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# Australian Chamber – Tourism: Submission to Senate Economics Legislation Committee, Inquiry into Working Holiday Maker Reform Package

**21 October, 2016**

Australian
Chamber of Commerce
and Industry

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and Industry

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Australian Chamber of Commerce and Industry

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# 1 Summary

Australian Chamber – Tourism is a part of the Australian Chamber of Commerce and Industry, Australia's largest business advocacy network. On behalf of the one in eight Australian businesses engaged in the visitor economy, Australian Chamber – Tourism is responding to the Government's Working Holiday Maker Reform Package.

Australian Chamber – Tourism remains of the view that removing of the tax-free-threshold for the vast majority of working holiday makers will constrict labour supply for tourism businesses. It will also have a net negative impact on the economy, particularly regional economies, as taxation is substituted for direct spending in local businesses. This negative impact remains even with the compromise 19 per cent rate. However, as the Government has made revenue targets the clear bottom-line objective, Australian Chamber – Tourism supports the 19 per cent rate combined with measures to increase demand (wider eligibility and promotion).

In particular there is strong support for the continuation of labour supply measures, promotion, visa fee reductions and increased age eligibility.

This submission however outlines our strong concerns about the paucity of assessment of this measure, its impact on demand and the basis for the revenue figures provided by the Government. Australian Chamber – Tourism does not accept that an increase in the Passenger Movement Charge is required to meet the Government's revenue targets.

# 2 Recommendations

1. **That the committee recommend passage of the Income Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016, subject to the Government undertaking a review (when a full year's figures are available) of whether revenue from the measure is meeting or exceeding targets, the impacts on labour supply, and demand for working holiday maker visas.**
2. **That the committee recommend the Parliament reject the Passenger Movement Charge Amendment Bill 2016 based on:**
    a. **Adequate revenue being derived from the income tax and superannuation measures to meet the revenue projections outlined as being required by the Treasurer, without the need for the increase in the rate of the Passenger Movement Charge;**
    b. **There having been no assessment of the impact on the competitiveness of Australia's visitor economy of the measure; and**
    c. **Any future proposal to increase the rate of the Passenger Movement Charge being made in consultation with the sector, after assessment of the impact on demand and competitiveness and with measures in place to ensure a proportion of additional revenue is directed to growing visitation and improving product.**

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3. **That the committee recommend the passage of the Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2016**
4. **That the committee recommend amending the Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016 to include new provisions linking the reporting requirements contained in Schedule 3 to a review of the impact of the new arrangements. In particular to review (and recommend changes if negative impacts are apparent) the revenue actually received, impact on labour supply and demand for Working Holiday Maker visas.**

# 3 Introduction

Australian Chamber – Tourism welcomes the opportunity to comment on the four pieces of legislation making up the Working Holiday Maker (WHM) Reform Package.

- Income Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016
- Passenger Movement Charge Amendment Bill 2016
- Superannuation (Departing Australia Superannuation Payments Tax) Amendment Bill 2016
- Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016

As the committee would be well aware this legislative package is the latest step in a process that started in the 2015 budget with the announcement that WHMs were to be treated as non-residents for income tax purposes.

Many organisations representing the visitor economy strongly opposed that measure from the time it was announced.

At the core of opposition to the original 2015 budget measure was concern about the impact on labour supply for tourism businesses and on demand for our tourism exports. In both cases the concern was particularly heightened for regional communities.

There is also a strong concern about the negative economic impact for regional communities of taxing funds that have previously been spent directly with local businesses.

A common theme of many submissions opposing the measure was that the changes were proposed without an assessment of the impact on demand for visas (and therefore labour supply) or modelling of actual revenue expected.

This is the key issue framing this submission as well. The need for a comprehensive assessment of demand impacts of the measures proposed and the anticipated revenue from the measures. Policy measures in any sector worth such a significant amount to export earnings and GDP should not be taken without an evidence base.

Australian Chamber – Tourism made a submission to the Government's most recent review. The submission is available at http://www.agriculture.gov.au/SiteCollectionDocuments/ag-food/working-holiday/submissions/australian-chamber-national-tourism-council.pdf .

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Australian Chamber – Tourism remains of the view that there should have been no change to the pre-2015 tax status of WHM visa holders. In our previous submission to the Department of Agriculture and Water's review, however, we acknowledged that the Government was likely to want to meet the revenue targets. In acknowledging this though it was made clear that asking the tourism sector to make up the revenue difference from other taxes only applying to the sector was not reasonable.

Given this position Australian Chamber – Tourism supports the 19 cent-in-the-dollar income tax rate for WHM visa holders and, the changes to superannuation taxation arrangements, and welcomes the changes to eligibility for WHM visas and promotion on the basis that it should address concerns around the continuity of labour supply. We remain opposed to the 9 per cent increase in the Passenger Movement Charge (PMC) without full assessment of the revenue to be gained from all the measures, without clarification of objectives and without assessment of impacts on demand.

# 4 Visitor Economy Contribution to the Economy and Government Revenue

The visitor sector is a major contributor to the Australian economy and to employment. It is one of the few areas of the economy contributing strong growth to GDP. Most recent figures from the ABS Tourism Satellite accounts indicate that in the year to 30 June 2015 direct tourism GDP increased by 5.3 per cent to $47 billion. At the same time GDP growth was 1.6 per cent (Australian Bureau of Statistics, 2016).

Direct tourism employment grew in the same period by 6.3 per cent compared to 1.8 per cent for the overall economy with 580,000 directly employed. Tourism Research Australia figures indicate that 273,500 or 13 per cent of all Australian businesses are engaged in the visitor economy, those businesses could all experience the impact of any reduction in labour supply or downturn in business.

ABS trade figures confirm the importance of tourism related exports to our balance of trade. For the 2015-16 financial year "Tourism Related Services Credits" were worth $43.4 billion (original figures). This export earning puts tourism above other important exports including "Rural Goods" at $43.1 billion and "Coal, Coke and Briquettes" at $34.3 billion. Projections by the Government indicate that by 2024-25 growth in our tourism service exports will put their value close to the biggest category "Metal, Ores and Minerals" at nearly $70 billion per annum.

The visitor economy makes a strong contribution to Government revenue through direct and indirect taxation. The ABS estimates Net taxes on tourism products at nearly $8.5 billion.

Unlike goods exports, tourism services exports are largely subject to GST and the sector is subject to a range of direct and indirect taxes and charges at all levels of Government.

In regional economies tourism and often WHMs have a strong positive impact. A 2009 study by Flinders University found that WHMs had a net positive impact on the economy, spending more than they earned on their stay in Australia (Tan, Richardson, Lester, Bai, & Sun, 2009). The

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impact of that in a smaller regional economy is to directly stimulate economic activity in that community. Under existing conditions the majority of working holiday makers receive the tax free threshold and spend that income directly in the Australian businesses. There will be a reduction in consumption expenditure in regional businesses particularly as a portion of the WHMs income is converted from consumption expenditure to taxation revenue.

# 5 Objectives of this legislation

In his second reading speech the Treasurer outlined a number of points on this legislative package, the points he made included:

> *"Despite these significant and positive changes, the Turnbull government's strict budgeting rules have applied to ensure the budget impact of these changes is fully offset. This can only be achieved if the package is passed in its entirety—we must be able to pay for the changes we want to make."*

This and other comments by the Treasurer indicate that the measures introduced in this legislation are fundamentally about meeting the original revenue target announced in the 2015 budget.

The original measures announced in 2015 were expected to raise $220 million per annum in each of 2017-18 and 2018-19.

In the Explanatory Memorandum for this package the Government indicates that its change to the income tax rate will reduce that $220 million per annum for 2018-19 by $100 million. Other measures will cost $14 million. To make up the $114 million the Government proposes raising an additional $100 million in a full year from the 9 per cent PMC increase and $35 million from changes to superannuation tax.

# 6 Removing the tax free threshold for Working Holiday Makers

WHMs make several important contributions to our economy and particularly to regional economies. They are tourists who earn Australia export income, they stimulate regional economies with consumption spending and they provide labour in areas of workforce shortage.

In the past the vast majority of those WHMs have taken advantage of the tax free threshold. Any change to that situation will have a negative impact on each of those three areas. It is disappointing that there has been no work undertaken to determine the direct and flow on impacts of removing the tax free threshold. While the various Government reviews have been welcome the information has tended to be largely anecdotal. It would have been good if decision making could have been informed by analysis of the impacts of various tax levels on demand, labour supply and on economic activity in regional communities.

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It is to be hoped that, if Government analysis showed that the introduction of a 19 cent in the dollar tax rate was likely to lead to a substantial drop in WHMs, the Government would have been cognisant of the flow on impacts that would have on regional economies, exports and tax revenue.

Clearly has we have made clear in submissions to other reviews, Australian Chamber – Tourism would prefer there was no change to the pre 2015 budget treatment of WHMs. Nevertheless the Australian Chamber does recognise that the Government has a challenging budget position and supports the need for action on the deficit. We recognise that the revenue from this measure was included in the forward estimates adopted during the election by both the Government and Opposition.

The Government estimates that it will collect in a full year $120 million in income tax from WHMs with the implementation of the Income Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016. This is a core calculation and it is critical to have available actual figures from the ATO and/or Treasury about the assumptions it has made.

While there are a number of estimates, there does not appear to be actual figures on the taxable earnings of people on WHM visas.

It is noted, and welcome, that the Treasury Laws Amendment (Working Holiday Maker Reform) Bill 2016 includes a measure to ensure better reporting of this information in the future. Australian Chamber – Tourism recommends that this reporting be combined with a review of the measures being proposed (Recommendation 4).

In the 2015-16 year 214,000 people received a WHM visa. If that number was to stay at around 200,000 then the average taxable income required to raise $120 million per year is less than $3,000.

It's a figure that seems far lower than all previous estimates of average earnings for backpackers.

- The 2009 "Evaluation of Australia's Working Holiday Maker Program" by the National Institute of Labour Studies at Flinders University estimated that in 2007-08 134,388 WHMs earned in total $639.2 million. The study indicated that on average WHMs who worked earned $4,638 per job but that they worked on average 2.3 jobs making the total earning estimate $10,677 (Tan, Richardson, Lester, Bai, & Sun, 2009). This study indicated that 69 per cent of people surveyed on WHM visas worked while they were in Australia.
- A submission from "Taxback.com" (a commercial tax company specialising in working holiday makers) to the recent Department of Agriculture and Water review indicated that its 16,000 clients earned an average gross income of just over $14,000 (Clune, 2016)
- A Melbourne Institute study in 2002 for the Department of Immigration provided a figure of just under $10,000 per Working Holiday Maker (Harding & Webster, 2002)
- Data from the most recent Tourism Research Australia International Visitor Survey indicated that in 2015-16 the average income for WHMs was $12,699.

In each case the figures appear higher than those assumed by Treasury in its estimates.

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In general a conservative revenue estimate might be good practice for Government, however in this case it is being used to justify measures which could damage Australia's international competitiveness so greater scrutiny is required.

Australian Chamber – Tourism engaged Lateral Economics to undertake an assessment of the revenue that is likely to be gained from removing the tax-free threshold from WHMs and replacing it with a base rate of 19 cents-in-the-dollar.

**Lateral Economics' full report is Attachment A to this submission.**

Below is the summary table of the lateral economics calculations.

**Table 4: Summary results (from Lateral Economics assessment)**

| | |
|---|---|
| ***Key assumptions*** | |
| Number of WHMs | 200,000 |
| Per cent of WHMs who work | 69.1 per cent |
| Per cent of working WHMs who do not claim residency status | 5 per cent |
| Average gross earnings of resident working WHMs | $14,500 |
| Average taxable income *under the tax-free threshold* by resident working WHMs | $9,300 |
| ***Results*** | |
| Total income against which the 19 per cent tax would apply | $1,221 million |
| Additional tax collected from removing the tax-free threshold | $232 million |

The Government has made it clear that its objective is to raise at least the $220 million per annum flagged in the 2015 budget. The estimate above indicates that the revenue target can exceeded without the need to increase the Passenger Movement Charge.

Comparing to the Explanatory Memorandum's table (EM p.6-7) full year financial impact, the Lateral Economics calculation would increase revenue over the estimate by $112 million. With the $100 million increase in the Passenger Movement Charge deleted the underlying cash balance for a full year would be positive $47 million. In total based on the information available to Australian Chamber - Tourism the Government's changes in a full year would be raising (at least) an estimated additional $267 million without the PMC increase.

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# 7 Passenger Movement Charge

The Passenger Movement Charge (PMC) is a per head tax levied on outgoing international passengers aged over 12 years (with some other exemptions in addition).

The PMC was initially levied as a cost recovery mechanism however it has grown significantly and now on some estimates (Tourism and Transport Forum) raises four times the cost of provision of services. It is important to note that the PMC is already a source of growth revenue for the Government without an increase in the rate.

In previous budget submissions Australian Chamber – Tourism has estimated that based on projected growth in visitor numbers alone the PMC would deliver additional revenue of $250 million over the three years from 2016-17 to 2018-19. That is with the dollar amount left at $55 per head.

Australian Chamber – Tourism would argue that there is far greater potential for revenue growth from a policy focus on increasing passenger numbers by removing up front barriers to travel than there is by imposing a demand dampening 9 per cent increase on this charge.

If tourism demand and expenditure was inelastic then a Government decision to increase the PMC might return additional revenue at no cost, however even the most conservative assessments recognise that there is elasticity in demand, particularly in price sensitive markets such as New Zealand and with discount carriers from Asia.

It is difficult to quantify the level of elasticity applicable to this decision. However impact on demand should have been one of the key areas assessed prior to this decision.

The Government appear to believe that demand for international travel is fairly inelastic and there is some assessment that supports that contention but only for short term decision making.

A study after the last PMC increase by Forsyth, Dwyer, Pham and Spurr said the *"most recent estimates of the price elasticity of demand for Australia consistently indicate that inbound travel demand is price inelastic in the short run.* (Forsyth, Dwyer, Pham, & Spurr, 2012, p. 11)"

It went on, however, on the same page, to quote a wide range of estimates of elasticity for short term demand. Later it points to a much higher and more concerning figure for long run elasticity.

In the longer term international demand for tourism visits to Australia is likely to be quite elastic. The service is an item of discretionary expenditure for holiday visitors and over the longer term if the price is held higher consumers will become more inclined to search for substitutes.

Australia is a desirable international destination, however it very clearly cannot assume that means demand is inelastic. We know for example that Australia consistently ranks at the top of the list of "desirable" destinations for Chinese people. A survey reported in "The Asian Executive" in August said Australia came out on top of the list as the place more Chinese would like to visit over the next twelve months (TheAsianExecutive.com.au). Tourism Australia says Australia rates as the top "must visit" destination for Chinese in many of their major markets. Despite this, Australia is not in the top ten actual overseas destinations for the 120 million Chinese who travel internationally each year.

Australia despite being number one on the 'desirability' list actually gets just over 0.8 per cent of Chinese international travellers. There are a number of factors in this including up front barriers with visas, but price is clearly one significant factor as well.

There clearly is a correlation between ticket price and international travel. International tourism has boomed as airfares have come down and with the rise of budget airlines there is a very competitive environment. Industry is concerned that in an increasingly competitive international visitor market Australia's high underlying level of tax on travel makes our product less competitive.

The Committee should also consider the impact of the PMC on our biggest market (by number of visitors), New Zealand. Australia's PMC is already the highest tax on short haul international flights in the world. At $60 per head as proposed it becomes a significant cost for a family thinking of visiting Australia from New Zealand.

Australian Chamber – Tourism believes strongly that without proper analysis of the impact of increasing this charge on our key markets the measure should not be introduced.

Tourism is a significant, and one of the few rapidly growing, contributors to our export income and to a more favourable balance of trade. In dollar terms tourism related exports consistently return more than significant goods categories including "rural goods" and "Coal, coke and briquettes", on Government projections by 2025 tourism's exports could be worth $68 billion per annum making it close to our biggest export earner.

There is very little doubt that a proposal to increase tax on one of those other significant export categories would have received far more thorough assessment and consultation.

Given the benefits to the economy and Government revenue of growth in international visitation to Australia it would seem logical that this and any future increase in the rate of the PMC be thoroughly researched and discussed with industry prior to introduction. This must include, analysis of impacts on demand and competiveness and work with the sector to ensure measures are taken to continue growth.

Given the negative impact on Australia's competitive position of a 9 per cent increase in the PMC, the lack of industry consultation on the measure and the fact that as demonstrated above the Government's revenue target can be met without the $5 PMC increase Australian Chamber – Tourism recommends:

1. That the committee recommend passage of the Income Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016, subject to the Government undertaking a review (when a full year's figures are available) of whether revenue from the measure is meeting or exceeding targets, the impacts on labour supply, and demand for working holiday maker visas.
2. That the committee recommend the Parliament reject the Passenger Movement Charge Amendment Bill 2016 based on:
    a. Adequate revenue being derived from the income tax and superannuation measures to meet the revenue projections outlined as being required by the

Treasurer, without the need for the increase in the rate of the Passenger Movement Charge;

b. There having been no assessment of the impact on the competitiveness of Australia's visitor economy of the measure; and
**c.** Any future proposal to increase the rate of the Passenger Movement Charge being made in consultation with the sector, after assessment of the impact on demand and competitiveness and with measures in place to ensure a proportion of additional revenue is directed to growing visitation and improving product.

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# The impact of removing the tax-free threshold from Working Holiday Makers

## A Lateral Economics report for the Australian Chamber of Commerce and Industry

21 October 2016

LateralEconomics

CAPABLE, INNOVATIVE, RIGOROUS

# 1 Introduction and summary

As part of its Working Holiday Maker Reform Package, the Commonwealth Government is proposing a series of measures including:

- a removal of the tax-free threshold available to Working Holiday Makers (WHMs) who are resident for tax-purposes, and
- an increase in the passenger movement charge (PMC).

The Australian Chamber of Commerce and Industry (ACCI) is concerned that the Government has underestimated the amount of revenue that will be raised from the proposed tax changes on WHMs and therefore that the proposed increase in the PMC is unnecessary.

To gain clarity, the ACCI commissioned Lateral Economics to prepare this paper to estimate the projected impact of the change in Government revenue of the proposed change to remove the tax-free threshold.

A summary of our results is included in the table below. Our best estimate is that the revenue raised by the WHM tax change to remove the tax-free threshold is in the order of $232 million per annum.

Additional sensitivity analysis is included in the body of the report.

**Table 1: Summary results**

| Impact of revenue | Implied from financial estimates | Our estimate | Difference |
|---|---|---|---|
| 19% tax rate on WHMs | $120m | $232m | $112m |

# 2 Background

Currently, WHMs who are residents for tax purposes are able to make use of the tax-free threshold (which in 2015–16 is up to $18,200).[1] Those who are non-resident are taxed at 32.5 cents in the dollar; however, we understand that most WHMs claim residency for tax-purposes.

The 2015 Budget included a proposal that all WHMs be treated as non-residents for tax purposes and subject to the 32.5 cents rate. At the time, the Government estimated that in a full year (2017-18), this measure would raise $220 million.

The measure was not introduced. More recently, the Government announced a Working Holiday Maker Reform Package[2] that included:

- A 19 per cent tax on earnings up to $37,000 (in effect, a removal of the tax-free threshold), rather than the 32.5 per cent announced in the 2015-2016 Budget.
- An increase in the tax on Departing Australian Superannuation Payments (DASP) to 95 per cent (from 38 per cent).
- Other measures to encourage WHMs include:
    - Support of a Tourism Australia advertising campaign
    - Reform to provide greater flexibility for employers of WHMs; and
- A requirement for the WHM employer to register the WHM with the ATO.
- An increase in the passenger movement charge (PMC)[3] from $55 to $60 as of 1 January 2017.

Accompanying the announcement of the proposal was a revised estimate of the additional net revenue from the combined measures (provided in the table below).

This suggested that the Government will receive $100 million per annum less from the lower tax rate on WHMs' taxable income (19 per cent rather than the 32.5 per cent that was proposed originally). This, coupled with the previous estimates, suggests that the measure will

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1 https://www.ato.gov.au/Individuals/Working/In-detail/TFN-declaration/what-is-the-tax-free-threshold/

2 http://sjm.ministers.treasury.gov.au/media-release/104-2016/

3 The PMC is a charge tax payable by all persons departing Australia for another country, whether or not the passenger intends to return to Australia.

raise $120 million per annum. Also, as shown in the table, the Government projects it will receive up to $105 million per annum from the increase in the PMC.

**Table 2: Working holiday maker reform package – financial impact**

| | **2016-17** | **2017-18** | **2018-19** | **2019-20** | **Total FE** |
|---|---|---|---|---|---|
| 1. Lower tax rate for all working holiday makers (WHMs) | -25.0 | -75.0 | -100.0 | -100.0 | -300.0 |
| 2. Reduce WHM visa application charge by $50 | 0.0 | -10.0 | -10.0 | -10.0 | -30.0 |
| 3. Tourism Australia advertising campaign | -2.5 | -5.0 | -2.5 | -0.0 | -10.0 |
| 4. Providing greater flexibility for employers of WHMs | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 5. Compliance for WHM employer register | -3.5 | -3.5 | -1.5 | -1.5 | -10.0 |
| 6. Increase passenger movement charge by $5 (no indexation) | 0.0 | 55.0 | 100.0 | 105.0 | 260.0 |
| 7. Increase tax on the Departing Australia Superannuation Payment to 95 per cent | 0.0 | 35.0 | 35.0 | 35.0 | 105.0 |
| ***Total*** | ***-31.0*** | ***-3.5*** | ***21.0*** | ***28.5*** | ***15.0*** |

# 3 The impact

Broadly, the revenue raised from the 19 per cent tax rate on WHMs can be simply estimated as:

- The taxable income of WHMs who are resident for tax purposes that is below the threshold tax level
- Multiplied by 19 per cent
- Adjusted for changes that occur in response to the policy.

## 3.1 The taxable income earned by WHMs

We are unaware of any current estimates of the total taxable income earned by tax-resident WHMs. However, the amount may be reasonably assessed from estimates of

- The number of WHMs,
- The proportion that are working and are residents for tax status, and
- The average taxable income below the tax-free threshold of those working.

### *3.1.1.1 Number of WHMs*

The number of WHMs is provided by the Department of Immigration and Border Protection (see table below).[4]

**Table 3: Total number of working holiday visas**

| | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|---|---|---|---|---|---|
| **WHMs granted** | **222,992** | **258,248** | **239,592** | **226,812** | **214,583** |
| **percentage change from prior year** | | 16% | -7% | -5% | -5% |

In 2015-16, 214,583 WHM applications were granted. As reflected in the table, the number of WHMs has been in decline since a peak in 2012-13. The Government has attributed the decline to 'factors including exchange rate variations and changed economic conditions in source countries'.[5]

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4 Available at https://www.border.gov.au/ReportsandPublications/Documents/statistics/working-holiday-report-jun16.pdf

5 http://sjm.ministers.treasury.gov.au/media-release/104-2016/

We would expect that the introduction of the 19 per cent tax would, in isolation, cause some further reduction in the number of WHMs. However, there are other factors to consider, including the following:

- The fall in WHMs in 2015-16 may in part be in response to the 2015 budget measures (announced in May 2015) of the 32.5 per cent tax. To this extent, the revised reform may be perceived as improvement for WHMs.
- The Government has announced other measures to encourage WHMs, including increased expenditure on promotion and an increase in the age limit to 35.
- In response to a reduction in the supply of WHM applicants, there would be some demand response whereby WHM employers attempt to offset the negative impact of the tax.
- Finally, while Australia competes with other nations in attracting holiday workers, we expect that the unique characteristics of Australia mean that the demand response would be reasonably limited.

Given the factors above, we have assumed that the WHMs in the future will be around 200,000 per annum.

*Taxable income per WHM*

There are a number of sources of information on the income earned by WHMs. These include:

- The 2009 study estimated that the average earnings of WHMs working in 2007/08 was $10,677.
- A submission from “Taxback.com”,[6] (a commercial tax company specialising in working holiday makers) to the recent Government review indicated that its 16,099 clients earned an average gross income of just over $14,216.
- A 2002 Melbourne Institute study for the Department of Immigration provided a figure of $9,916 per WHM.[7]

Allowing for wage inflation (which we have conservatively assumed to be at the rate of growth of the minimum wage),[8] the average earnings

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6 http://www.agriculture.gov.au/SiteCollectionDocuments/ag-food/working-holiday/submissions/taxback.com.pdf

7 https://melbourneinstitute.com/downloads/industrial/Reports/Working%20Holiday%20Makers%202002.pdf

in 2016/17 suggested by the two most recent studies (the 2009 study and the Taxback data) are between $14,000 and $15,000. We have assumed $14,500 as our best estimate.

The average taxable income currently under the tax-free threshold will be less than this amount for two reasons.

First, the taxable income needs to be reduced by the superannuation guarantee payments of 9.5 per cent.

Second, the average income estimates provided above will include some income that is earned above the tax-free threshold. As the policy change does not affect the rate of tax on the amount earned above the tax-free threshold, an adjustment is required.

The Taxback.com submission reports some evidence of this. The submission reports an average tax contribution of $786 on an average income of $14,212.[9] Using this amount to estimate the applicable tax rate, we can estimate the income earned above the tax-free threshold.[10] For example, if the average rate of tax paid on income earned above the tax-free threshold was 25 per cent, then this would imply 22 per cent of the average income of $14,212 was above the tax-free threshold and therefore not subject to the new 19 per cent tax. We have conservatively assumed that the tax rate applied is only 19 per cent,[11] which implies that 29 per cent of the average taxable income was above the tax-free threshold.

Combining the above information, our estimate of the average taxable income that is under the tax-free threshold of WHMs who are resident for tax purposes is around $9,300.

#### *3.1.1.2 The number of WHMs working*

Not all WHMs use their visa to work in Australia. A report in the 2009 "Evaluation of Australia's Working Holiday Maker Program" (hereafter the 2009 Evaluation)[12] reported the results of a 2008 survey of WHMs

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8 We expect the wage inflation for WHMs to be at least that of the growth in the minimum wage. We expect an upper limit to be the growth in average weekly earnings.

9 This seems surprisingly high and it may reflect the Taxback.com sample.

10 The average earnings under the tax-free threshold are estimates as taxable earnings less tax contribution/average tax rate on income above tax-free threshold.

11 In 2014/15 including the Medicare Levy and Budget Repair Levy, marginal tax rates above the threshold ranged from 19 per cent to 49 per cent.

12 Yan Tan, Sue Richardson, Laurence Lester, Tracy Bai, and Lulu Sun. "Evaluation of Australia's Working Holiday Maker (WHM) Program." (2009) by the National Institute of Labour Studies at Flinders University.

who had recently departed Australia. Based on the survey results, 69.1 per cent of WHMs worked.

We have received some anecdotal evidence that the current ratio may be significantly higher than 69.1 per cent and that most WHMs earn some income. It seems reasonable that the proportion of WHMs who work will have grown over time as result of improved information about job opportunities. Nevertheless, we have no evidence that can be presented to improve on the 2009 survey result. Furthermore, we have no reason to expect that the proportion of working WHMs will change with the proposed changes. Given the above, we have used the assumption that 69.1 per cent of WHMs will work, but we expect this estimate may be conservatively low.

## 3.2 Residency status

The change in the tax-free threshold only has an impact on WHMs who are resident for tax purposes. Non-residents for tax purposes continue to be charged at a 32.5 per cent tax rate.

With some limited exceptions, WHMs must be in Australia for more than 183 days in the income year to be ruled as resident for tax purposes.[13] Regardless, we understand that compliance with this requirement may be an issue,[14] and that most WHMs self-assess as resident for tax purposes.

To estimate the proportion of non-resident WHMs earning an income, we examined the tax records.

According to the 2013-14 tax statistics, there were around 11,500 tax-returns submitted by non-resident workers in Australia aged between 18 and 30. That was less than 5 per cent of the WHM visas issued in 2014.[15] Furthermore, the amount includes those on other visas (i.e. not on WHMs).[16]

A related consideration is that WHMs who are in the country for fewer than 183 days may not lodge a tax return due to the concern that they will be assessed as non-resident. We understand that in such cases, the WHMs would likely have paid some tax via PAYG deductions from

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13 https://atotaxrates.info/non-residents/

14 See for example, the submission by Taxback.

15 In addition, there may be some non-resident workers that failed to submit a tax return. However, we expect this to be most likely the case when earnings were small and therefore, to not be a significant factor in calculating any adjustment to taxable income.

16 This may be significant. There were in excess of 80,000 tax returns submitted by non-residents in other age groups (not applicable to WHMs).

their payslip and therefore, the additional tax-revenue collected may be less than 19 per cent. However, we expect this effect to be small.

In light of these considerations, we have discounted the estimated of that taxable income subject to the new 19 per cent tax by 5 per cent.

## 3.3 Adjustments for the changes to the policy

The removal of the tax-free threshold for resident WHMs may be expected to have a number of side effects.

First, there may be a change in the supply of labour. As has already been considered above, the policy may discourage some potential WHMs from applying for a visa.

The change may also have an impact on the labour supply of those WHMs who come to Australia. It may result in some WHMs working less due to the lower post-tax wage rate. This effect may be offset or even outweighed by an 'income effect' whereby WHM work more hours to compensate for the lower post-tax wages.

Second, employers may respond to lower labour supply by offering improved wages and/or conditions.

Given the above considerations, we think it reasonable to assume the combined demand and supply effects are adequately captured in the assumption regarding the reduced number of WHMs.

Finally, removal of the tax-free threshold may encourage attempts to avoid the tax by, for example, greater use of cash payments. We have no reasonable basis to estimate the significance of these impacts.

## 3.4 Summary results

The results of our analysis are summarised below

**Table 4: Summary results**

| ***Key assumptions*** | |
|---|---|
| Number of WHMs | 200,000 |
| Per cent of WHMs who work | 69.1 per cent |
| Per cent of working WHMs who do not claim residency status | 5 per cent |
| Average gross earnings of resident working WHMs | $14,500 |
| Average taxable income *under the tax-free threshold* by resident working WHMs | $9,300 |

| ***Results*** | |
|---|---|
| Total income against which the 19 per cent tax would apply | $1,221 million |
| Additional tax collected from removing the tax-free threshold | $232 million |

As noted in the text above, one can mount arguments to modify assumptions that would raise or lower the key result. However, on balance – with the caveat that we cannot reasonably estimate the impact of the tax avoidance – the above result reflects our best estimate. We believe the greatest uncertainty in these assumptions relates to the number of WHMs who work. We assume that greater clarity on this and some other assumptions could potentially be achieved with some data available to Government.

Our best estimate is that the additional revenue generated by the measure is well in excess of the implied Government estimate of $120 million.