
To the House Standing Committee on Economics,

There has been a great deal of debate as to how best avoid future budget deficits by the Australian government. As a result, the department of treasury had included several austerity measures in their FY13 budget, including the removal of LAFHA benefits for 457 holders. This particular measure will cause overall harm to the Australian economy by increasing the costs of business activities in Australia. These costs will not only be paid by those holding a 457 visa, but by the shareholders of Australian companies and the average consumer. I believe the treasury's implication that the benefits of the anticipated tax revenue outweigh the aforementioned costs is unfounded and ultimately incorrect.

Since the early 1980's the liberalization of the Australian markets has produced an economic expansion that can be rivalled by few countries. It is a widely held belief that the Australian economy is viewed as a bastion of free, unregulated trade. Currently, Australia stands [3rd](#) in the Heritage Foundation's ranking of Economic Freedom; they note: "Australia's modern and competitive economy benefits from the country's strong commitment to open-market policies that facilitate global trade and investment". The "global trade and investment" includes the labour market, which has consisted of a great amount of talent that immigrated to Australia to pursue a new life here. A great portion of which often ends in permanent residency or citizenship. The expatriate's ability to collect LAFHA, in order to offset the costs of maintaining residence in their homeland as well as paying for services that are otherwise provided by the Australian government is a major factor in their decision to work here. To do away with LAFHA is to effectively tax their employment agreement (salary, bonus, etc...) an amount of up to tens of thousands a year. For many of the expatriates this is too large of a burden to bear, and will result in their wilful termination of their Australian employment.

It is vital that you understand this cost will not only be paid by the 457 holder, but also by the Australian business, and subsequently, the Australian people. As with an good or service, which includes labour, when it is taxed, the cost is paid by both parties. The burden for each is a function of the elasticity of demand for the product- if a certain economic activity is sensitive to changes in price, a significant rise in prices will result in a relatively large decrease in demand. For potential 457 holders considering an employment offer in Australia, the offer is important and requires serious consideration but is not necessarily their only employment option. That is to say, they are relatively flexible as to their employment options. Often times, they have employment in their home country, and could pursue options there. Moreover, moving to Australia often requires the individual to bear the cost of leaving his home, family, and friends behind and begin a new life in Australia. Therefore, it is logical to assume that the individual will be highly discerning when considering the employment offer here in Australia. The amount of the offer, and subsequently the after-tax income, will be a major factor in their employment decision. A removal of LAFHA and thus a decrease in the after-tax pay will cause such individuals to significantly lower the attractiveness of the offer. Therefore, in order for Australian companies to attract highly skilled individuals, they will have to increase their salary offer. This will translate into higher costs of goods and services provided by the business. Current employers will need to increase 457 holder's pay, in order to offset the drop in after-tax income of the employee. These increased labour costs will force companies to charge more for their products and services. It is clear that the cost will not only be a burden on the non-voting 457 holder, but the citizens of Australia.

It is imperative that Australia retains the current LAFHA arrangements to prevent not only a decrease in supply of potential working foreigners, but a "brain drain" in which current 457 holders return to their home countries or expatriate to another country for more economically attractive employment opportunities. As a skilled 457 visa holder myself, I will be forced to reconsider my

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employment here in Australia, despite my love for living in Sydney, I may be forced to return home. With thousands of others in the exact same position, the consequences of the removal LAFHA will be felt by us 457 holders, our employers, and unfortunately, Australia in general. Please consider keeping the current LAFHA arrangements and allow the Australia to continue to be a leading force in the global economy.

Best,

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