

27th August 2016

Submission to the review into Taxation treatment of foreign holiday workers in Australia

Dear Review Panel,

I am a second generation Australian farmer and hold a Bachelor Degree in Agricultural Economics from the University of Queensland. I am the direct employer of 120 seasonal workers on my strawberry farm and have been farming in horticulture for around thirty years. I believe I am relatively qualified to make this submission and I am urged to make said submission as the proposed changes to the taxation treatment of foreign holiday workers will directly impact my business and will have onerous and significantly detrimental, long term impacts on our Country and its food security.

Why are these foreign workers so important? Around thirty years ago the typical Australian horticultural farm was family owned and operated with family members supplying a large percentage of labour. Farms were typically small and seasonal labour requirements were equally small and largely provided by local residents and itinerant labourers. Today, the number of family farms has declined substantially but the size of business units has increased in proportion with a much higher requirement for outside labour. Anecdotally, in the strawberry industry, the average farm in the 1980's grew around 20,000 plants with family labour used for harvest and packing operations. Today, strawberry farms grow around 100,000 to 3,000,000 plants each and have very high labour demand for harvest and packing operations.

At the same time farm businesses have increased in size, **Australian employment in agriculture has declined to less than 3%**. That decline is not because farmers do not want Australian workers but is more indicative of population migration to urban areas, more generous social welfare systems and a general unwillingness/inability to perform physical labour in the modern workforce. **Employment in the agricultural sector in Australia continues to decline** and halved in the two decades to 2012 to 2.5% of all persons employed ([Labour Force, Australia, Detailed, Quarterly, Feb 2012](#), 6291.0.55.003). On my farm, over 90% of our workforce is foreign labour and this would be similar across most horticultural businesses. So it is imperative to acknowledge that the **97% of food we produce in Australia for domestic consumption is heavily dependent on foreign backpacker labour**. Jeopardising that supply of labour will immediately impact food production, availability and pricing for the Australian consumer.

If the pool of foreign labour is reduced there will be large increases in the cost of basic food items as farmers would be forced to downsize production in line with labour resources. **Any impact on farming will have a much larger impact on the wider economy** as *'agricultural production has significant multiplier effects for other industries. These include activities such as supply of the goods and services that are inputs to agricultural production, and the downstream activities supported by agriculture (such as transport, processing and sale of agricultural commodities). Particular examples can be found in the Food retailing industry, which employed 434,000 people in Australia in 2009–10, and the Food product manufacturing industry, which employed 210,000 people'* ([Australian Industry](#),

[2009–10](#), 8155.0). It has been calculated that agriculture has a multiplier effect of greater than 14 in the economy. So while this may seem to affect only a small percentage of the economy at face value, **the impacts of the 'backpacker' tax will be felt far beyond the farm gate**. No government wants to be remembered as the one that killed the Aussie farm and introduced massive food shortages and that is exactly what the proposed tax on foreign workers (90% of the workforce in food production and processing) will achieve.

From discussions with backpackers and labour hire contractors and from industry research, the proposed changes to taxation of foreign workers will detrimentally affect the availability of foreign labour in Australia. Those foreigners looking for a working holiday experience outside Europe/Asia will simply change their destination to a country with lower taxation. The whole concept of the working holiday is to earn enough money to fund the extended holiday. Backpackers don't usually go home with bags of cash, they spend up to 80% of what they earn in the destination country. If the Government takes thirty percent of their hard-earned wage as taxation, that is an unacceptable financial loss to the average backpacker. Especially in a country like Australia where rent, electricity, fuel and cigarettes are high compared to other OECD countries. These people are not stupid, they will go elsewhere and social media will ensure that the impact is almost instantaneous. **This presents an unacceptable risk** for the agricultural, tourism and food retailing and processing industries that rely on this labour pool.

It is wrong and extremely naive to assume that the void created by fewer foreign workers coming to Australia, in response to these proposed taxation changes, will be filled by Australian workers. This will not happen for the following reasons:

Lack of available Australian workers (around 200,000 foreign backpackers annually)

90% of the population live in urban areas (60% in capital cities) away from regional employment opportunities.

Generous social welfare and intergenerational unemployment issues make manual work less attractive for large sections of society.

Lack of job-ready school leavers due to higher rate of university participation

Difficulty in obtaining drivers licence for young Australians especially in the demographics that would normally be employed in agriculture

Unemployed labour pool is largely unemployable (drugs, alcoholism, etc)

Maturing workforce not suitable to highly physical labouring jobs – not being ageist, a simple reality.

It is also wrong to assume that unemployed persons can be forced to work on farms as part of a scheme such as work for the dole. The main reason being that efficiencies required by farm businesses require a willing, happy workforce. Forcing workplace participation will not guarantee positive outcomes. Farms are also potentially dangerous workplaces and persons forced to participate in such employment will present a considerable risk to the safety of themselves and others. Farmers should expect the same level of diligence from their staff as all other sectors of the economy.

After a ten year break from strawberry production, my family re-entered this industry in 2012 and discovered a whole different reality from that we experienced a decade earlier when we employed mostly locals. Despite advertising regularly and widely, using employment service agents and technology/social media to attract staff we have been unable to source more than 5% of our required workforce locally. It has been our experience that the willingness/ability of persons in the 'available' labour pool to actually work is negligible with the large majority having drug dependency issues (ice), alcoholism or physical and or mental health issues which prevent them from being productive and reliable workers. We borrowed a lot of money to set up our strawberry farming operation and require over one hundred staff for picking and packing operations each season. With our unsuccessful experiences in employing locals for these roles, we are extremely nervous about any changes that will impact the availability of foreign workers. From industry research and our own enquiries, the proposed tax rate of 32.5% will definitely reduce that pool of foreign workers. Without that pool of workers, we cannot farm at a level that will service our debt and that puts at risk the jobs of our ten permanent workers. More significantly, with 90% of the workforce that plant, prune, pick, pack and process our horticultural crops being sourced from that pool of foreign workers, any impact to that pool will directly impact food production in this country on a massive scale. As most farms are highly geared, there will be an immediate and irreversible impact on farm viability which will take most of us out of production as our financiers foreclose on businesses that are no longer able to service debt.

We have been directly involved in "The Sweetest Job" campaign this season and started 15 Australian staff under this program. From that we have kept four staff in hourly rate positions, the others moved on after one day. So we did not gain one single person for picking or packing positions, these remain filled by 100 foreign workers. The staff we did hire are great but their positions (QA and supervisory) will only remain until the end of harvesting in October and we will not be requiring them until April/May 2017 and do not have enough work or money to keep them employed for six months. This is the nature of seasonal employment, no job security and no continuity of employment for the vast majority of staff. This is the fundamental reason why most Australians are not interested in this industry for employment and we cannot blame them for lacking enthusiasm here. In contrast the backpacker labour force is ongoing, mobile, enthusiastic and willing to work in less than glamorous conditions while travelling around Australia as this is only a break from their 'normal' lives so they approach the work as an adventure. We have employed mechanics, IT and administration clerks, golf teachers, chefs, business owners, fashion designers, travel agents, circus clowns..... the backgrounds these 'backpackers' come from are diverse and interesting but they are all employed persons in their normal lives, so they are job ready and motivated and a great asset across the country. When the season is over and there is no longer work in one area, they are happy to do some touring and holidaying until they find the next position. This is exactly the type of workforce that suits the seasonal requirements of food production. Without that enthusiastic, energetic supply of labour, food production systems will cease to function.

Options:

Short term:

Change the definition of Australian Resident for taxation purposes to remove access to the \$18,000 tax free threshold. Reduce the rate of the proposed tax in line with rates in New Zealand, Canada (our competitors in the working holiday market) we suggest 13-15% is fair and reasonable.

If foreign workers aren't considered Australian residents for taxation purposes, they are ineligible for superannuation of 9.5% according to the definitions specified in superannuation law. The government could still require employers pay the 9.5% as a tax on foreign workers to the ATO instead of to the employee to ensure level playing field with Australian workers. This would be attractive to employers as simpler than creating hundreds of funds each year and relieves a large administrative burden on superannuation funds.

Long term:

Identify secondary students that are not university oriented and assist them to develop characteristics conducive to the workforce such as respect for authority (employer/teacher), competitiveness, self motivation, self esteem, enthusiasm. None of which is cultivated in non-academic students in a one-size-fits-all education system that favours the scholarly.

Government funded seasonal worker scheme for Australians whereby six months of participation in employment on farms as a seasonal worker immediately qualify for faster access to unemployment benefits for following 3-6 months. Use the foreign worker superannuation proceeds to fund this scheme. Operate similar to paid maternity leave scheme with 18 weeks of pay if worked in horticulture for previous 6 months.

Reduced welfare dependency.

Open up the foreign worker scheme to other countries such as Vietnam, Malaysia, Thailand, China, Indonesia, etc., with the promise of fast-tracked immigration in the future if work for 2 years on farms. Stop the boats by providing legal immigration pathways for unskilled workers into regional areas.

Increase/fast-track immigration rates for semi/unskilled workers if they agree to be located and work in rural/regional areas and industries for 5 years minimum.

Have an Australian 'backpacker' scheme that promotes travel to regional areas for work for at least two years for young Australians. Will require some incentive such as tax breaks or free dental for those willing to participate and travel around Australia or make it into a reality tv series/blog for their 15 seconds of fame.

Make it easier to provide on-farm accommodation facilities for itinerant Australian workers. Current planning policies basically preclude this from happening due to high costs/planning restrictions at local government level. Cheap rent on-farm is necessary for a mobile workforce.

Better internet/wifi in rural areas. We employ 120 staff and are only 500m from Caloundra yet cannot get ADSL and NBN is never going to happen. How can we attract young local workers if cannot provide access to wifi.

I trust that you may consider the information provided in this submission as indicative of the potential detrimental impacts of the proposed 32.5% 'backpacker' tax and please be careful in undertaking such changes when the benefits may be negligible. After all, we aren't increasing a tax on an addictive substance (such as tobacco) where those impacted generally wear the increases. If the mobile, intelligent, techno-savvy foreign backpacker knows they will be worse off in Australia with the proposed tax, they will simply go somewhere else and provide another country with the benefits of their labours. Australians will be the losers here and any Government that is responsible for bringing in such a short-sighted, stupid tax in the naïve belief it will benefit our Country in any way, will be long remembered for the pain they inflict on our economy, our society and our food security.

Yours sincerely,

Dianne West

B.Agr.Econs.