



YHA AUSTRALIA

3 November 2016

Dear Senator,

**Senate Economics Legislation Committee Inquiry
into the Working Holiday Maker Reform bills package**

I was pleased to recently appear before the above inquiry into the Working Holiday Maker Reform bills package, at the public hearing held in Launceston on 2 November.

Below are my opening remarks on the key issues around the so-called 'backpacker tax', as well as suggestions on how to grow the number of Working Holiday Makers coming to Australia.

Opening remarks - Inquiry into the Working Holiday Maker reform package:

Thank you for the opportunity to appear before the Committee today.

The Senate previously conducted an inquiry into the Working Holiday program 20 years ago through its Joint Standing Committee on Migration lead by Senators Christine Gallus and Jim McKiernan. I had the opportunity to appear on that occasion as well. The report entitled *Working Holiday Makers: More than Tourists* found strongly in favour of the benefits of the scheme and subsequently the scheme was expanded to more partner countries, and restrictions were relaxed.

I have also previously taken working holiday makers to Canberra to meet with Parliamentarians who were very interested in where they had been, what types of work they had done and their experiences in Australia. I have found over the years that many Parliamentarians have had children of similar age taking working holidays overseas and so they can more easily relate to the benefits of the program. One of its great strengths is that it is a reciprocal program which provides opportunity to young outbound Australians. In turn we want to ensure that working holiday makers here are treated as we would like our own children to be in other countries.

The YHA is a not for profit organisation whose mission revolves around education and personal development through travel. That is why we have been long-term champions of the scheme. Overall we can say that the scheme has been very successful and has directly impacted many, many lives.

With regard to our submission we support many of the initiatives proposed with the following two caveats.

If there is to be a simple flat rate of tax then it needs to be set at a level which incentivises working and earning and so paying tax, which reduces the incentive for cash in hand and which compensates for the removal of superannuation. We believe that rate is not more than 15%. This will keep the scheme competitive (they don't have to come here or work when they do) and is also close to the effective tax rate paid by a young single Australian on a typical modest adult wage of \$45,000, working a full year

and enjoying the full tax free threshold. It is also the rate applicable in the Seasonal Worker Program. It will provide a strong tax return to Government through the higher level of activity this setting will produce. It will also help provide agriculture with the labour it needs.

Secondly, the 462 visas applicable to countries which have joined the scheme in more recent years have, with the exception of the US and China, very low annual caps. Due to the caps there is pent up demand not being met and opportunity to increase visitation. We propose these be lifted by an aggregate of 20,000 per annum and that DFAT and the Department of Immigration and Border Control be tasked with increasing the caps, subject to review, country by country, that participants are meeting all the usual obligations of the program.

We support the reduction of the visa fee from \$440 to \$390. The sudden 50% increase in the fee in 2013 from \$280 to \$420 and the further \$20 increase in 2015 has been in our view a significant factor in the contraction of the program and contributed to the growth in numbers taking working holidays in New Zealand over the same period.

Finally, we support the proposed increase in the age limit from 30 to 35. This will bring more working holiday makers with greater disposable income and will be good for tourism.

Additional Notes

Also, below are additional notes that may assist with your decision making on this issue of vital importance to Australia's agricultural and tourism industries:

- A single adult in Australia on the minimum wage of \$35,000 and working for a full tax year pays \$3,447 tax. They benefit from the tax-free threshold and pay an effective overall tax rate of 9.8% on the whole of their income.
- A person earning \$10,000 more i.e. \$45,000 pays \$6,747 tax at an effective overall rate of 15%.
- A person earning \$20,000 more i.e. \$55,000 pays \$10,347 tax at an effective overall rate of 18.8%.
- Working Holiday Makers are almost all low-income earners and will, if the measures go through, gain no benefit from superannuation. They ought not to be taxed at the rate of someone earning \$55,000 per annum.
- A tax rate equivalent to a single Australian on \$45,000 – that is 15% - is much better and through being strongly supported will return tax revenue required through greater participation in legitimate and above-board taxable earnings.

I would be pleased to elaborate further if required, and can be contacted at the details above.

Yours faithfully,

Julian Ledger
CEO - YHA Australia