



AUSTRALIAN HOTELS ASSOCIATION

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5 September 2016

Submission to the Department of Agriculture and Water Resources Working Holiday Maker Review (Backpacker Tax)

Please find **attached** a submission from Tourism Accommodation Australia, a Division of the AHA. The submission from TAA reflects the views of AHA.

The Australian Hotels Association (AHA) is an organisation of employers in the hotel and hospitality industry registered under the *Fair Work (Registered Organisations) Act 2009*. AHA's diverse membership of more than 5,000 licensed hotel businesses includes pub-style hotels plus three, four and five-star international accommodation hotels located in each state and territory.

In regard to the Working Holiday Maker program, the current issues and future problems relating to labour shortage identified by TAA are fully endorsed by AHA. The AHA supports the recommendations of TAA:

- That the Government scrap its proposed 32.5% Backpacker Tax and treat working holiday makers (in addition to international students) as residents for tax purposes;
- Ensure that agriculture and tourism are afforded equal access to working holiday makers by including work in the tourism industry as "specified work" for the purposes of applying for a second WHM visa;
- Remove constraints that make the WHM visa internationally uncompetitive including allowing the WHM to work with the same employer for 12 months instead of 6 months;
- Extend to commercial chains the same provisions that allow labour-hire companies to employ WHMs for longer than six months;
- Ensure the cost of a WHM visa is internationally competitive, including ensuring that, in comparison with key competitors, the visa cost reflects its validity length;
- Undertake a marketing and promotional campaign, to restore confidence in Australia as an attractive and competitive destination for WHMs;
- Establish consistency, equity and clarity in the treatment of non-resident visa holders and;
- That no major changes are made to taxation of WHMs without clear and transparent review by the Australian Parliament

The above actions will assist in addressing the critical shortage of labour in the tourism and hospitality industry.

Yours faithfully,

STEPHEN FERGUSON
AHA NATIONAL CEO

Working Holiday Maker Visa Review

Submission to the Department of Agriculture and Water Resources



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Contents Page

| | |
|--|-------|
| Executive Summary..... | 3 |
| 1. Current Labour Force Pressures..... | 4-6 |
| 1.1 Size of Tourism Industry | |
| 1.2 Existing Labour Shortage | |
| 1.3 Difficulty attracting Local Labour | |
| 2. Impending Labour Force Pressures..... | 7-10 |
| 2.1 Tourism Projections | |
| 2.2 Tourism Investment Pipeline | |
| 2.3 Case Studies | |
| 2.4 Projected Labour Shortage | |
| 2.5 Ramifications for Industry Growth & Demand | |
| 2.6 Ramifications for Tourism Investment | |
| 3. Temporary Foreign Workers meet Labour Demand | 10 |
| 4. The WHM Programme is declining..... | 11-12 |
| 5. The WHM Programme is Internationally Uncompetitive in attracting foreign labour..... | 12-16 |
| 5.1 Comparative Taxation | |
| 5.2 Minimum Wages | |
| 5.3 Superannuation | |
| 5.4 Working entitlements | |
| 5.5 Period available to work with one employer | |
| 6. Additional Constraints of the WHM Programme..... | 16 |
| 7. Maintain Consistency in Taxation for non-residents..... | 17 |
| 8. Conclusion..... | 18 |

Executive Summary

Tourism Accommodation Australia (TAA) appreciates the opportunity to provide input to the review of the tax arrangements for the Working Holiday Maker (WHM). TAA represents the needs and interests of the major hotels, motels and serviced apartments in Australia's accommodation industry, and is a division of the Australian Hotels Association. The purpose of this submission is to provide comment on the proposed WHM tax from the perspective of Australia's diverse accommodation industry.

The accommodation sector contributes \$7 billion dollars annually in GVA to Australia's economy and employs 87,500 workers. 84% of these workers are Australians. More broadly, the tourism industry contributes \$47.5 billion annually to Australia's GDP, including \$4.1 billion in taxation, and employs over 580,000 workers.

The current labour shortage in the tourism and hospitality industry is 38,000 and is projected to grow to 123,000 by 2020. Temporary foreign workers such as working holiday makers and international students comprise 10% of accommodation sector employees and are a key alternative labour source for accommodation businesses struggling to fill employment vacancies with local labour supply. Through specific case studies our submission demonstrates that difficulties in securing labour, particularly in regional areas, will be exacerbated as room-supply increases by 4.2% per annum until 2020.

As a result, accommodation providers have significant concerns with the continuing decline in the number of WHM visa holders (12% in the past 2 years). The current decline is directly linked to the increasing un-competitiveness of the Australian WHM program. The submission clearly outlines the areas in which our offering is uncompetitive. To rectify this un-competitiveness we propose:

1. That the Government scrap its proposed 32.5% Backpacker Tax and treat working holiday makers (in addition to international students) as residents for tax purposes;
2. Ensure that agriculture and tourism are afforded equal access to working holiday makers by including work in the tourism industry as "specified work" for the purposes of applying for a second WHM visa;
3. Remove constraints that make the WHM visa internationally uncompetitive including allowing the WHM to work with the same employer for 12 months instead of 6 months;
4. Extend to commercial chains the same provisions that allow labour-hire companies to employ WHMs for longer than six months;
5. Ensure the cost of a WHM visa is internationally competitive, including ensuring that, in comparison with key competitors, the visa cost reflects its validity length;
6. Undertake a marketing and promotional campaign, to restore confidence in Australia as an attractive and competitive destination for WHMs;
7. Establish consistency, equity and clarity in the treatment of non-resident visa holders and;
8. That no major changes are made to taxation of WHMs without clear and transparent review by the Australian Parliament

The above actions will not only improve our competitiveness but ensure that we continue to attract a valued labour force to sustain future investment in the tourism and hospitality industry.

1. Current Labour Force Pressures

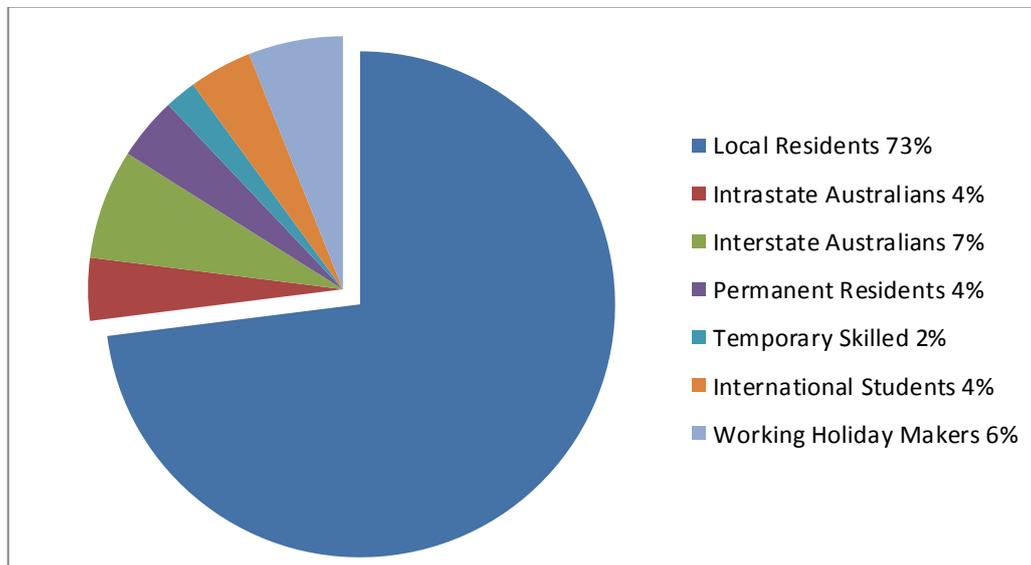
1.1. Size of the Tourism Industry

In 2014-15, the tourism industry's Gross Domestic Product grew at a rate of 5.3% to a total of \$47.5 billion. Tourism exports increased 9% to \$30.7 billion, and now account for 9.6% of Australia's total exports. Employment in the tourism and hospitality industry (the industry) grew at a rate of 6.3% in 2014-15 to over 580,000 workers. The industry paid net taxes of \$4.1 billion.

The accommodation sector's Gross Value Added in 2014-15 grew 7% to \$7.0 billion. Nationally, employment in the accommodation sector, in the same financial year, increased by 10,500 to 87,500 workers. Twelve percent of these workers are temporary foreign labour, which is roughly split between 5250 working holiday makers and 3500 international students.

Working Holiday Makers and International Students are a key labour source of experienced, low skilled workers. The *NSW Hotel Labour Benchmarking Study 2015* indicated that most working holiday makers working in NSW accommodation are employed in restaurant/bar (5%), housekeeping (2.9), and health, spa & fitness (11.3%) departments. The same survey indicated that most international students are employed in front office (3.1%), restaurant/bar (12%), kitchen (5.5%), and housekeeping (7.8%) departments.

Chart 1: Source of Employees – Accommodation (Percentage)

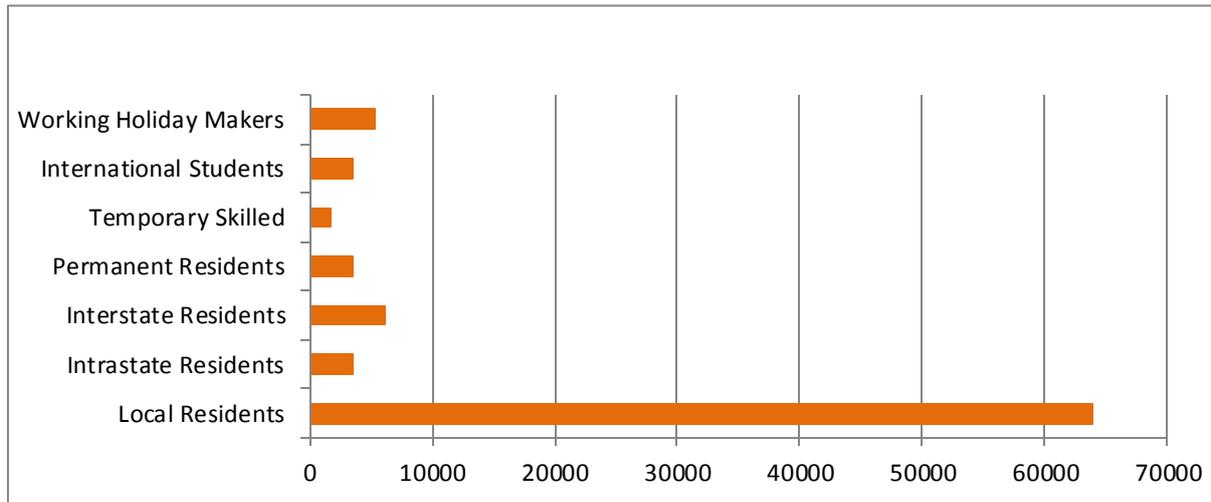


Source: Deloitte, *Australian Tourism Labour Force Report*, Chart 1.6

1.2. Existing Labour Shortage

The *Australian Tourism Labour Force Report* released in October 2015 found that the tourism industry is facing an immediate shortage of 38,000 workers. Where local labour cannot be sourced, temporary foreign labour is a crucial element of the labour supply mix to ensure productivity and sustain growth. The current labour shortage exists – and persists – despite the number of unemployed Australians numbering 725,500.

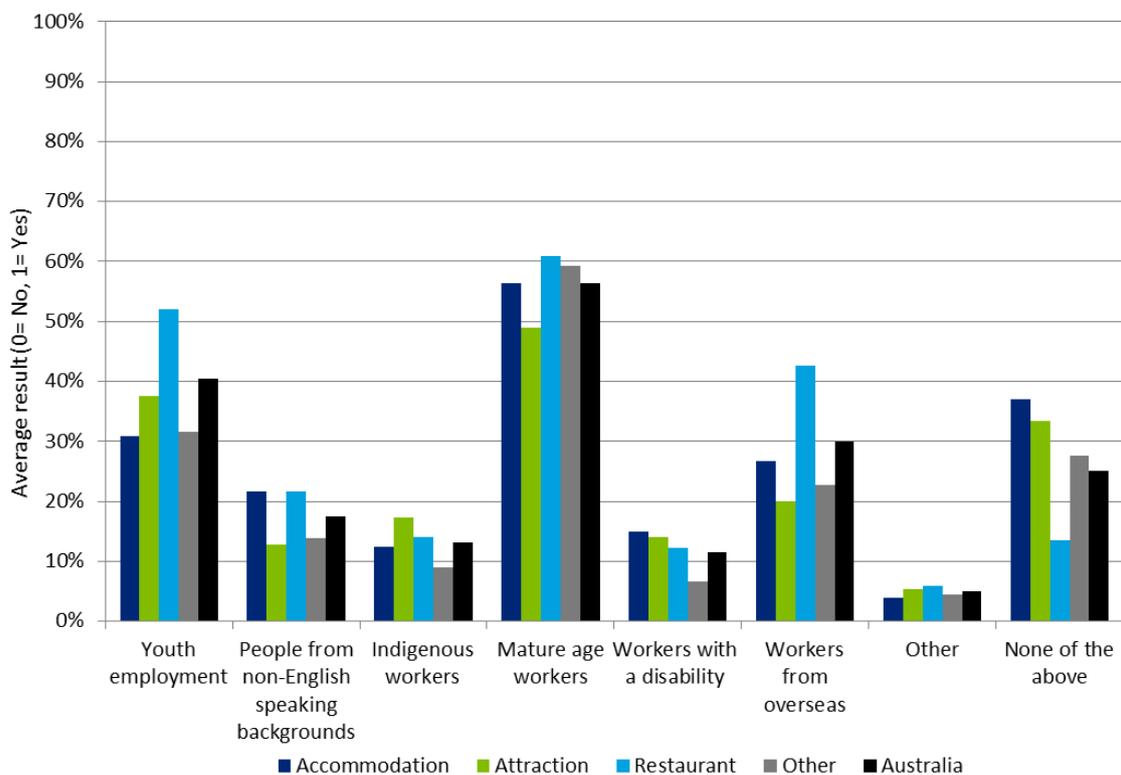
Chart 2: Source of Employees – Accommodation (Numbers)



Source: Deloitte, *Australian Tourism Labour Force Report*, Chart 1.6, and TRA, *Tourism Satellite Account 2014-15*

As shown in Chart 3, businesses in the tourism industry have responded to shortages in labour supply by seeking to source workers from alternative labour pools. The most common labour alternatives being explored by tourism businesses are mature age workers (56%), youth employment (41%) and workers from overseas (30%).

Chart 3: Business Responses to Labour Shortages, by Tourism Sector



Source: Deloitte, *Australian Tourism Labour Force Report*, Chart 1.7

1.3. Difficulty Attracting Local Labour

Tourism businesses find it difficult to recruit local labour for many reasons. Prospective local labour sources are unwilling to seek employment in the industry because it is increasingly a 24/7 service industry where they will likely be required to work unsociable hours and occasionally deal with rude, difficult and demanding customers. There is a perception of poor remuneration, suspicion of exploitative employment practices and an inability to identify a career trajectory. Local labour sources are deterred by the impression that there are many jobs, but few careers.

This situation is exacerbated in regional leisure areas, where the issue of seasonality is a further factor. In accommodation resorts in these areas as high as 85% of the employed teams are overseas labour on a myriad of different work and holiday visas. The current downturn in WHM is impacting the ability for these providers to function effectively.

Table 1: Key Conclusions of the *Tourism and Hospitality Careers Report*

| | |
|---------------------|--|
| Workers aged 25-35 | Leave the industry due to: <ul style="list-style-type: none"> • unsociable hours • low pay • frustration at a lack of career progression |
| Mature aged workers | <ul style="list-style-type: none"> • Are cynical that employers in the industry would be genuine in offering roles or investing in re-training and development programmes. • They need evidence they are welcome, and that applying for roles would not be a waste of their time |
| School leavers | <ul style="list-style-type: none"> • Unaware of formal training pathways • The industry is perceived as the domain of unskilled workers • Are deterred by the prospect of long and unsociable hours, dealing with rude/difficult/demanding customers, lack of job security and poor pay |

Source: Colmar Brunton, *Tourism and Hospitality Careers 2016 Report*

2. Impending Labour Force Pressures

2.1 Tourism Projections

In the five years to FY2019-20, inbound visitor numbers will increase 6.3% per annum, and domestic visitor nights will increase 3.4% per annum. This will exacerbate labour shortages as the industry struggles to find workers in accommodation and hospitality to provide the high standard tourism product expected by these visitors. Should the industry be unable to source the required labour to meet the projected increase in demand and expenditure, tourism capacity will remain constrained and these growth projections – including a ten-year real increase in total tourism expenditure of \$49.2 billion - will not be realised.

Table 2: Tourism Forecasts

| | Inbound visitor arrivals | Domestic visitor nights | Outbound departures | Inbound expenditure | | Domestic expenditure | | Total overnight expenditure | | Total expenditure | |
|---|--------------------------------|-------------------------------|------------------------|------------------------|---------------------|-------------------------|---------------------|--------------------------------|---------------------|-------------------|-----------|
| | (real) ^a | (nominal) | (real) ^b | (nominal) | (real) ^b | (nominal) | (real) ^b | (nominal) | (real) ^b | (nominal) | |
| | '000 | million | '000 | \$billion | \$billion | \$billion | \$billion | \$billion | \$billion | \$billion | \$billion |
| 2015-16 | 7 794 | 328 | 9 642 | 39.1 | 39.0 | 78.4 | 78.4 | 97.6 | 97.6 | 117.5 | 117.4 |
| 2016-17 | 8 313 | 340 | 10 032 | 42.0 | 42.8 | 81.3 | 82.9 | 102.6 | 104.6 | 123.2 | 125.7 |
| 2017-18 | 8 802 | 351 | 10 420 | 44.9 | 46.8 | 83.7 | 87.2 | 107.2 | 111.7 | 128.6 | 134.1 |
| 2018-19 | 9 239 | 361 | 10 800 | 47.7 | 51.0 | 85.9 | 91.9 | 111.5 | 119.3 | 133.6 | 142.9 |
| 2019-20 | 9 702 | 371 | 11 182 | 50.6 | 55.5 | 88.0 | 96.5 | 115.8 | 127.0 | 138.6 | 152.0 |
| 2020-21 | 10 178 | 381 | 11 559 | 53.7 | 60.3 | 90.1 | 101.3 | 120.3 | 135.2 | 143.7 | 161.6 |
| 2021-22 | 10 675 | 391 | 11 946 | 56.9 | 65.6 | 92.2 | 106.4 | 124.9 | 144.1 | 149.1 | 172.0 |
| 2022-23 | 11 199 | 401 | 12 341 | 60.3 | 71.4 | 94.4 | 111.7 | 129.8 | 153.6 | 154.7 | 183.1 |
| 2023-24 | 11 747 | 412 | 12 749 | 64.0 | 77.7 | 96.6 | 117.3 | 134.9 | 163.8 | 160.6 | 195.0 |
| 2024-25 | 12 328 | 423 | 13 169 | 67.8 | 84.5 | 98.9 | 123.2 | 140.3 | 174.8 | 166.7 | 207.8 |
| 5-year average annual growth rate (%) | | | | | | | | | | | |
| 2014/15-2019/20 | 6.3 | 3.4 | 3.9 | 8.4 | 10.7 | 3.3 | 5.5 | 5.2 | 7.4 | 5.0 | 7.2 |
| 2019/20-2024/25 | 4.9 | 2.7 | 3.3 | 6.0 | 8.8 | 2.4 | 5.0 | 3.9 | 6.6 | 3.8 | 6.5 |
| 10-year average annual growth rate (%) | | | | | | | | | | | |
| 2014/15-2024/25 | 5.6 | 3.1 | 3.6 | 7.2 | 9.7 | 2.9 | 5.3 | 4.5 | 7.0 | 4.4 | 6.8 |

Source: TRA, *Tourism Forecasts 2016*

2.2 Tourism Investment Pipeline

In 2015, the tourism investment pipeline was worth \$59.8 billion.¹ This included \$7.6 billion in accommodation investment, comprising 86 projects facilitating 15,900 new rooms. Room supply is anticipated to increase at an average of 4.2% per annum from 2016 until 2020.²

2.3 Case-studies

The case studies below indicate the significant labour force pressures, both current and future, faced by a number of different Australian hotel chains.

2.3.1 Accommodation Chain 1.

Current nationwide workforce

2000 employees, 390 (19.5%) are working holiday makers or international students. They are predominantly employed in operational positions, most commonly Food & Beverage Service, Kitchens and Front Office.

Future Requirement

Room supply will increase by 3000 in the next five years, and as a result direct employment requirements will increase by 1400.

Occupancy rates in this chain's resort properties fluctuate from 30% to 100% throughout the year. The smaller populations of regional towns are unable to provide the manpower required during high season. In metropolitan properties, labour shortages are most pronounced in Food & Beverage, Kitchens and Service. The preference is always for Australian workers because they have no restriction on the length of tenure or the permitted hours that can be worked. Temporary foreign labour is relied upon because the current local labour supply is not matching the demand.

This hotel chain is reporting 52 current full-time vacancies.

2.3.2 Accommodation Chain 2.

Current nationwide workforce

3500 employees, 180 (5.1%) are working holiday makers or international students.

Future Requirement

Room supply will increase by 3000-5000 over the next five years, and as a result direct employment requirements will increase by 2400.

¹ TRA, *Tourism Investment Monitor 2016*

² Austrade

2.3.3 Accommodation Chain 3.

Current NSW workforce

4307 employees, 216 (5%) are working holiday makers or international students. Nearly half of these are employed in Food & Beverage Service.

Future Requirement

Room supply will increase by 2200 over the next five years. Direct employment requirements will increase by 2078, including 766 (36%) in Food & Beverage Service.

This hotel chain is reporting 573 current employment vacancies, including 307 permanent full-time positions.

2.3.4 Accommodation Chain 4.

Current nationwide workforce

3277 employees, 520 (16%) are working holiday makers or international students. They are predominantly employed in Food & Beverage Services (62.5%) and Housekeeping (27.3%).

Future Requirement

Room supply will increase by 2000 over the next five years. Direct employment requirements will increase by 750.

This hotel chain has increased its employment of WHM and international students because of their flexibility to work unsociable shifts, solid experience in customer service, their dependability, their work ethic, and their eagerness to work multiple shifts.

2.4 Projected Labour Shortage

The *Australian Tourism Labour Force Report* identifies the industry's labour shortage by 2020 will number 123,000. This number includes 63,000 unskilled workers. Working holiday makers currently represent 6% of the accommodation sector's workforce, and are an important alternative labour source for businesses struggling to fill vacancies. At an income tax rate of 32.5%, surveys have indicated that supply of working holiday makers could decrease by 60%.³

2.5 Ramifications on Industry Growth and Consumer Demand

Any policy that decreases the available labour pool, rather than growing it, will impact on the industry's ability to meet the Tourism 2020 targets. A chronic shortage of labour supply will raise prices and decrease productivity, diminishing the tourist experience and culminating in decreased tourism demand, particularly from high-yielding international source markets like China.

³ Monash University, *Research into Working Holiday Makers MAY-JUNE 2016*

2.6 Ramifications on Tourism Investment

Private sector's calculated return on tourism investment is underpinned by projected growth in consumer demand. If labour supply continues to be actively inhibited by Government policies, it will result in a constraint on viable investment with ramifications for demand. This jeopardises the rationale behind existing tourism investment, and discourages further investment in the industry.

3 Temporary Foreign Workers Meet Labour Demand

While locals are unwilling to work in the sector because of the reasons outlined in subsection 1.3, accommodation providers report that temporary foreign workers have very different attitudes towards employment in the industry.

- 3.1** Temporary foreign workers are a work-ready labour pool with experience and/or motivation, and seek to be employed in front line and customer service roles. Because they are eager to maximise earnings during their visa validity, temporary foreign workers offer large the flexibility across a range of days/shifts that is required in a 24/7 service industry.
- 3.2** Generally, working holiday makers and postgraduate international students have acquired experience or studied prior to travelling, which equips them with graduate capabilities and graduate potential. Many from Europe and Asia have the benefit of being multilingual. Graduate capability and previous experience reduces businesses' training costs, and means workers can immediately contribute to business productivity and output.
- 3.3** However, due to WHM's broader travel plans or international students' primary focus on their studies, temporary foreign job seekers have limited expectation on the level of the role. This means that despite their graduate capabilities and/or experience they are motivated to work in low-skilled positions or front-line roles.
- 3.4** Conversely, the local labour supply continues to indicate that it finds low-skilled and front lines positions in the tourism industry unattractive.
- 3.5** In addition, working holiday makers make sizable contributions to the visitor economy. On average across all industries, working holiday makers earn \$11,854 and spend 86% of that income in Australia. The 2009 study *Evaluation of Australia's Working Holiday Maker Program* concluded that the net effect of every 100 WHM arrivals is the creation of 6.3 full-time equivalent jobs in Australia.

4 The Working Holiday Maker Programme is declining

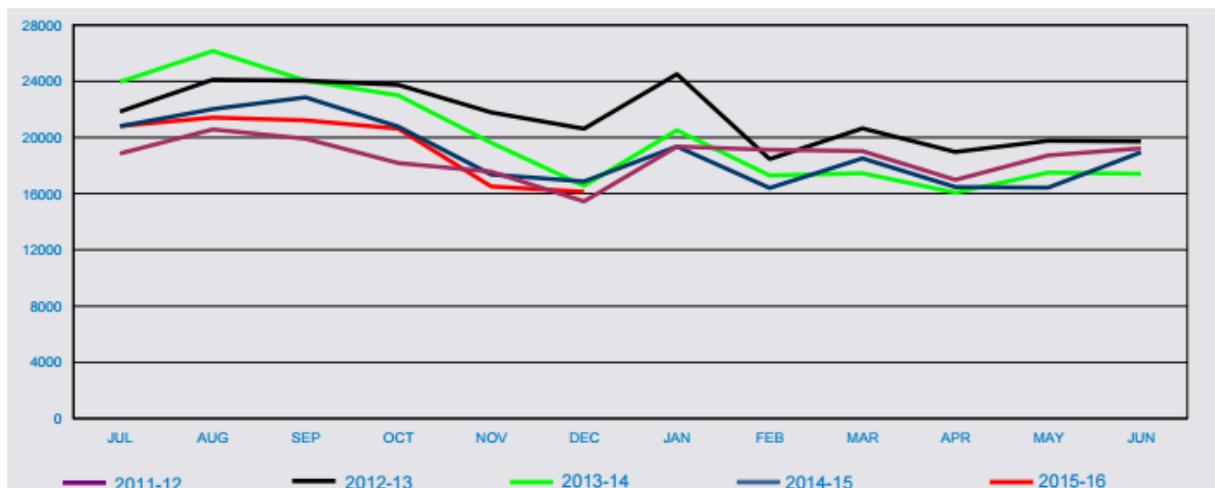
4.1 Despite its contribution to the visitor economy and its importance in filling labour shortages, the working holiday maker programme is in decline. This is making it increasingly difficult for employers to fill vacancies.

Table 3: WHM Visas Granted

| Financial Year | July-December | January-June | Total |
|----------------|---------------|--------------|---------|
| 2011-12 | 110,540 | 112,452 | 222,992 |
| 2012-13 | 136,152 | 122,096 | 258,248 |
| 2013-14 | 133,331 | 106,261 | 239,592 |
| 2014-15 | 120,686 | 106,126 | 226,812 |
| 2015-16 | 116,750 | n/a | n/a |

Source: DIBP, *Working Holiday Report December 2015*

Chart 4: WHM Visas Granted



Source: DIBP, *Working Holiday Report December 2015*

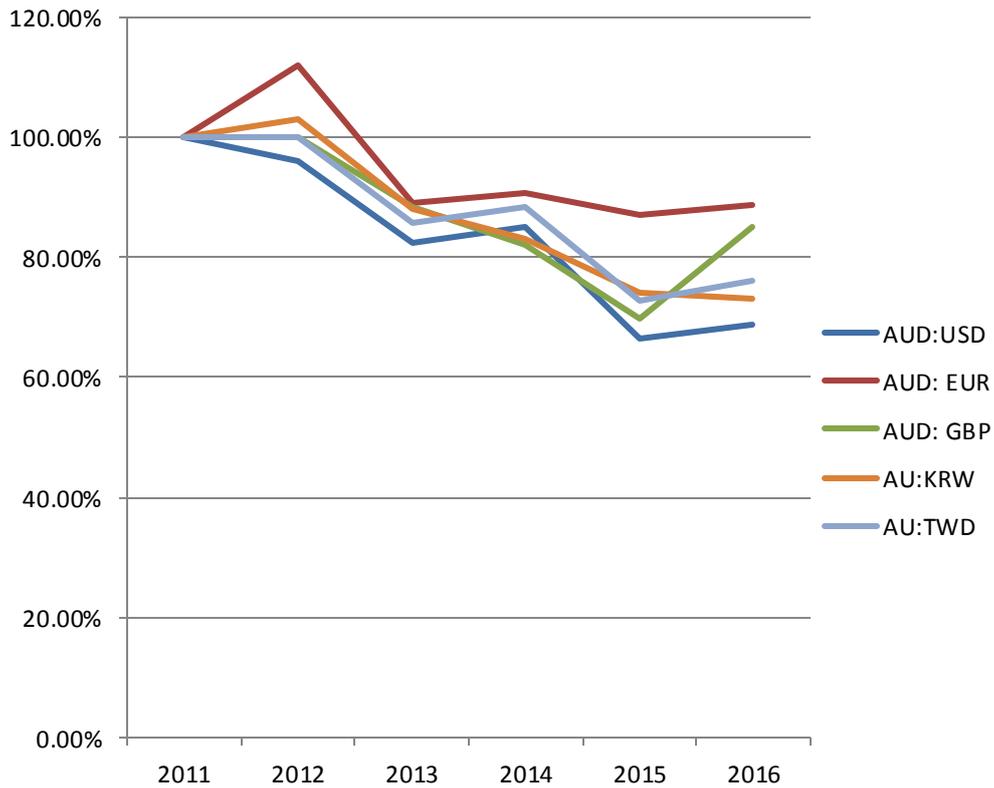
4.2 In 2014-15, the Working Holiday Maker programme returned to its 2011-12 level. In the six months to December 2011, a total of 110,540 WHM visas had been granted. It peaked in the six months to December 2012 at a total of 136,152, and achieved a similar result in December 2013 at 133,331. The total of WHM visas granted in the six months to December 2015 was significantly lower at 116,750.

4.3 The 14.25% decrease from December 2012 to December 2015 defies the decrease of the AUD against the key source market currencies show in Chart 5⁴. It is a poor result when the working holiday maker programme, despite an Australian dollar weaker by 12-31% in key

⁴ RBA, *Historical Exchange Rate*. Currency value measured in July of each year, expressed as a percentage of the value in July 2011. The sharp increase in 2016 value of the GBP is a consequence of the 2016 Brexit vote.

source markets and coupled with the expansion of the WHM programme to the new markets of China, Spain, Poland, Portugal, Argentina and Uruguay, still trends negatively. There are key inhibitors rendering the programme internationally uncompetitive, and these are explored in the next section.

Chart 5: Changes in the Value of the AUD, 2011-2016



Source: RBA, Historical Exchange Rate

5 The Australian Working Holiday Maker Programme is Internationally Uncompetitive in Attracting Foreign Labour Supply

Table 4: International Working Holiday Maker Comparison

| | AUSTRALIA | NEW ZEALAND | CANADA | UK |
|-------------------------------------|----------------|-------------------------|-----------------------|----------------|
| Income | AUD 0 - 80,000 | NZD 0 - 14,000 - 48,000 | CAD 0 - 45,282 | GBP 0 - 32,000 |
| Tax Rate (%) | 32.5 | 10.5 | 17.5 | 15 |
| Gross Minimum Wage (p/h) | AUD17.70 | NZD15.25 | CAD10.50 ⁵ | GBP7.20 |
| Net Minimum Wage | AUD11.95 | NZD13.65 | CAD8.93 | GBP5.76 |
| Net Minimum Wage⁶ | USD9.08 | USD9.89 | USD6.92 | USD7.53 |
| Superannuation | 9.5% | n/a | n/a | n/a |
| Visa Fee | AUD 440 | NZD 208 | CAD 250 | GBP 230 |

5.1 Comparative Taxation

The proposed tax rate on working holiday makers is in excess of three times' New Zealand's tax rate for working holiday makers earning under NZD14,000. It is double the Canadian tax rate, and 50% higher than the United Kingdom's tax rate.

Research undertaken by the Youth Hotels Association and Monash University has indicated that at an income tax level of 32.5%, 58% of current WHMs in Cairns would not have come to Australia, and that 60% would have instead considered New Zealand for a working holiday. At an income tax level of 32.5%, 62% of current WHMs in Melbourne would not have come to Australia, and 65% would have instead considered New Zealand for a working holiday.⁷

Recommendation 1: *Scrap the proposed 32.5% Backpacker Tax, and treat working holiday makers as residents for tax purposes.*

5.2 Minimum Wage

Of the four countries in Table 4, Australia has the highest gross minimum wage at AUD17.70. It is 27% higher than New Zealand, which has the second-highest minimum

⁵ In Canada's federalist system so the minimum wage differs by Province or Territory. CAD10.50 is the applicable minimum wage in Newfoundland and Labrador, and is the lowest minimum wage across Canada. The highest minimum wage jurisdiction is Nunavut, where since April 2016 it has been CAD13.00.

⁶ For ease of international comparison, Net Minimum Wage has been converted into USD (exchange rate as of 10am, 22nd August 2016).

⁷ Monash University, *Research into Working Holiday Makers MAY-JUNE 2016*

wage. Importantly, once income tax is deducted New Zealand has the highest net minimum wage at NZD13.65.

Scrapping the Backpacker Tax would, measured by net minimum wage, make Australia a more attractive destination for working holiday makers than Canada, United Kingdom or New Zealand.

5.3 Superannuation

Unlike Canada, New Zealand or the United Kingdom, employers engaging working holiday makers in Australia are required to make compulsory superannuation contributions equal to 9.5% of the employee's wage when the working holiday maker earns in excess of AUD450 per month. In effect, this increases the employer's minimum hourly cost of labour from AUD17.70 to AUD19.38. This increased cost borne by employers is of marginal utility in making Australia a more attractive destination for working holiday makers, since roughly 70% of temporary foreign workers do not claim their superannuation when leaving Australia.⁸ In 2014 the Australian Taxation Office had appropriated \$540 million of superannuation left unclaimed by temporary foreign workers who had exited the country.⁹

5.4 Working Entitlements

Table 5: Work, Live and Age Eligibility Comparison of WHM Visas

| | | | |
|-----------------------|------------|--|---|
| AUSTRALIA | 462 | Live and work for up to 12 months, but with a maximum of six months' work per employer. | Aged 18-30 |
| | 417 | Live and work for up to 12 months, but with a maximum of six months' work per employer. If applicant has completed three months of specified work in regional/rural areas, they can apply for a second working holiday visa. | Aged 18-30 |
| NEW ZEALAND | | Live and work for up to 23 months. No restrictions on time period with one employer. | Aged 18-30, but a maximum age of 35 in a select few countries |
| CANADA | | Live and work for up to either 12 or 24 months. No restrictions on time period with one employer. | Aged 18-30, but a maximum age of 35 in a select few countries |
| UNITED KINGDOM | | Live and work for up to 24 months. No restrictions on time period with one employer | Aged 18-30 |

In Australia, working holiday makers can live and work for up to 12 months, but with a maximum of six months' work per employer. In order to encourage regional tourist dispersal and meet regional labour shortages, if holders of subclass 417 visas complete three months of specified work in regional/rural areas, they can apply for a second working holiday visa. (Work in accommodation and hospitality is not included as specified work).

⁸ <http://www.theaustralian.com.au/news/nation/backpackers-drop-a-bundle-worth-540m/story-e6frg6nf-1226797690197>

⁹ <http://www.abc.net.au/news/2014-01-10/unclaimed-backpacker-super/5194674>

By comparison:

5.4.1 New Zealand

- Working holiday makers can live and work on a working holiday visa for up to 23 months.
- There is no restriction on the amount of time a working holiday maker can work with one employer, where (geographically) they must be employed, or the type of work they can undertake.

5.4.2 Canada

- Working holiday makers can live and work on a working holiday visa for up to 12 or 24 months, depending on the validity length of the visa issued.
- There is no restriction on the amount of time a working holiday maker can work with one employer, or where (geographically) they must be employed.

5.4.3 United Kingdom

- Working holiday makers can live and work on a working holiday visa for up to 24 months.
- There is no restriction on the amount of time a working holiday maker can work with one employer, where (geographically) they must be employed, or the type of work they can undertake (excluding professional sportspeople, doctors and dentists in training).

Recommendation 2: *In order to further encourage regional tourist dispersal and meet regional tourism labour shortages, include work in the tourism industry as specified work for the purposes of applying for a second WHM.*

5.5 Period able to work with one employer

As outlined in 5.4 above, working holiday makers can only stay with one employer for a maximum period of six months. Given the work entitlements in Canada, New Zealand and the United Kingdom, this restriction means that we are not internationally competitive.

There is already an exception for working holiday makers engaged through labour hire companies: WHMs can remain engaged by a labour hire company for a period in excess of six months, provided they are referred to a new business after a maximum period of six months. At a minimum, it is only logical that a commercial chain with operations throughout Australia be allowed a similar arrangement, so that working holiday makers could be employed with one employer for longer than six months provided they transfer business location.

Recommendation 3: *In line with key international competitors, extend the Northern Australia 417 visa provisions to allow WHM to work with the same employer for 12 months instead of 6 months.*

Recommendation 4: *At a minimum extend to commercial accommodation chains the same provisions that allow labour-hire companies to employ working holiday makers for longer than six months.*

5.6 Visa Fee – Cost of Entry

With a visa fee of NZD208 (23 months' validity), New Zealand has the lowest cost of entry for working holiday makers. Canada's visa entry fee is CAD250 (24 months), the United Kingdom's visa entry fee is GBP230 (24 months) and Australia's is AUD440 (12 months). When comparing the cost of entry in USD, the cost of the New Zealand working holiday visa (USD150.36) is less than half the cost of the Australian working holiday visa (USD334.07) for nearly double the validity length.

From FY2012/13 to FY2014/15, Australia's visa fee increased 50% from \$280 to \$420. Over this same period, the number of working holiday visas granted fell 12.2% from 258,248 to 226,812.

Recommendation 5: *Ensure the cost of a WHM visa is internationally competitive, including ensuring that, in comparison with key competitors, the visa cost reflects its validity length.*

6 Additional Constraints of the Working Holiday Maker Programme

6.1 Maximum age to apply for a WHM visa is 30

In the New Zealand and Canadian schemes, the maximum eligibility age of working holiday makers for applicants from selected countries is 35, not 30.

Recommendation 6: *Given the importance of working holiday makers to tourism consumption and labour supply, the maximum eligibility age for Australia's programme should be increased to 35.*

6.2 International Perceptions

Research undertaken by the Youth Hotels Association and Monash University indicates that at an income tax rate of 32.5, 54% of backpackers would no longer recommend Australia as a working holiday destination to their friends.

Recommendation 7: *Because of the uncertainty in key source markets about the proposed Backpacker Tax and the perception that Australia is discouraging working holiday makers, the Australian Government needs to invest in an overseas marketing campaign to stimulate working holiday maker visitation.*

7 Maintain Consistency in non-resident tax rates

Table 6: Comparison between WHM, International Students and Seasonal Worker Program

| | AU - WHM | AU - International Students | | AU - SWP |
|---------------------------------|----------------|-----------------------------|---------------------|----------------|
| Income | AUD 0 - 80,000 | AUD 0 - 18,200 | AUD 18,201 - 37,000 | AUD 0 - 80,000 |
| Tax Rate (%) | 32.5 | 0 | 19 | 15 |
| Gross Minimum Wage (p/h) | AUD17.70 | AUD17.70 | | AUD17.70 |
| Net Minimum Wage | AUD11.95 | AUD17.70 | AUD14.34 | AUD15.05 |
| Superannuation | 9.50% | 9.50% | | 9.50% |

It is important to have a consistency of response across our 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 the workforce particularly in regional and remote areas.

The other categories of non-residents have varying contributions:

a. International Students

International students currently comprise 4% of the accommodation sector's workforce. The primary purpose of the international student visa is to facilitate study, and any work that international students engage in is incidental. The international student visa is only granted when the applicant has sufficient funds to cover living and tuition expenses while in Australia.

However, in order to raise additional funds while in Australia international students are permitted to work 40 hours per fortnight when the course is in session and unlimited work hours during scheduled course breaks. International students are willing to work low-skilled jobs spurned by local residents, and generally offer the flexible availability required in a 24/7 service industry. However, the 40 hours per fortnight does place a limitation on the roles they can undertake. Unlike working holiday makers, international students are considered residents for tax purposes and are entitled to the \$18,200 tax-free threshold.

b. Seasonal Worker Programme

The Seasonal Worker Programme is not an adequate alternate source of labour when compared with the Working Holiday Maker Programme. The SWP is too inflexible and costly for it to be an effectual programme if rolled out beyond Western Australia, the Northern Territory, Kangaroo Island and Tropical North Queensland. The SWP is a humanitarian programme, and unlike working holiday makers incomes earned are not spent in the visitor economy.

Recommendation 8: *Ensure consistency, equity and clarity in the treatment of non-resident visa holders.*

8. Conclusion

The tourism industry has well-documented difficulties in attracting local Australian labour to fill labour shortages. By 2020, the labour shortage in the industry will increase from its current 38,000 to 123,000. Temporary foreign labour is an important labour source that allows industry to sustain productivity, grow output and meet tourism consumption demand.

Government policy that decreases the available labour pool, rather than growing it, will impact on the industry's ability to meet its Tourism 2020 targets. A chronic labour supply shortage will raise prices and decrease productivity, diminish the tourist experience and culminate in decreased tourism demand. Such an outcome would jeopardise the current tourism investment pipeline of \$59.8 billion, and discourage further investment in the industry.

The Working Holiday Maker programme is internationally uncompetitive by measure of income tax, net-minimum wage, working entitlements and the visa cost. There are additional constraints on the programme, such as a maximum period of six months with one employer, exposure to changes in exchange rates, restrictions on eligibility of the scheme and international perceptions.

In addition to the provision of labour supply, working holiday maker expenditure contributes significantly to the visitor economy. On average, WHMs earn \$11,854 and spend 86% of that income in Australia.

TAA encourages the Government to:

- Scrap its proposed 32.5% Backpacker Tax and treat working holiday makers (in addition to international students) as residents for tax purposes;
- Ensure that agriculture and tourism are afforded equal access to working holiday makers by including work in the tourism industry as "specified work" for the purposes of applying for a second WHM visa;
- Remove constraints that make the WHM visa internationally uncompetitive inclusive allowing the WHM to work with the same employer for 12 months instead of 6 months.
- Extend to commercial chains the same provisions that allow labour-hire companies to employ WHMs for longer than six months.
- Ensure the cost of a WHM visa is internationally competitive, including ensuring that, in comparison with key competitors, the visa cost reflects its validity length;
- Undertake a marketing and promotional campaign, to restore confidence in Australia as an attractive and competitive destination for WHMs; and
- Establish consistency, equity and clarity in the treatment of non-resident visa holders.
- Ensure that no major changes are made to taxation of WHMs without clear and transparent review by the Australian Parliament;