

Australian Greens' Dissenting Report

Taxation for working holiday makers

1.1 The government's proposed changes to the tax arrangements for working holiday makers—the backpacker tax—has been a fiasco. The inept and misguided handling is the result of a government that is obsessed with penny-pinching revenue measures, while at the same time ignoring risks to agricultural producers and the opportunity for real and lasting structural reform that would make Australia fairer and more competitive.

1.2 The government first proposed an 'increase' in the backpacker tax in the 2015–16 Budget. This was done without any meaningful consultation with the agricultural industry or clear policy intent.

1.3 The government then did nothing about the backpacker tax for the duration of 2015–16; and the tax was conspicuously absent from the 2016–17 Budget.

1.4 Under pressure during the election campaign about exactly what the status of the backpacker tax was, the government announced a review and pushed the issue off into the new parliament. After consulting with the agricultural industry second time around, the government then announced a revised backpacker tax at 19%.

1.5 The government has since been engaged in a gravity defying sales job: it is simultaneously arguing that it will reduce the tax rate for backpackers while at the same time raise more revenue. The government has discovered the holy grail of fiscal policy: a tax cut that raises revenue.

1.6 But this is an illusion. The government's assertion that the current tax rate for working holiday makers is 32.5% ignores the practicality of the current arrangements which enable many backpackers to be treated as residents for tax purposes and take advantage of the tax-free threshold.

1.7 The government's approach to this legislation has failed to address the fundamental issue of whether backpackers should be afforded access to the tax-free threshold as are Australian residents.

1.8 An effective tax rate of zero provides Australia with a competitive advantage by making Australia more attractive to backpackers, and provides an essential source of seasonal labour for the agricultural industry.

1.9 A lower tax for backpackers also means they have more money to spend as tourists. The Treasurer himself put it succinctly:

One of the great virtues of backpackers, when they come to Australia, is they leave with their pockets empty because they spend what they earn here.¹

1.10 And access to the tax-free threshold for backpackers means the ATO is not wasting time administering relatively small payments that, in some cases, would cost more to process than the revenue raised.

1.11 A tax-free threshold for backpackers is a net economic boost for Australia. Backpackers supplement the labour market and then spend the money they earn in the wider community.

1.12 Based on the collapse in numbers of working holiday makers that has already occurred because of the uncertainty around the backpacker tax, a large number of agricultural producers, and the benefit they provide to our economy, will be put at risk if this legislation passes the Senate.

1.13 In order to clear up the confusion about taxation arrangements for working holiday makers, the Greens believe differential tax rates for non-residents—provided for in a 1982 amendment to income tax laws—should be repealed. This is in accord with the principle that all workers should be afforded access to the same working conditions, regardless of their residency status.

Recommendation 1

1.14 That changes to the taxation arrangements for working holiday makers contained in these bills be opposed.

Recommendation 2

1.15 That the government introduce new legislation which would remove the existence of any possibility of a differential tax rate applying to non-resident workers while they are backpacking in Australia.

Passenger Movement Charge

1.16 As if fumbling the backpacker tax and upsetting farmers was not enough, the government managed to repeat the same mistake with the proposed increase in the Passenger Movement Charge (PMC).

1.17 The increase in the PMC was announced as an adjunct to the revised backpacker tax. Once again, this announcement came without any meaningful consultation with the sector or any clear policy intent. The result is that the government has managed to add the tourism industry to the list of the aggrieved and confused.

1 Scott Morrison, 27 September 2016, Press Conference, Canberra.

1.18 The Treasurer talks about the proposed increase in the PMC being the government 'washing its face' of the changes to the backpacker tax. But, instead, the government has managed to spread the mess it made with the backpacker tax to the tourism industry.

1.19 The PMC applies not just to backpackers, but to all other foreign tourists and all Australian residents upon departure. An increase to the PMC is indiscriminate and, at this point in time, comes without any clearly articulated policy purpose.

Recommendation 3

1.20 That the increase in the Passenger Movement Charge be opposed.

**Senator Peter Whish-Wilson
Senator for Tasmania**

