



Minister for Education and
Minister for Tourism and Major Events

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14 SEP 2016

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

Dear Deputy Prime Minister

Submission to the Working holiday maker visa review

We write on behalf of the Queensland Government regarding the Australian Government's review of issues affecting the supply and taxation of labour performed by working holiday maker visa holders, in particular the application of a tax rate of 32.5 per cent for non-resident 417 and 462 visa holders (the Review). The Palaszczuk Government welcomes the opportunity to provide a submission to the Review and appreciates the extension provided by the Review Team to allow this.

The announcement in the Budget was a cause of significant concern in view of the likely flow on effects on the tourism and agricultural sectors, as well as broader rural and regional Queensland. Peak tourism industry bodies throughout Australia (Australian Chamber National Tourism Council, Australian Tourism Export Council and Tourism and Transport Forum (TTF)) have expressed significant concerns about the removal of the tax-free threshold. The TTF and the National Farmers' Federation (NFF) have jointly called on the Australian Government to recognise the serious concerns regarding the negative impact of the proposed backpacker tax on industry.

Furthermore, agricultural peak bodies (Australian Farmers Federation, Queensland Farmers Federation (QFF), Growcom, Cotton Australia and AusVeg) have also been vocal about their opposition to the proposed change in taxation arrangements.

While the Palaszczuk Government acknowledges the importance of identifying sustainable revenue streams, it is critically important that the flow-on effects are fully considered. There is a need to recognise the economic potential and social benefits backpackers bring to Australian communities beyond being a source of tax revenue.

Without such input, regional tourism in particular would experience potential structural limitations to growth and sustainability. A backpacker travelling and working in Australia creates economic activity; they will also spend most of what they earn in the local economy.

On behalf of the Palaszczuk Government we provide the Queensland Government submission to the Review.

If your officers require any further information regarding this matter, please have them contact Mr Damien Walker, Deputy Director-General Tourism, Department of Tourism, Major Events, Small Business and the Commonwealth Games by telephone on (07) 3338 9395 or via email at damien.walker@dtesb.qld.gov.au.

Yours sincerely



HON KATE JONES MP
Minister for Education and
Minister for Tourism and Major Events



HON LEANNE DONALDSON MP
Minister for Agriculture and Fisheries

Encl.

Submission to the Working holiday maker visa review

The Queensland Government was pleased to note the Australian Government's intention to review the broad range of issues affecting the supply and taxation of labour provided by working holiday maker (WHM) visa holders; in particular the application of a tax rate of 32.5 per cent for non-resident 417 and 462 visa holders (the 'backpacker tax').

The Palaszczuk Government appreciates the opportunity to provide a submission to the WHM visa review. The announcement in the 2016-17 Commonwealth Budget of the proposed backpacker tax was a cause of significant concern in view of the likely impacts on two of the State's most significant industries – agriculture and tourism, and the flow on effects to important rural and regional centres in Queensland reliant on this labour force.

Importance of the backpacker market to Queensland's regions and businesses

The backpacker market is important to Queensland. Based on Tourism Research Australia's (TRA) release of International Visitor Survey data for the 2015-16, there were 331,000 international backpackers who decided to travel to Queensland; accounting for 28.3 per cent of total visitors to Queensland. Backpackers contributed \$892 million in total international expenditure to Queensland and, on average, spent \$2,693 on their trips in Queensland, equating to \$75 per night.

Additionally, this important cohort of visitors result in significant regional dispersal in terms of their demand for goods and services, with backpackers often travelling beyond Queensland's gateway destinations.

Notably, five of Queensland's regions currently rank in the top 10 destinations visited by backpackers in Australia based on visitor nights. Brisbane, Tropical North Queensland and Gold Coast regions were ranked third, fifth and sixth respectively, while the Sunshine Coast and Whitsundays regions were ranked ninth and tenth respectively.

There is a need to ensure that Australia presents a compelling reason for backpackers to continue to visit Australia. Given the cost to travel to Australia from some key backpacker markets, such as Europe, and Australia's high standard of living, Australia is already often viewed as a relatively expensive destination for travellers compared with other alternatives. A tax on WHMs wage income, which will lower their disposal incomes while visiting Australia, will potentially impact on their willingness to travel and work in Australia and may be a key determinant in their decision whether to travel to Australia or how long they stay in the country.

Australia needs to remain competitive and keep pace with other regional tourist destinations. Queensland's backpacker market has proven a resilient market and, based on 10 year trend data, it appears the market has been relatively robust and continued to perform strongly in the face of previous challenges, such as global economic downturns and foreign exchange rate fluctuations.

However, a recent study by Monash University and YHA Australia points to Australia becoming a less attractive destination to travellers if the backpacker tax is to proceed. The study involved a survey of international WHM staying in hostels in two Queensland Destinations, Cairns and Port Douglas, as well as in Melbourne and Mildura.

The study found that 60 per cent of the individuals surveyed would not have come to Australia if they were taxed at 32.5 per cent, 57 per cent said they would spend less time travelling in Australia, and 69 per cent indicated they would spend less on tours if the changes were to take effect.

Queensland's tourism industry is a major contributor to regional economies, which rely heavily on WHM visa workers to undertake many regional tourism and hospitality jobs for which local labour is unavailable and/or have strong seasonal labour demand.

The impacts of the backpacker tax on the tourism sector are likely to be significant in terms of reduced visitor spending, with significant impacts likely to be felt throughout the State in key tourism areas, with some of the State's tourism regions relying heavily on the backpackers' market tourism expenditure. For example, in 2015-16, there were 113,000 backpacker visitors to the Whitsundays region, accounting for 50.9 per cent of the total international visitation to the region.

The YHA/Monash study highlights the potential risk to the tourism sector across Queensland through the possible flow-on effects on regional tourism operators, through both lower visitor numbers and reduced expenditure. The YHA/Monash research also concluded that New Zealand would likely benefit from the changes in the tax threshold, with 62 per cent of those surveyed saying that, had the Australian tax been in effect, they would have considered taking a working holiday in New Zealand instead of Australia.

Any substantial decline in backpacker visitor numbers would likely have significant impacts throughout the tourism supply chain. Backpackers travelling and working in Australia directly support economic activity - they will spend most of what they earn.

In addition to their expenditure on tourism-related activities, backpackers make a valuable contribution to regional communities and economies more broadly, with the dollars they earn, particularly in Queensland's rural and regional centres, being injected back into the local economy, through the consumption of meals, drinks, accommodation and other goods and services.

Similarly, WHM visa holders make up a valuable market segment for another key export – Queensland's international education and training (IET) services. In 2015, Queensland had a total of 26,024 English Language Intensive Courses for Overseas Students (ELICOS) student visa enrolments. Deloitte Access Economics have estimated that these students spent \$201 million in Queensland (export value), resulting in \$163 million in Queensland Value Added.

It should be noted that English Australia research indicates that nationally approximately 35 per cent of ELICOS students are not travelling on a student visa; and of these students, 19 per cent were travelling on a tourist visa, and 11 per cent on a WHM visa. This percentage is likely to be significantly higher for Queensland, due to Queensland's strength as a tourism destination.

Concerns of key Queensland industry stakeholders

This study is of specific concern in terms of the potential impact on local tourism operators, regional economies and the overall number of backpackers visiting Queensland.

The Queensland Government notes there are significant concerns raised by key industry bodies, particularly associated with the tourism and agricultural sectors, on the potential adverse impact of the tax. In particular, concerns have been raised by stakeholders in both the agricultural and tourism sectors that a removal of the tax-free threshold will prove a disincentive for travel to Australia.

The peak tourism industry bodies throughout Australia (the Australian Chamber National Tourism Council, the Australian Tourism Export Council, the Tourism and Transport Forum), and the Queensland Tourism Industry Council have all expressed significant concerns about the removal of the tax-free threshold and the impact on backpacker and other WHM visitor numbers, tourism and related expenditure, regional small businesses, and the capacity to attract seasonal labour.

Furthermore, agricultural peak bodies (Australian Farmers Federation, Queensland Farmers Federation (QFF), Growcom, Cotton Australia and AusVeg) have also been vocal about their opposition to the proposed change in taxation arrangements.

Labour supply impacts

The backpacker tax is likely to have the most significant impact on labour supply in the agricultural and tourism industries, which have strong seasonal demand for workers. Any resulting labour shortage may result in reduced output for Queensland businesses, while also reducing their competitiveness.

Tourism

Backpackers are an integral part of the regional tourism workforce in Queensland. It is noted that the Deloitte Access Economics Australian Tourism Labour Force Report: 2015-2020 commissioned by Austrade highlighted that one area where the Australian Government can influence labour supply conditions is through the working visa arrangements.

WHM and temporary skilled migrants make up 7 per cent of the tourism workforce nationally and continue to play an important complementary role in filling short term gaps in tourism supply and skills, including enabling businesses to respond to seasonality. Significantly, of the Queensland-based tourism businesses completing the associated survey, 9 per cent of employees were identified as being international workers.

Agriculture

Demand for labour in many of Queensland's agriculture industries is highly seasonal, difficult to predict and subject to extreme weather events and other factors that are difficult to control. These conditions have contributed to a reliance on WHM in the agriculture workforce, and consequently, strong concerns about any policies that may reduce the supply of that labour.

Horticulture industries in Queensland provide the clearest example of the importance of WHM in agriculture production.

Horticulture in Queensland is extremely diverse with more than 120 different commodities in commercial production, all of which have different labour needs. Australian Bureau of Statistics data indicates Queensland accounted for 29.6% of national horticulture production in 2014-15 (worth \$8.1 billion). These figures include 95% of Australian bananas, subtropical fruits like mangoes and avocados, and much of Australia's fresh vegetable supplies during winter.

As a result of these high levels of production, key agricultural regions such as Bundaberg, the Lockyer Valley and the Bowen Gumlu region have very high demand for labour at specific times in their production cycle. These regions have become particularly reliant on WHM due to the flexibility and adaptability they offer the industry.

The horticulture workforce includes a small number of permanent workers, largely as owners, managers, supervisors and technicians, who are generally permanent Australian residents. In addition, horticulture has very large seasonal labour requirements associated with activities like planting and harvest, when there is very high demand for low-skilled labour, often for short periods of weeks or up to several months. Fruit and vegetable harvest periods can be particularly labour intensive - some farms can employ hundreds of backpackers for picking and packing over a single harvest season.

WHM are valued highly for their flexibility. They are asked to undertake physically challenging jobs in fields and in packing sheds for relatively short periods of time, but moving on when it's finished. This is critical to the agricultural industry given the work required in different horticulture sectors is unpredictable, widely dispersed and varies greatly in scale and duration.

The demand for labour in the horticulture industry is not likely to decline in the short to medium term. Despite considerable investment in mechanisation to date, picking and packing of produce will continue to require intensive labour in most cases.

QFF has claimed that backpackers contribute more than \$3.5 billion to the economy each year as some 40,000 workers come to regional areas to work on farms. The current agriculture industry campaign in opposition to the removal of the tax threshold focuses on the impact of the tax on Australia's competitiveness in the market for backpackers as travelling workers. The agriculture industry is particularly concerned that this higher rate of taxation will drive backpackers into other markets such as Canada and New Zealand. The YHA/Monash study of local backpackers supports this assertion.

Conclusion

As the Australian and Queensland economies transition from strong mining-based growth to more broader-based drivers of economic growth, it is important to pursue policies that promote sustainable jobs for the future.

The Palaszczuk Government continues to deliver on its strong commitment to job creation as a core policy objective to lead Queensland to a more prosperous and inclusive future. While there are signs of improvement in the labour market, conditions remain challenging in several of the State's important regional areas, reflecting the impacts of drought and the slow-down in the resources sector.

The Government's \$100 million two-year Back to Work Regional Employment Package, announced as part of the recent 2016-17 Queensland State Budget, will also help support up to 8,000 regional jobs, help employers to build the confidence to take on staff and provide an economic boost to regions facing these economic challenges.

The 2016-17 Queensland State Budget is also supporting tourism growth and jobs through both: the Tourism and Events Queensland Tourism Guarantee which will deliver \$49.9 million over two years, restore Tourism and Events Queensland (TEQ) funding and enable TEQ to continue to drive visitation and inspire the world to experience Queensland and the Advance Queensland: Connecting with Asia Strategy \$33.5 million over four years which will increase Queensland's share of the Asian tourism market and grow tourism jobs in regional Queensland.

However, in the face of the Queensland Government's ongoing efforts to support and drive economic growth and employment across the State, any introduction of the backpacker tax is likely to adversely impact economic activity in many key regions of the State. This impact will be felt in both tourism areas visited by these travellers and key regional areas where there is a greater reliance on WHM to provide the required labour during peak seasons, and on a short term and flexible basis.

It is critical the Australian Government recognises the economic potential and social benefits WHMs and backpackers bring to the regional and broader Australian community, beyond being a source of tax revenue.

Any significant reduction in the number of WHMs travelling to Australia could impact substantially on regional tourism and the agricultural sector, thereby limiting regional growth and sustainability.

It is also anticipated that WHM visa holders may be less likely to stay and study in Queensland if the proposed tax is introduced. This could particularly impact Queensland's ELICOS sector, which is an important pathway into all international education and training sectors including schools, Vocational Education and Training (VET) and higher education.

Backpackers also make significant contributions to the social services they utilise in remote and rural communities and have become an important part of these communities.

While the Queensland Government acknowledges the importance of governments identifying sustainable revenue streams, it is critically important that the substantial flow-on effects of any changes to taxation arrangements to backpackers and other WHMs are fully considered by the review and any potential detriment more broadly to regional economies is minimised.

It should be noted that it has been argued by some commentators and academics that the backpacker tax could substantially increase incentives for tax evasion and particularly cash related dealings which is contrary to an underlying policy principle suggested by the proposed introduction of the backpacker tax – that working holiday makers pay a fair level of tax while in Australia.

Further, while the Palaszczuk Government acknowledges that even though the backpacker tax has not yet been implemented, the fact that it was announced almost 18 months ago is starting to have an impact on backpackers' perception of Queensland and Australia's affordability and competitiveness as a backpacker destination.

Therefore in order to undo the damage that the announcement of the tax has created, the Australian Government should devote an additional \$10 million to Tourism Australia (TA) to enable TA to develop and implement a backpacker marketing campaign.