

**Caravan Industry Association of Australia
submission into the review of the changed rules
for working holiday makers proposed
in the 2015 Commonwealth Budget**



EXECUTIVE SUMMARY

Caravan Industry Association of Australia welcomes the decision by the government on the 16 March 2016 to conduct a review of the 2015 Budget measure on tax arrangements for visitors on Working Holiday Maker (WHM) visas.

As the peak national body for the caravanning and camping industry in Australia we are pleased “the Government has listened to issues raised by stakeholders about workforce challenges faced by industries in regional and rural areas and how the taxation arrangements for Working Holiday Maker visa holders potentially affect industries such as agriculture and tourism” and welcome the opportunity to provide feedback as part of this review.

The Association does recognise that the government faces increasing financial pressures. However it is our view that should the government single out working holiday makers (WHMs) as ‘easy pickings’ in a quick ill-informed ‘revenue grab’ such an approach will lead to negative economic impacts particularly in regional, rural and remote Australia. These include:

- increased labour shortages as the tax negatively impacts a steady and reliable supply of labour;
- reduced economic activity;
- WHMs spending less time in Australia and more time in other countries, such as New Zealand and Canada, where they taxed at significantly lower rates;

leading to

- diminishing overall tax revenues for the government from WHMs rather than collecting the \$220 million a year in revenue expected from Treasury projections from the budget decision to deem all WHM visa holders non-residents for tax purposes.

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Guiding Principles

Caravan Industry Association of Australia recognises that:

- the government faces increasing financial pressures and that WHMs should pay a reasonable rate of taxation to cover the cost of the infrastructure and services they use;
- prior to 2012 WHMs paid tax on every dollar earned between \$6,001 and \$18,200;
- WHMs do currently pay tax including the GST (which may be refunded on departure), through generating additional local economic activity, Visa and Passenger Movement Charges;
- higher tax rates can lead to reduced revenue due to greater economic activity taking place in the black economy; and
- employment for WHMs should not come at the expense of appropriately skilled and willing Australians.

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Recommendations

1. Significantly reduce the 32.5% rate proposed tax rate on Working Holiday Makers for every dollar earned either by:

- reversing the budget decision to deem all WHM visa holders non-residents for tax purposes; (ANNUAL COST TO TREASURY \$220M).

OR

- returning the effective tax rate on WHMs on average backpacker earnings, which in 2016 was \$13,300¹; to one more in line with the effective tax rate that existed prior to the raising of the tax threshold from \$6,001 to \$18,200 in the 2012-13 budget;
(see Appendix Table 2 ANNUAL COST TO TREASURY \$164.2M)
- by either
 - I. introducing a tax free threshold for non-residents at a level, half that of residents, which in 2016 was \$9,100 with 32.5c levied on each dollar earned between \$9,101 and \$80,000;
(see Appendix Table 3 ANNUAL COST TO TREASURY \$150.4M)

¹ Tourism Research Australia, 2016

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or

introducing a special tax status for WHMs with two components: firstly the ability to claim and spend their 9.5% superannuation contributions, while travelling in Australia, rather than claiming a refund prior to departure to spend at a subsequent location overseas: secondly a tax rate of 17.75c on every dollar earned between 0 - \$26,000 with subsequent tax rates applying above \$26,000 as currently faced by non-residents. (see Appendix Table 4 ANNUAL COST TO TREASURY \$99.6M)

Tax Rates for Non-Residents 2016 - 2017²

From	To	Tax Rate
\$0	\$26,000	32.5%
\$26,001	\$80,000	32.5%
\$80,001	\$180,000	37%
Above	\$180,001	45%

Super should still be collected but refunded directly to WHMs in their pay packers so that employers and contractors cannot simply pocket the contributions for themselves and WHMs cannot be hired more cheaply than Australian labour.

² <http://atotaxcalculator.com.au/non-resident>

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2. freeze all imposts at current levels that international travellers, including WHMs, face including Visa fees and the Passenger Movement Charge until they are more globally competitive;

Significant reductions to the 32.5% proposed tax rate along with a freeze on all imposts would ensure that Australia is globally competitive in attracting WHMs who can choose from a large number of options for their holiday. Higher rates of tax may not be the primary focus for holiday makers when determining where to travel but if they do not have enough funds to live on or to travel around Australia it is likely to impact on their length of stay. Many WHMs who come to Australia are Europeans on 'Round the World' trips and will often be planning to visit Canada and New Zealand on the same trip. Without funds they will have every incentive to leave early to visit those countries with lower tax rates as they are more competitive in terms of tax and costs of living and travel.

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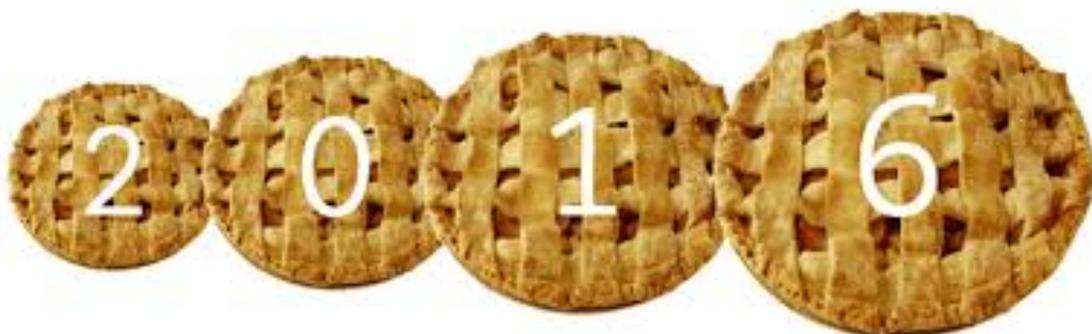
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3. **Increase training opportunities for Australians, including the up-skilling and greater professionalism of businesses and their employees, particularly in regional, rural and remote areas in order to take advantage of the opportunities on offer from continuing strong growth in the industry.**
4. **Look at other measures to generate increased tax revenue by ‘growing the pie’ through stimulating additional economic activity. 51.61% of those submitting responses in our survey wanted the WHM program retained in its current format but 27.42% wanted the WHM expanded and 9.68% significantly.**

The government should therefore seriously consider:

- I. extending the WHM visa to additional countries;
- II. increasing the qualifying age of WHM visa to above 30;
- III. allowing a second year extension to those working who spend three months or more working in regional tourism and hospitality businesses; allowing multiple visa applications - this could include one between 18-25 years of age and a second from 26 years and older;



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IV. reforming the Tourism Refund Scheme - similar to other western economies who have sales taxes Australia refunds the GST it has collected on most goods when inbound tourists depart the country. The scheme should be modified so that the GST refunds can be claimed by international travellers to be spent while travelling in Australia, rather being spent at a subsequent location overseas. An innovative government might use the opportunity of reform to boost international consumer disposition for iconic Australian made luxury and FMCG³ brands by offering a voucher of significantly increased value to international travellers including WHMs, instead of cash, which could be spent on those iconic brands purchased or on in regional, rural and remote Australia;

³ Fast Moving Consumer Goods

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- V. introducing an innovative special visa scheme to stimulate international tourism in Tasmania independent of mainland Australia which would allow all APEC⁴ and OECD⁵ country passport holders to stay visa free in Tasmania for 30 days except those from specified countries. To maintain the integrity of the mainland's requirement for every foreign national to have a Visa to enter Australia every Australian travelling between mainland Australia and Tasmania would have to travel with an Australian passport or photo identification e.g. driving licence. This would mirror similar arrangements between the Republic of Korea and the autonomous Jeju island.

⁴ Asia-Pacific Economic Cooperation Forum

⁵ Organisation for Economic Co-operation and Development

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Background

Industry Role in an Australian successful economic transition

The Caravan Industry Association of Australia supports the Treasurer's comments in the 2015 budget to "back Australians to invest and earn more, by keeping taxes as low as we can" and agree that "increasing the tax burden on our economy ... simply puts our successful economic transition at risk."

In his statement announcing the review in April this year Senator Colbeck stated "the tourism and agriculture industries are two of the five key super-growth sectors that will support our transitioning economy over the next decade and the Government will be ensuring the policy settings are right to support and capitalise on this growth."



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The Caravan Industry is “pulling its weight’ in this transition with the last four years witnessing uninterrupted quarterly growth in the domestic caravan and camping market. This builds on the continuing strong visitor growth the caravan and camping tourism economy has enjoyed since 2006.

The importance of the sector is further demonstrated by:

- the 53,000 jobs (direct employment) the industry creates;
- the increased visitor dispersal to regional, rural and remote areas of Australia; and
- the creation of value chains that support local economies and capacity development which in the last four years has witnessed uninterrupted quarterly growth in the domestic caravan and camping market.



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Figures released in August 2016 confirmed this growth trend with ABS figures reporting

- in 2015 local RV manufacturing achieved its highest level of production since 1979 with over 22,000 units manufactured, a 6.6% increase year on year;



- continued significant growth in caravan registrations, which again grew to reach 554,540 in 2016, a 5.4% increase on the previous year - Fastest growth of any motor vehicle type (passenger vehicles, trucks, buses and motorbikes);

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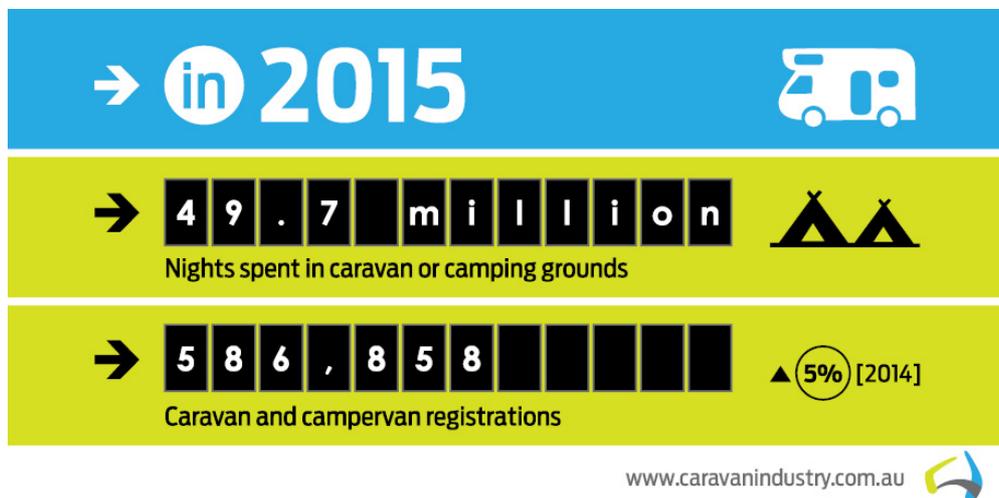
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- camper registrations were also up hitting 60,899 at 4.3% year on year increase;



- with those vehicles used almost exclusively within Australia the sector generated 49.7 million nights in caravan parks and camping grounds around the nation; and



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- Australia’s caravan and camping industry contributed \$8.6 billion in visitor expenditure to the nation’s economy in 2015.

In a trifecta of positive growth, the caravan and camping industry is also the fastest growing commercially –operated accommodation sector with 5% growth per year on average for the last 5 years.

Tourism Research Australia data, also released in August 2016, showed

- a total of 334,184 international caravanning and camping visitors, for the year ending June 2016, growing by 12% on the previous year;
- these visitors accounted for just over 5 million visitor nights in the sector, also showing an increase of 6% on the previous year.

The caravan industry, which includes accommodation operators, caravan and motorhome manufacturers and retailers, and the supply chain, is therefore a positive growth story at a time when other sectors including manufacturing are experiencing significant challenges and the mining investment boom has peaked.

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This growth has been aided by historically low fuel prices and interest rates which have encouraged increased discretionary expenditure from domestic consumers. This is further supported by the declining value of the dollar contributing to more Australians holidaying at home, creating the potential to introduce new consumers to the experience as well as reconnecting with existing markets who may have holidayed internationally in the past.



Ninety percent of caravan and camping nights takes place in regional, rural and remote Australia regions, which have disproportionately benefited from the jobs created in the industry and the vast range of businesses that service the visitor economy.

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Future Growth

With government policies that support rather than hinder growth the increased demand for caravan and camping provides immense opportunities to continue to create a unique, innovative and high quality caravan and camping experience.

Opportunities include:

- Increased inbound tourism from emerging markets. The Holiday Accommodation Parks Association of New Zealand (HAPNZ) are also reporting strong growth in their caravan and camping industry. However their growth has seen international travellers making up 30% of their market compared to only 10% in Australia. A significant proportion of that growth has come from emerging markets including China compared to Australia, which is more heavily dependent on its core markets, of United Kingdom (17%), Germany (15%), New Zealand (10%), United States (9%), France (8%) with China holding only 2% of our market share.

Caravan and Camping International Core Markets to Australia Y/E June 2016

Market	International			
	Visitors	+/- 2015	Nights	+/- 2015
United Kingdom	60,304	17%	710,980	-4%
Germany	52,769	6%	1,140,550	23%
United States	30,950	41%	295,952	29%
New Zealand	28,785	12%	350,260	-17%
France	28,410	6%	688,974	6%

Data Source: TRA, 2016

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- The development of family friendly holiday options to meet the growing needs of the 'young family' cohort.

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- designing innovative RVs to meet the increasing demand for SUVs, lighter vehicles, and alternative fuel vehicles;



- ensuring robust accreditation standards to maintain quality and consumer confidence; and



- the use of innovative digital technologies to create product and service value propositions.

With Tourism Research Australia forecasting increased growth in domestic tourism over the following years and slowing outbound travel due to the weakening dollar, the caravan and camping sector is positioned to continue to experience increased consumer demand.

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Industry feedback highlighting the risks to growth from changes in tax arrangements for WHMs.



Consultation with our stakeholders through a survey fed back that the measures announced in the 2015 Budget regarding tax arrangements for visitors on Working Holiday Maker visas have the potential to put the continuing strong growth of the caravan industry and wider tourism sector at risk. The measures have created significant concern with 70.31% submitting responses in our survey opposed to the government's proposed changes.

- 65.1% agreed that the government's proposal will have a negative impact on their regional tourism economy with 49.21% agreeing strongly;
- 61.9% agreed that the government's proposal will have a negative impact on their business with 44.44% agreeing strongly; and
- 74.6% agreed that the government's proposal will deter future working holiday makers from visiting Australia with 52.38% agreeing strongly.

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Their opposition from submitted comments showed their opposition stemmed from concerns that a 32.5% tax rate would:

- “make it even harder for businesses in regional areas to source workers. Many jobs undertaken by working holiday makers work in jobs Australians do not wish to do. If this is passed we will also see a decrease in international tourists visiting our areas which will therefore impact on the profitability of our businesses.”
- “make it harder to get people to fill the positions if backpackers are taxed more” in an environment “where it is already hard to find RELIABLE local people to employ” which “We have already noticed it is much harder than last year!”
- see WHMs taxed at such a high rate. “They arrive, willing to work hard and experience Australia. They leave quite a lot of their earnings in Australia by traveling and participating in the economy. They also pay quite a high price to even apply for the visa (unlike NZ). I feel you should not punish those who come and pick fruit as your ultimately punishing Australian farmers and business owners.”
- ensure “that holiday makers (will) decide the penalty of paying the tax will not make it worthwhile to do the work and the farmers will miss out on some much needed assistance.”
- lead to a situation where “If the temp. working holiday makers cannot earn the money they will not be able to spend in others towns. They will eventually stop coming, which will leave (our communities poorer economically and) the farmers not being able to harvest their crops before they spoil.”
- “find(ing) it tough as sometimes they only receive 3 hours a day picking grapes for example and they have to use their own car to travel to each vineyard. Taxing them at such a high bracket will have a detrimental effect on many of the rural areas....as “we have dozens of them stay throughout the year at our park.”

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- lead to a situation where “some harvest contractors will put in hundreds of forms to avoid paying tax that they have deducted forms. This will just frighten off the legal workers. if you want to sort out the industry. You need to licence the contractors.”
- for “the proposal being put forward, will lead to much more "cash-in-hand" type payments, or the more widely used and rorted "contract payment system."
- with “65% of my business income generated from accommodating overseas workers and the message I have from them that it will not be worth coming to Au(stralia) as the calculation tells them that they will earn less than in any other country including their own. The farmers depend on them to get their harvest in and at the current numbers there is not enough, we need to encourage more, not less.”
- when “they already struggle for hours (this could) drive them not to even visit this area or possibly choose another country!....Most times they work under difficult conditions and get paid very little. They spend most of what they earn travelling around Australia. “
- with “Backpackers spend(ing) all the money they earn in Australia... they just can't afford to do anything getting taxed 30% from their first dollar earned... There are more profitable/economical viable countries to travel and work (Canada and NZ)... Backpackers are vital to our tourism industry for three reasons, 1) They nail social media, better than any demographic, 2) they sell their adventures to their families and encourage them to travel here, 3) they spend every cent they've got on tours, and in restaurants, and on adventures”.

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Of the 29.69% who supported the government's proposed changes to the tax status of temporary working holiday makers in Australia their comments centred around

- “they are not contributing to the infrastructure of Australia by paying taxes”;
- “tax free threshold should apply to residents only”;
- “we pay tax, so should they as they use our roads, parks, free bbqs, showers etc etc. they also often use our hospitals and don't pay their bills”;
- “backpackers are traveling on a budget. Not all but most. They are working their way thru a vacation. they are normally the ones free camping. Caravan park managers or councils tend to be cleaning up after backpackers. yes they should pay more in taxes to pay for the clean up”;
- “everybody ought to pay tax”;
- “Keep Australians employed. Don't employ holiday makers at the detriment of Aussies”.

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Recognising the value of WHMs



The Caravan Industry Association of Australia agrees with the 1997 Joint Standing Committee on migration's report on Working Holiday Makers: More Than Tourists⁶ which stated that the "working holiday program provides direct benefits for the economy in Australia annually. Importantly, most of the money they earn in Australia is put back into the economy, thereby generating growth and employment. As a result of their propensity to travel widely and visit remote destinations, the money they spend reaches a broad cross-section of the local economy."⁷

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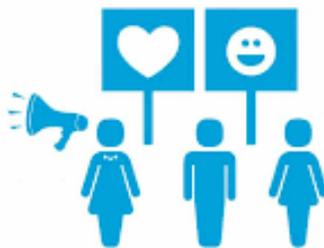
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For the caravan and camping industry in rural, regional and remote Australia WHMs



- are a source of labour prepared to work often in jobs, during seasonal periods or in places in which no Australian's are either available or willing to;
- often have professional skills which are not available locally;
- are important customers who generate additional local economic activity who make businesses in their area more sustainable. The 20 - 29 year cohort, many of whom are WHMs, generated 51% of all international caravan and camping nights, which highlights the continued significance of the international youth and WHMs to the industry;
- international caravan and camping visitors on average spent \$7264 per person (up 2% from y/e 2014) when travelling to and within Australia, compared to non-caravan and camping visitors who on average spent \$5222; and
- are 'brand advocates' including via social media for Australian tourism both when they are travelling around the country and when they return home.

Brand advocates



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Who are We?

The Caravan Caravan Industry Association of Australia is the peak national body for the caravanning and camping industry in Australia. Our organisation's vision is *"to lead and champion a robust, compliant and sustainable caravanning and camping industry"* in Australia, with all operational pillars – marketing; research; lobbying and advocacy; compliance, accreditation and training – working towards this vision.

Caravan Industry Association of Australia operates as a not-for-profit organisation with a membership base comprising the individual state caravanning and camping industry associations, who we work collaboratively with on matters concerning the caravanning and camping industry in Australia:

Our members are:

- Caravan, Camping and Touring Industry and Manufactured Housing Industry Association of NSW Limited
- Caravan Industry Association Western Australia Incorporated
- Northern Territory Caravan Parks Association Incorporated
- Caravan Trade and Industries Association of Queensland
- Caravan Parks Association of Queensland Limited
- Caravan and Camping Industries Association of South Australia Incorporated
- Caravan Parks Association of South Australia Incorporated
- Caravanning Tasmania Incorporated
- Victorian Caravan Parks Association Inc.
- Caravan Trade and Industries Association of Victoria

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As the peak national body for the Australian caravanning and camping industry, Caravan Industry Association of Australia represents over 3,500 industry businesses across the entire supply chain. Many of these industry businesses financially support the organisation by voluntarily making a contribution towards a cooperative fund that aims to grow the market and support the sustainability of the greater industry. In addition, we communicate regularly with consumers who have an interest in caravanning and camping and have an online active database of over 313,000 consumers, and social media sites which number more than 115,000 participants.

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The Appendix

The government projects that it will receive \$220 million a year in revenue from the budget decision to deem all WHM visa holders non-residents for tax purposes. Based on average backpacker earnings of \$13,300 such a projection would equal to an estimated 51,000 WHMs per year.

Proposed Tax Rates for WHMs on average backpacker earnings if all WHM visa holders are deemed non-residents for tax purposes			
Earned	Earned	Tax Rates	Tax Paid
0	\$13300	32.5%	\$4322.50
		Total	\$4322.50
		Effective Tax Rate	32.50%

Reversing the budget decision to deem all WHM visa holders non-residents for tax purposes would therefore have a cost to the Treasury of \$220M.

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Table 2

Tax Rates for WHMs on average backpacker earnings prior to 2012-13 budget			
Earned	Earned	Tax Rates	Tax Paid
0	\$6000	0%	\$0.00
\$6000	\$13300	15%	\$1095.00
		Total	\$1095.00
		Effective Tax Rate	8.23%

With 51,000 WHMs paying \$1095 in tax the government would raise \$55.8M which would be a cost to the Treasury of \$164.2M (\$220M - \$55.8M) on the \$220M it had expected to raise from deeming all WHM visa holders non-residents for tax purposes.

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Table 3

Tax Rates for WHMs on average backpacker earnings with a tax free threshold for non-residents at a level, half that of residents			
Earnings	Earnings	Tax Rates	Tax Paid
0	9100	0%	\$0.00
9100	13300	32.5%	\$1365.00
		Total	\$1365.00
		Effective Tax Rate	10.26%

With 51,000 WHMs paying \$1365 in tax the government would raise \$69.6M which would be a cost to the Treasury of \$150.4M (\$220M - \$69.6M) on the \$220M it had expected to raise from deeming all WHM visa holders non-residents for tax purposes.

New Zealand Tax Rates for WHMs on average backpacker earnings			
Earnings	Earnings	Tax Rates	Tax Paid
0	14000	11.95%	\$1673.00
			\$0.00
		Total	\$1673.00
		Effective Tax Rate	11.95%

Canada Tax Rates for WHMs on average backpacker earnings			
Earnings	Earnings	Tax Rates	Tax Paid
0	14000	15%	\$2100.00
			\$0.00
		Total	\$2100.00
		Effective Tax Rate	15.00%

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