

'Backpacker tax' will put more strain on labour shortage

Written by The Conversation

The so called “backpacker tax” on Working Holiday Maker visa holders, announced in the 2015 Budget, will not only deter tourists from working in Australia but also put strain on industries that have come to rely on this workforce.

Following strong criticism from industry groups representing Australia’s agricultural and tourist industries, the federal government has launched a [review of the measure](#) , which would require employers to deduct 32.5 cents in every dollar earned by the visa holders.

The measure would override present taxation arrangements, which exempt all income earners from paying tax on income below a threshold of A\$18,200. The government maintains that the measure is designed to assist in addressing the budget deficit, and that it’s modelling forecasts that this will generate A\$540 million over a three-year cycle.

Farmers, including the National Farmers Federation, [which is spearheading a campaign against the backpackers’ tax](#) , and the [tourist industry](#) argue that the tax will act as a significant disincentive to prospective international tourists wanting to work in Australia for some part of their holiday. The organisation [says this will have a detrimental effect](#) for industries that have come to rely “on backpackers to fill severe labour shortages which are often seasonal and temporary.”

[Anecdotal evidence](#) suggests that increases in the visa application fee – following the adoption of the “user-pays” system in December 2012, from A\$280 to A\$360 in January 2013 to a planned increase of \$440 in July 2016 – have acted as a deterrent to prospective working tourists.

The Working Holiday Maker visa is now considerably more expensive than the cost of similar working holiday schemes available in other comparable countries. Canada and New Zealand charge \$C250 (\$A250) and \$NZ208 (\$A186) respectively. And the visa also costs substantially more than a tourist visa.

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This increased cost has coincided with [declining visa applications](#) from Ireland, Taiwan and South Korea, which have been among the top five source countries. The negative trend continued into 2014, with grant applications from each of the top five source countries – United Kingdom, Germany, France, South Korea and Taiwan – declining.

South Korea and Taiwan [displayed the largest drop-off](#) in applications of 20%. Overall, there was a decline of 10.9% in the six months to December 2014 compared with the previous comparable period.

The ramifications of this trend for those industries that have [become more reliant on backpackers](#) to meet seasonal labour needs is all the more worrying given that there is also a fall-off in applications for second Working Holiday Maker visas. Tourists on these visas, who had proved their employment worth by working for a minimum of 88 days in designated occupations and industries in need of labour, could apply for a second 12-month visa.

As the Department noted in a joint submission to the [Joint Standing Committee on Migration Inquiry into the Seasonal Worker Programme](#) in 2015, the second Working Holiday Maker visa scheme was specifically introduced to “to address acute ongoing labour shortages in certain industries across regional Australia”.

There are now fewer applications for second visas being made, with applications from Taiwanese South Koreans declining by over 13% in 2014. In noting the decline in these second visa applications granted in 2013, the Department of Immigration and Border Protection [speculated that](#)

:

“Economic recovery in some partner countries and seasonal variability in visa application numbers are other potential contributors to the reduction in first Working Holiday visa application grant numbers during the first half of 2013-14.”

However each of the countries from which substantially fewer Working Holiday Maker visa applications were made – Ireland, South Korea and Taiwan – has [experienced reasonably](#)

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[sustained economic recovery](#)

this decade. This would normally be a trigger for more applications as, the more buoyant the economy, the greater the likelihood that people have the resources to travel overseas for work and holiday.

Moreover, [as migration theory explains](#) , once a flow of people has been set in train, migration networks develop that make transnational movement and employment search easier. As part of my research, I have observed these in Australia, and this should translate into a greater number of working holiday makers. The decline in numbers demands more consideration be given to the consequences of the increasing cost of the Working Holiday Maker visa.

The prospect of losing one third of earnings through an income tax, being taxed at a much higher rate than others (including citizens, residents, other temporary migrants and international students), while not having access to the social services and other support that taxes afford citizens and most residents, will all inevitably influence a further decline in Working Holiday Maker applications. All this while prospective working tourists turn to [Canada](#) and [New Zealand](#) where the taxation regimes are not so pointedly onerous and discriminating.

Of course, these declining visa applications could be attributed to greater exposure of the exploitative conditions of employment [experienced by many of these visa holders](#) . Being paid less than set-industry rates of remuneration and/or being subjected to abusive and exploitative practices are obvious disincentives to considering combining work with a holiday in Australia.

The removal of the tax threshold for Working Holiday Makers will likely do nothing to redress the exploitative situations. Paradoxically, the imposition of the tax may compound the problems because it will discourage the number of prospective visa holders, exacerbating the ["acute labour shortages"](#); that the scheme was established to help overcome.

Confronted by labour shortages, employers may see no alternative to, and actually see benefits in, employing backpackers on a cash-in-hand basis. Just as Working Holiday Makers – as well as tourists who do not have a Working Holiday Maker visa – face a labour market [in which there are few real alternatives](#) for supplementing their savings than to accept work on a cash, tax-avoiding basis.

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