existence since 1975. While initially limited to a small number of Commonwealth countries, it has grown to encompass 38 partner nations and regions across the globe. Of these 38 partner countries, 19 are subject to caps on the number of visas granted annually and additional eligibility requirements, as indicated in Table 2⁷. Experience to date is that these caps are filled very quickly. The Department of Immigration and Border Protection noted that "the annual visa grant limits had been met for a number of countries only halfway into the 2015-2016 programme year"⁸.

Table 2: Australia's WHM visa caps

Country	Cap	Country	Cap	Country	Cap
Thailand	500	Argentina	700	Slovak Republic	200
Chile	1500	Uruguay	200	Slovenia	200
Turkey	100	Poland	200	Papua New Guinea*	100
Malaysia	100	Portugal	200	Greece*	500
Indonesia	1000	Spain	500	Israel*	500
Bangladesh	100	China	5000	Vietnam*	200

*Not yet in effect as at 31 December 2015

Inherently, there appear to be opportunities to increase country coverage and existing patronage of the programme, if policy settings and frameworks make it attractive to target destinations.

⁶ L.E.K. (2016) The broader potential economic impact of Chinese tourism for Australia

⁷ Department of Immigration and Border Protection, Working Holiday Maker visa programme report, 31 December 2015

⁸ *ibid*

Notably Work and Holiday visa arrangements between Australia and China commenced on 21 September 2015⁹. If appropriately enhanced and encouraged, China alone has potential to produce significant expansion and benefit to Australia from increasing WHM arrivals.

WHMs are generally flexible and geographically mobile, willing to work in a range of low skilled/low paid/short term jobs including in regional and remote areas as they seek memorable experiences. Around 40 per cent of WHMs may work in regional locations, providing a valuable labour resource to local industries, predominantly agriculture and tourism/hospitality based. They also contribute towards macroeconomic demand for labour and the current account surplus to the extent that they spend more money domestically than they earn in Australia¹⁰.

Table 3: Backpacker visitation statistics

	2010-11	2011-12	2012-13	2013-14	2014-15
Visa Cost	\$270	\$295	\$365	\$420	\$440
Visas granted	192,922	222,992	258,248	239,592	226,812
Visa fees paid	\$52,088,940	\$65,782,640	\$94,260,520	\$100,628,640	\$99,797,280

Restrictions on current WHM program

Current visa arrangements identify WHMs as aged between 18-30 years of age at the time of application and enable them to work for the full duration of their 12 month stay in Australia, but they cannot generally remain with any one employer for longer than six months. WHMs may be eligible for an extension of the six month work limitation in eligible industries in Northern Australia including tourism and hospitality.

These restrictions potentially limit the productive expansion of this programme. By comparison, the New Zealand and Canadian schemes allow some nationalities to enter until they turn 35 years of age¹¹.

Economic value

In 2014-15, there were 226,812 working holiday maker visas granted to participants, a reduction of over 30,000 (around 12 per cent) from their peak in 2012-13.

Recent statistics on WHM visa applications lodged for the final six months of 2015 indicate an on-going reduction in applications both granted and lodged for future travel¹². WHMs paid almost \$100m in visa fees in 2014-15.

The already perceptible reduction in WHM visits to Australia stands in marked contrast to the increase in international visitation to Australia, where international visitor numbers to Australia surged by ten per cent in the year to June 2016, fuelled in part by growth in the Chinese market, low fuel prices and favourable currency differentials. Total visitations from China exceeded 1 million, growing by 22 per cent year on year¹³.

⁹ ibid

¹⁰ See Tan et al. (2009), *Evaluation of Australia's Working Holiday Maker (WHM) Program*

¹¹ O'Riordan, G (2016), Recommendations to grow the Australian working holiday maker scheme

¹² Department of Immigration and Border Protection, op. cit.

¹³ Deloitte (2016), *Tourism and Hotel Market Outlook: executive summary*

Australia needs to continue to build upon its success as an international travel destination across all tourism sectors to maximise the economic benefits across the economy. The country should not risk potential adverse impacts upon Australia's overall tourism potential by undermining the WHM sector, but rather enable the young travel sector to build and reinforce future growth in overall tourism marketing.

The economic contribution by WHMs is significant across the Australian economy. A 2012 study prepared by the Australian Tourism Export Council (ATEC) found that working holiday makers stay an average of eight months and spend \$13,000 each during their stay¹⁴.

Working holiday makers are particularly valuable as visitors, since the visa conditions stipulate a minimum savings level, which is invariably spent in Australia, together with any earnings from work over the course of their stay. This helps to support local economies and jobs, as many backpackers travel around the nation during their holiday.

Gains in gross domestic product (GDP) from the working holiday maker schemes are conservatively estimated at \$85 million or up to \$700 million over 10 years¹⁵. This makes backpackers not only valuable as workers, but also as substantial contributors to the Australian economy.

In addition to their contribution as WHMs in Australia, past survey data indicates that 95 per cent of WHMs would have been likely to recommend the WHM to their friends and nearly 74 per cent reported that they intended to revisit Australia in the next five years¹⁶.

Policies which place this valuable contribution at significant risk are detrimental to the future of an important segment of Australia's tourist market and to the resilience and health of rural and regional communities throughout Australia.

Tourism labour statistics

The tourism industry is currently facing labour and skills shortages, especially in regional and remote locations, and research indicates that these shortages will only increase into the future.

Half of Australia's tourism businesses experience recruitment difficulties, with a vacancy rate of seven per cent and turnover rate of 66 per cent. The industry is currently facing a shortage of 38,000 workers and this shortage is forecast to increase almost fourfold by 2020 to 123,000 workers. Of this shortage, the majority will be for unskilled or low-skilled jobs, particularly kitchenhands, waiters, bar attendants and baristas, cooks, café workers and maintenance staff¹⁷.

Addressing labour and skills issues requires a multifaceted approach. While the vast majority of workers in the tourism industry are domestic (90%)¹⁸ and the tourism industry will continue to employ Australians first, this is not always possible. The tourism industry therefore relies

¹⁴ Australian Tourism Export Council (2012) The Importance of the Working Holiday Visa (Subclass 417)

¹⁵ *ibid*

¹⁶ Tan et al, *op. cit.*

¹⁷ Deloitte Access Economics (2015), *Australian Tourism Labour Force Report: 2015-2020*.

¹⁸ *ibid*

on alternative labour streams such as mature age, youth and overseas workers. The Government should play a significant role in assisting businesses to better access overseas workers through the implementation of streamlined, competitive and efficient visa programs.

Backpackers, or visitors on Working Holiday or Work and Holiday visas, are an important part of the workforce mix for the tourism and hospitality sectors, especially in regional and remote destinations. The importance of regional dispersal cannot be underestimated. With around 46 per cent of tourism expenditure in Australia spent in regional areas¹⁹ (which would be around \$50 billion in 2014-15²⁰) tourism is of considerable importance to many of Australia’s regional communities, and therefore any Government reforms that negatively impact on visitors exponentially impact regional and remote operators and economies.

Comparison with international competitors

The table below provides worked examples of outcomes for WHMs under current policy, proposed Government policy, and if the current New Zealand, Canadian and United Kingdom tax laws were applied in the Australian context.

Table 4: Federal income tax paid by WHMs

Income (\$AUD)	Australia: currently	Australia: Proposed backpacker tax (32.5%)	New Zealand: currently (10.5%)	Canada: currently (15%)	United Kingdom: currently (20%)
7,000	0	2,275	735	1,050	1,400
14,000	0	4,550	1,470	2,100	2,800
21,000	532	6,825	2,695	3,150	3,150

The current tax position provides Australia with a significant and successful competitive advantage in the international market, which effectively off-sets relative cost and distance to travel and provides an advantage against New Zealand as our closest competitor.

It is important to retain competitiveness with other nations and to have a consistency of responses across visa categories, ensuring that each is recognised for the value it provides. The WHM visa provides both a cultural exchange benefit and a contribution to both the workforce and expenditure, particularly in regional and remote areas.

¹⁹ Tourism Australia (2011), *Tourism 2020 Overview*

²⁰ Tourism Research Australia (2015), *State of the industry 2015*

TTF Analysis of impacts

Treasury analysis

TTF has attempted to understand the derivation of Treasury projections for revenue from the new tax impost to be applied to WHMs, also taking into account Treasury’s projected national wages growth of 2.75 per cent.

Treasury modelling estimates that in 2016/17 the new ‘backpacker’ tax will raise \$100 million, rising to \$220 million in 2017/18 & 2018/19. The tax is not scheduled to be implemented until 1 January 2017, hence would only apply to wages earned from that date (i.e. the last 6 months of 2016/17). Treasury has not provided details on how they arrived at these numbers, beyond advice that the estimates were grown in line with the historical average annual growth rate for the number of WHMs entering Australia to generate data for the forward estimates ²¹. Taking the \$100 million as a ‘given’, Treasury’s forecasts imply that there will be a 10 per cent increase in tax collected between 2016/17 and 2017/18 and then no increase in the following year. Based on Treasury’s wage growth forecast of 2.75 per cent for 2017/18, this implies a 7.25 per cent increase in WHM arrivals.

These projections around the growth in working holiday numbers are inconsistent with the decline in the past two years in the number of people coming to Australia on working holiday visas and the decline in the number of applications for working holiday visas, noted above. They are also inconsistent with the results of a survey of current working holiday-makers conducted by Monash University (‘the survey’) in Cairns and Melbourne²². The survey found that around 60 per cent of backpackers currently working in Australia would not have come here if they had to pay the ‘backpacker tax’; 60 per cent of backpackers would consider New Zealand as an alternative WHM experience; and 60-70 percent would spend less time travelling in Australia and spend less money on tours.

In other words, on the basis of advice from WHMs surveyed, instead of the 7.25 per cent increase in working holiday maker numbers that Treasury is forecasting – in reality there could be up to a 60 per cent decline in the number of people available to pay the WHM tax plus associated reductions in WHM expenditures throughout Australia.

The implications for WHM tax revenue flows from the survey data, and the trends in visa issuance and take-up, are that even if Treasury’s figure of \$100 million for the six months from January 2017 to June 2017 is accepted as accurate, achieving the \$220 million forecasts for the following two financial years is unattainable because of the impact of the new tax and the previous visa fee increases on visitor numbers.

Table 5: Potential impact on Treasury revenue projections by WHM tax

Period	Treasury projection	TTF calculation based upon survey results
1H 2017	\$100m	\$100m
2017-18	\$220m	\$82.2 m*
2018-19	\$220m	\$82.2 m*

*based on 60 per cent decline in WHMs plus 2.75 per cent wage increase

²¹ Treasury answer to Question on Notice for Budget Estimates to Senate Economics Legislation Committee

²² Jarvis, Dr Jeff (2016), Summary of Monash University Research into working holiday makers (WHMs) May-June 2016

Impact upon WHM visa fees

In addition to the tax revenue impacts, a 60 per cent decline in the number of WHV applications will further hurt the budget bottom line due to the loss of the \$440 fee that each applicant is currently charged.

In 2014/15 there were 226,812 WHV issued at \$440 each which would have raised \$99.8 million. Data for 2015/16 is not yet available, but using the average change in visas granted of the past two years (i.e. a 6.7 per cent annual decline) TTF has developed a credible estimate that around 211,592 visas would be granted in 2015/16, raising revenue of \$93.1 million.

The survey indicates that if visa applications fall by 60 per cent when the tax is introduced from 1 January 2017, then in 2016/17 visa applications could significantly decline and revenue from working holiday visa applications could fall to around just \$62 million.

Summary of impact

In short, even taking initial Treasury modelling as accurate (i.e. \$100 million in 6 months to June 2017) the subsequent estimates for the out-years have failed to take into account the impact that levying this new tax will have on the decision of young people to come to Australia for a working holiday.

The survey shows that this impact is likely to be significant and that the revenue the Government is expecting to realise from this new tax will fail to be delivered, despite the huge cost to Australia's agricultural and tourism sectors, regional towns and the overall international reputation of Australia.

Treasury's proposition, as implied in their forecasts, that an activity where participation has declined on average by 12 per cent over the past two years will suddenly increase by 7.25 per cent when a 32.5 per cent tax is placed on that activity defies basic economics, not to mention common sense. The impact of putting a tax on an activity is to discourage that activity. Putting such a large tax on an activity will not reverse a declining trend and promote participation in the activity.

Treasury's forecasts are underpinned by a surge in working holiday arrivals that defies logic and will clearly fail to materialise. As a result, any discussion about 'revenue neutral' solutions needs to have as its starting point realistic revenue forecasts. That is, alternatives need to look at options that will raise **around** \$80 million a year, not \$220 million as put forward by Treasury.

TTF is sympathetic to the Treasury's commitment to resolving on-going budget challenges but considers that the analysis above indicates that the current tax under consideration is likely to have a negative impact upon the overall economy, rather than make a positive contribution to the overall budget position. TTF considers that the Government needs to focus upon encouraging and enhancing tourism for Australia, to enable the country overall to benefit from the increased expenditure from tourist visitations.

The current success that Australia is achieving in attracting tourists overall should encompass making the WHM programme more attractive and further enhance the contribution that this programme can make to Australia's future.

Rather than imposing a tax to discourage WHM arrivals in Australia, the Government should revise the programme to make Australia a more attractive destination and hence expand the potential contribution made by WHMs to the Australian economy, especially in regional and remote areas.

This could be achieved by initiatives such as:

1. Raising the minimum period a WHM can stay with one employer from six to 12 months;
2. Raising the age limit for WHM visas from 31 to 35;
3. Allowing tourism as an eligible regional occupation for a second year visa (as announced for Northern Australia);
4. Expand the WHM programme to more countries;
5. Raise the caps available to source nations;
6. Simplify the visa application and assessment processes;
7. Allow multiple visa applications by individuals (so they could reapply whilst still 'in country' on an existing WHM visa); and
8. Promote the WHM more extensively in existing participating countries.

Where to from here?

TTF considers that expansion of tourism is likely to make a more sustainable and positive contribution across the Australian economy into the future than a short term 'tax grab'.

TTF encourages the Government to:

- **Scrap** the WHM tax that had been scheduled to commence on 1 January 2017;
- **Undertake** an urgent marketing and promotional campaign, funded by **additional** government resources, to **restore** confidence in Australia as an attractive and competitive destination for WHMs;
- **Promote** the WHM visa more extensively within existing participating countries;
- **Encourage** tourism development in Australia, as identified in the nationally agreed Tourism 2020 strategy;
- **Support** domestic regional economies by enabling expansion in availability of WHM workers and their resultant local expenditure; and
- **Establish** consistency, equity and clarity in treatment of visa holders.

Should you have any questions or wish to discuss this submission in further detail, we remain available at your convenience.

Kind regards

Margy Osmond
Chief Executive Officer