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21 October 2016

Senate Standing Committee on Economics
PO Box 2610
Parliament House
ACT 2600

By email: economics.sen@aph.gov.au

Re: Inquiry into Working Holiday Maker Reform Package

Dear Sir/Madam

The Tourism and Transport Forum (TTF) greatly appreciates the opportunity to make a submission to the Senate Inquiry into the Working Holiday Maker (WHM) Reform Package. TTF is seriously concerned that issues significantly impacting upon our industry have been progressing rapidly without meaningful engagement with us.

TTF agrees that resolution of the WHM reform package is urgently required. However, in putting forward its proposed resolution to this issue, the Government has again made major policy changes without consultation, and the tourism industry is now faced with the conundrum that the proposed resolution of one major problem will result in creation of another.

This submission presents TTF's view on how to satisfactorily resolve this issue.

Background

In the 2015-16 federal budget the Government announced a 32.5 per cent tax on working holiday makers (WHM), without consultation with affected parties, to raise an arbitrary budget contribution set at $220 million per annum. Industry notes that this followed decisions on the taxation status of WHMs by the Administrative Appeals Tribunal[1]

After shocked responses by the tourism and agricultural industries, and working holiday makers themselves, the Government conceded to delay introduction of the 'backpacker tax' and to undertake a review to gain an understanding of the actual impact of the new tax.

TTF welcomed the opportunity to make a submission to the Government in stakeholder consultation coordinated by Deloitte on the impact of the Government's proposal to apply a 32.5 per cent tax upon working holiday makers (WHMs).

Along with many others, TTF responded with detailed information for consideration by Government and other parties on why this tax impost would adversely affect the tourism industry, especially in regional areas.

The tourism industry, along with the agricultural sector and many individual operators, sought urgent correction of the proposed taxation upon WHMs. A copy of this submission is attached for your information.

As noted in the report by Deloitte, the review revealed clearly the devastating impact of the proposed backpacker tax: on Australia's ability to attract WHMs (17 per cent reduction already since 2012-13 due to increases in visa charges and taxes); on agricultural and tourism operations reliant upon WHMs for their labour especially in remote areas or for seasonal activities (such as fruit and vegetable picking or seasonal tourism peaks); and also on WHM expenditure, especially into regional economies.

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[1] Australian Parliament House of Representatives (2016), Income Tax Amendment (Working Holiday Maker Reform) Bill 2016: Explanatory Memorandum, p. 42

Table 1: WHM visa fees, visas granted and total fees paid 2010/11 to 2015/16

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Visa Cost	$270	$295	$365	$420	$440	$440
Visas granted	192,922	222,992	258,248	239,592	226,812	214,583
Visa fees paid	$52,088,940	$65,782,640	$94,260,520	$100,628,640	$99,797,280	94,416,520

The timing of this imposition has been extremely adverse to spring/summer 2016-17 peak season preparations, leaving many industry operations unable to attract essential peak labour. This is widely evident in the more than 1700 submissions to the Government's WHM tax review process. Industries sought urgent resolution of this problem.

Proposed Government Response

On 27 September 2016, the Government proposed a package of responses to address the problem it created. The proposed Working Holiday Maker Reform package, recently introduced into Parliament, is composed of:

- Income Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016
- Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016
- Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2016
- Passenger Movement Charge Amendment Bill 2016

The tourism industry was pleased to note recognition by the Government of the urgent need for additional funds ($10M) for a promotional campaign by Tourism Australia to undo the damage already visible to confidence of Working Holiday Makers in visiting Australia.

However, once again this package was developed without industry consultation, with the Treasurer stating that the package is expected to '**wash its face'** (ie generate sufficient funds to replace the proposed cash grab of $220 million per annum from WHMs).

The tourism industry encourages Members and Senators to support the three legislative changes to enable the WHM problem to be resolved quickly. However, the industry is **OPPOSED** to the inclusion of the Passenger Movement Charge (PMC) changes. Our reasons are spelt out below.

The Problem

The Government has replaced its high arbitrary tax on WHM with a lower tax (19%), confiscation of WHM superannuation payments (95 per cent of WHM superannuation earnings to go to Government); and an increase from $55 to $60 of its Passenger Movement Charge on all travellers over the age of 12 departing Australia by air or sea.

All international visitors and departing Australian residents would be liable to pay the increased PMC, again a decision made by the Government without consultation with the tourism industry over the impact of this impost. A family of four, for example, would pay a holiday tax of $240 for the privilege of leaving Australia on top of their air or cruise tickets or holiday expenses.

The Treasurer said the proposed $5 increase to the Passenger Movement Charge (PMC) was needed to pay for services including e-gates, a counter terrorism unit and improved passenger facilitation.

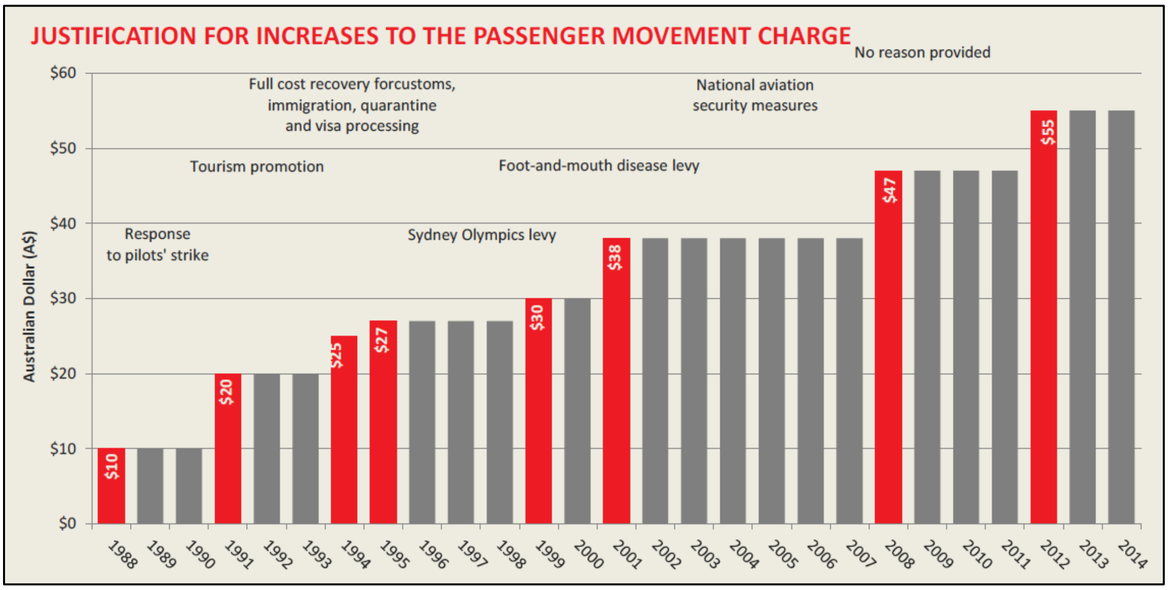
In fact, the PMC at its current high rate of $55 per passenger has, over the past five years, contributed more than $2 billion, and will contribute an additional $3 billion over the forward estimates.

The Passenger Movement Charge

The PMC – Passenger Movement Charge – was introduced in 1995 replacing the departure tax to recover the cost of customs, immigration and quarantine processing of travellers and to fully 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 the member countries of the Organisation for Economic Cooperation and Development (OECD), after the United Kingdom's Air Passenger Duty (APD).

Figure 1: the History of the Passenger Movement Charge



However unlike the APD, the PMC is not distance-tiered, making it the highest in the developed world for journeys under 3,220 km. For example, a passenger flying from London to Istanbul – about 2,500 km – would pay around $22 in tax under the APD, whereas a passenger on a comparable journey from Sydney to Auckland (2,200 km) currently pays $55 and in future would pay $60.

This means the PMC has a greater impact on those travelling from Australia to nearby destinations including New Zealand and South-East Asia.

The International Air Transport Association (IATA), the peak representative body of the airline industry, says Australia's PMC currently represents over nine per cent of an average return fare between Australia and New Zealand, and five per cent on routes between Australia and Asia.

The impact is even greater on heavily discounted fares, with some one-way tickets on trans-Tasman routes as low as $130 at certain times of the year. The current PMC of $55 comprises 42 per cent of such a fare, and the proposed PMC of $60 would represent 46 per cent.

Modelling by 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 per cent estimated to generate a decline of five to seven per cent in the number of leisure passengers travelling globally.[2]

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

Tourism-dependent destinations such as those in Northern Australia are within short-haul aircraft range of many Asian cities. Yet despite their proximity to South-East Asia, the rate of the PMC is a significant barrier to attracting new international passenger services as every additional dollar is highly noticeable when added to low-cost, short-to-medium haul flights within the region.

Add to the PMC the high visa costs and complicated visa processes applied to visitors from our key Asian markets, and Australia becomes less attractive compared to other destinations.

Global comparison of the PMC

While Australia continues to hold onto its PMC, many countries are moving away from departure taxes, as the impact on tourism is becoming more widely understood.

- **Malta:** Led the European movement away from taxing tourists, becoming the first country to repeal its departure tax in 2008.

- **Ireland:** Abolished its Air Travel Tax in 2014 after economic modelling showed losses to the economy of around €482 million. Ireland has had a number of new international air services introduced from the United Kingdom and long-haul routes following zero-rating of the tax.

- **Mexico:** Mexican legislators voted down an increase to their departure tax, mindful of the decrease in US travellers the move would provoke.[3]

- **Germany:** Germany's Parliament resisted calls to raise the country's departure tax, the Luftverkehrsabgabe, after Finance Ministry modelling showed it would cost the aviation industry over two million lost passengers through its 2.3 per cent increase in flight prices.[4] Immediately after the tax's introduction in 2011, low-cost carrier Ryanair closed over 400 services from its German bases at Hahn, Berlin, Weeze and Bremen.[5]

- **United Kingdom:** Announced that from 1 May 2015, its Air Passenger Duty (APD) would not apply for young children on flights that depart from the United Kingdom. The APD costs £13 for short-haul flights, covering all of Europe, plus Turkey and North Africa. It can be as much as £97 for longer journeys. While the abolition of the tax initially only applied to children under 12, from March 2016 it has been extended to all children under 16.

- **Netherlands**: Undertook the most comprehensive review of the market depression that departure taxes exert, particularly looking at the impact of its short-lived Air Passenger Tax, levied at €11.25 for European destinations and €45 for long-haul routes. For one year, Amsterdam Airport Schiphol recorded a net loss of approximately two million origin-destination passengers, leading the Dutch Government to repeal the tax. Although half of the two million chose to fly from airports in neighbouring countries, the rest opted not to travel.[6] Following its removal, air transport grew rapidly, with Schiphol Airport recording record passenger figures in 2011 of almost 50 million. In total, despite the effects of the GFC, air passenger figures rose from 22.8 million in 2010 to 25 million in 2011.

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[3] J. A. Román, "Reprueba sector aéreo posible aumento al DNI," La Jornada, 5 October 2011
[4] Bundesministerium der Finanzen, "Monatsbericht - die Luftverkehrsabgabe," Die deutsche Bundesregierung, Berlin, 2011
[5] H. Gordijn, "One year later: The German Ticket Tax," Aerlines Magazine, 26 March 2012
[6] H. Gordijn and J. Kolkman, "Effecten van de vliegbelasting – Gedragsreacties van reizigers, luchtvaartmaatschappijen en luchthavens / Effects of the Air Passenger Tax – Behavioral responses of passengers, airlines and airports," Ministerie van Infrastructuur en Milieu, The Hague, 2011

Within a competitive tourism environment, governments should be looking at policies that facilitate inbound and outbound travel; and further enhance the overall visitor experience. Travel taxes achieves just the opposite: it will have a real effect on travellers at the decision-making stage of a journey which will in turn impact the tourism and travel industries.

Increased competition from overseas and the sensitivity of travellers to travel taxes create a clear impetus for strong policy reform. Governments need to do more to capture the potential economic benefits that stem from international travel. Removing factors that inhibit demand (of which 'cost' is a significant component) to increased visitation should be a top priority.

Revenue from Australia's Passenger Movement Charge

The Australian Government's consolidated revenue already profits by over half a billion dollars per annum from the PMC. Critically, the 2016 Budget revealed that the revenue the Government collects from the PMC was forecasted to increase by 5% each year over the forward estimates. This is economic growth already contributing to greater tax revenue projections for Government.

The graphs below show the PMC charges scheduled to be levied in the forward estimates at $55 per passenger (Figure 2) and the full over-collection of the PMC to date, and including the additional charge proposed in the WHM reform package (Figure 3).

Figure 2: Forward Estimates projected PMC collection at $55

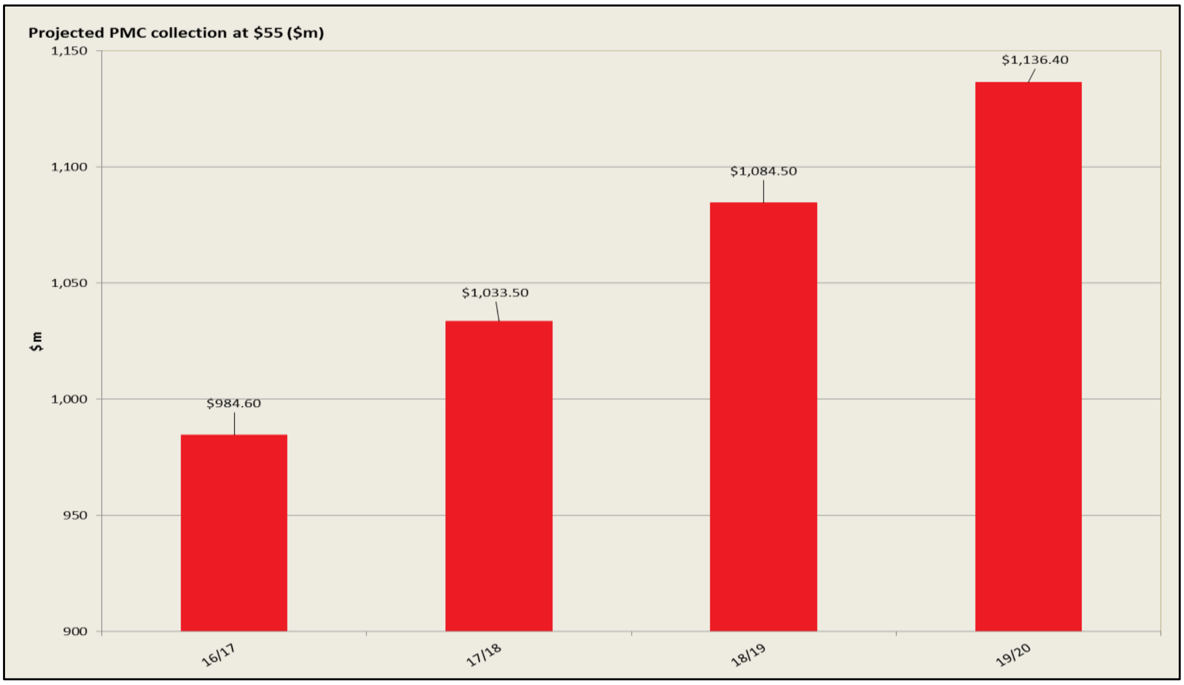
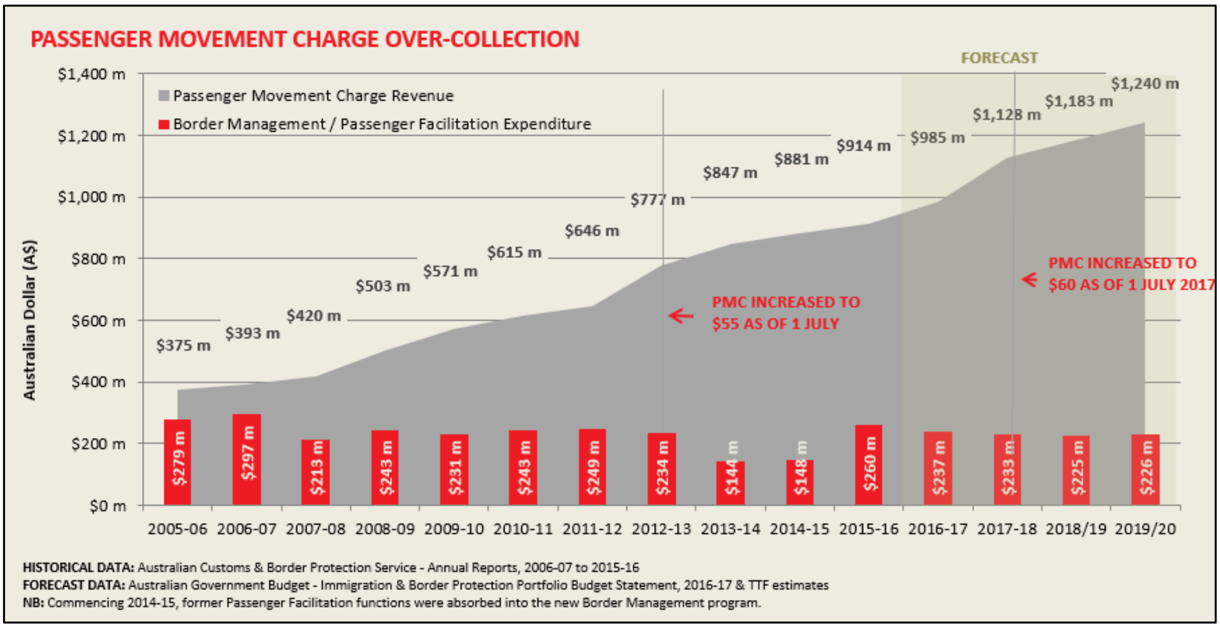


Figure 3: Passenger Movement Charge over-collection including increase to $60



Independent assessment by KPMG

To validate the assumptions used in this report to calculate potential revenue from the Government's revised package of reforms, TTF Australia engaged the respected independent consultancy KPMG.

The review by KPMG was based on data from the Department of Immigration that there were at least 100,000 foreign working holiday makers in Australia in 2015-16, and upon Treasury's calculations, which 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 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 per cent 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.

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."

TTF conclusion and recommendations

TTF recognises and acknowledges the urgency of resolving the WHM reform package in order to enable the tourism and agricultural industries and WHMs to make their plans for the coming months, confident that the WHMs will not be actively discouraged by imposition of a punitive tax on their earnings.

TTF notes that the proposed increase in the Passenger Movement Charge was scheduled to commence on 1 July 2017. Given the length of this delay, the industry considers that reviewing and comprehending any purported budgetary impacts of cancelling the PMC increase is not time critical for the passage of the WHM reform package.

However, the tourism industry equally contends that resolution of this specific issue by increasing the tax upon all passengers departing Australia will discourage and potentially deter the growth of tourism as one of Australia's super growth industries. For this reason, the tourism industry is vehemently opposed to an increase of the Passenger Movement Charge in the working holiday maker reform package.

The TTF recommends that the Senate Inquiry SUPPORT passage of the WHM reform package, but EXCLUDE any increase in the Passenger Movement Charge.

TTF urges the Committee to:

- VOTE NO on the Passenger Movement Charge Amendment Bill 2016;
- VOTE YES on Income Tax rates Amendment (Working Holiday Maker Reform) Reform Bill
- VOTE YES on Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016
- VOTE YES on Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2016

TTF further seeks that:

- 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, and;
- The Government engage in meaningful consultation with the tourism industry regarding any future proposed changes to its tax imposts on the industry.

TTF would welcome the opportunity to address the Inquiry to further discuss these important issues and we are available at your convenience.

Kind Regards

Margy Osmond
Chief Executive Officer