



2 September 2016

The Hon. Barnaby Joyce MP
Deputy Prime Minister
Minister for Agriculture and Water Resources
PO Box 6022
Parliament House
CANBERRA ACT 2600

Via online portal

Dear Deputy Prime Minister,

The NSW Business Chamber (The Chamber) welcomes the opportunity to make a submission to the Working Holiday Maker Visa Review.

As you may be aware, the NSW Business Chamber (“the Chamber”) is one of Australia’s largest business support groups, with a direct membership of more than 19,000 businesses, providing services to over 30,000 businesses each year and supported by a dedicated Tourism Industry Division. Tracing its heritage back to the Sydney Chamber of Commerce established in 1825, the Chamber works with thousands of businesses ranging in size from owner operators to large corporations, and spanning all industry sectors from product-based manufacturers to service provider enterprises.

The Chamber is a leading business solutions provider and advocacy group with strengths in workplace management, occupational health and safety, industrial relations, human resources, international trade and business performance consulting.

With a membership that spans across NSW and with many of our member businesses, particularly those in regional NSW, utilising Working Holiday Makers (WHM) as an essential source of labour this review is very much welcome.

At the outset, the Chamber wishes to note its appreciation and understanding of the challenging fiscal environment for Government generally and the ongoing need to identify suitable savings to bring the budget back into surplus.

Despite this, we believe that the proposed change to the tax treatment of WHMs that would see these workers taxed 32.5 cents for each and every dollar they earn while in Australia would impact significantly in terms of the attractiveness of Australia as a working holiday destination and consequentially the availability of labour in the critical sectors of tourism and agriculture (particularly in regional NSW).

Indeed today's figures reveal a disturbing trend with a significant 7% drop in the number of nights backpackers are spending in Australia. Conversely, over half of our top 20 inbound markets revealing record visitor numbers and many with spending growth in the double digits.

This submission follows consultation with some of our key members involved in the tourism and agriculture industries with many of these members based in regional NSW.

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This submission also supports broadly the positions outlined by the Australian Chamber of Commerce and Industry (“the Australian Chamber”) in its submission to this review.

Our key recommendations to Government are set out below:

- **Not proceed** with changing the tax treatment of working holiday makers;
- **Proceed** with the revenue targets announced in the 2015 budget but, as suggested by the Australian Chamber, meet this revenue through initiatives that actively encourage WHM visitors;
- **Regardless of either approach taken**, as both a red tape reduction measure and to make Australia a more attractive destination for WHM’s, allow those workers employed under visa subclass 417 and 462 to receive their 9.5% ordinary time earnings superannuation contribution directly in their pay.

Importance of Working Holiday Makers

Working holiday makers are a vital source of labour for many businesses across Australia. In 2014-15, Australia received 226,812 international visitors who arrived on Working Holiday Maker (subclass 417 and subclass 462) visas with which they can undertake temporary work¹. These visitors spend on average \$8,558 while in the country, a significant amount of which goes directly into regional and rural areas².

Data supports that WHM’s stay long, spend more and disperse around regional Australia and are critical in supporting economic growth outside of metropolitan centres.

Australia is already in a fierce competition for working holiday makers, with New Zealand, Canada and South Africa offering similar tax arrangements to Australia’s current scheme. The cost of an Australian working holiday maker’s visa is already \$290 more expensive than the same in Canada. The Chamber understands that the majority of Northern Hemisphere backpackers plan their trip as a two centre experience combining Australia and New Zealand to work. This regressive tax only fuels the likelihood of this lucrative market visiting Australia for a shorter time and working predominantly in New Zealand over a longer period and spending more of their income over the Tasman.

It is the Chamber’s view that further disincentives to choose Australia as a working holiday destination, through higher tax rates will be ruinous for industries such as horticulture, viticulture, tourism and hospitality that rely heavily on this source of casual labour. If the cohort of working holiday makers diminishes, businesses, particularly those in regional Australia, will struggle to fill jobs that most Australians are reluctant to take, such as fruit picking and room cleaning.

As the Chamber stated at the consultation forum on these changes, the great advantage of these workers is their mobility. With limited social ties to any location or place in Australia, these workers are far more prepared than their Australian counterparts to travel to find work, even if the work is seasonal in nature. While this mobility is a very attractive characteristic, it also means that where other disincentives are put in place, these workers are far more likely to move to other opportunities.

¹ Department of Immigration and Border Protection

² Destination NSW

Recent research by Monash University's Centre for Australian Studies bears out the concerns of the Chamber. A survey of 335 working holiday makers (WHMs) currently in Australia indicated that:

- 60 per cent would not have come to Australia if they were taxed at 32.5 per cent
- 57 per cent indicated they would spend less time in Australia if the tax were imposed
- 69 per cent indicated that they would spend less on tours

Media commentary by WHMs also reflects these findings. Jessica Murphy a WHM from London working in Griffith recently stated to the media:

*"If the backpacker tax takes effect in January, I will move to New Zealand and my friends considering traveling to Australia will also choose New Zealand or Canada. A couple of the guys here drive tractors, I picked fruit; we're happy out in the fresh air doing jobs locals don't want to do but there's no point coming here if we're just working to survive. We're quite confused and angry; we've spent a lot of money coming all this way and now we have no idea whether we'll be able to afford to stay."*³

It should be emphasised that while WHMs do provide an important pool of labour and assist in addressing skills shortages it is their expenditure in Australia that is most valuable to the wider economy.

In its 2009 *Evaluation of Australia's Working Holiday Maker (WHM) Program*⁴, the former Department of Immigration and Citizenship found the gross contribution of WHMs to expenditure in 2007-08 was approximately \$1.8 billion. The study also found that for every 100 WHM visa holders 6.3 full time jobs were created.

We appreciate the tough headwinds facing the federal budget however measures that will significantly impact on both the attractiveness of Australia as a working holiday destination and on the ability of businesses, particularly those in regional areas, to source staff are not an appropriate way to try to bring the budget back into balance.

With the Chamber hearing reports that some businesses in key industries are already experiencing 50 per cent drops in job applicants, as potential visitors are learning of the potential tax changes and choose not to come to Australia there are real risks that the projections in the budget forecasts will not be met and even if implemented, the tax change will not achieve the savings identified.

Alternative approach to meeting the revenue target

As outlined above, the Chamber believes the negative impacts of this tax significantly outweigh any benefits. If, however, the revenue target is non-negotiable then, as outlined by the Australian Chamber in its submission, the revenue could be met or exceeded at a much lower tax rate if steps are taken to actively encourage increased numbers of WHMs.

³ *Backpacker tax could cripple Riverina wine vintage labour stocks* Daily Advertiser, 17 August 2016

⁴ <http://iussp2009.princeton.edu/papers/92045>

This could be achieved through initiatives such as allowing an automatic visa extension (to a second-year) for those WHMs that spend 3 months or more working in regional areas, and by increasing qualifying age caps and expanding the program to additional countries. Doing so would both help ensure that key industries have a willing and available pool of labour to draw on and, more generally, help increase economic activity.

Reduce Red tape and Ensure Australia remains an attractive destination for WHMs

Regardless of which approach is taken, to reduce red tape in employing WHMs and to make Australia as attractive a destination as possible to WHMs, the Government should look towards changing superannuation arrangements for those workers on visa subclass 417 and 462.

Allowing these workers to be paid their superannuation contribution (9.5% of ordinary time earnings) as part of their taxable income would significantly reduce red tape for both employers and workers. With WHMs often working for multiple employers in Australia, it would stop the need for employers to register these workers for superannuation as well as reduce the proliferation of super accounts with different super funds.

Despite promoting the collection of superannuation contributions to Working Holiday Makers, the Chamber understands very few collections are made. This is likely because the amount of the contribution is so small that it is not worth rolling into another fund (due to the cost of administration fees) or that the WHM is simply not willing to go through the administrative challenge of collection. As eligibility for the refund requires the visa holder to have departed Australia, this change would see WHMs better able to spend this money while living and working in Australia.

Under the current scenario, employers bear the administrative burden of making contributions with no net benefit delivered to the employee or the economy. Making this change would serve to reduce red tape, boost expenditure and ensure that Australia remains an attractive destination for WHMs.

Thank you for the opportunity to participate in this consultation. If you have any further questions in relation to this submission, please feel free to contact [REDACTED], Senior Manager, Policy on [REDACTED] or [REDACTED].

Yours sincerely,



Paul Orton
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NSW Business Chamber

