

Why it's now Labor's turn to compromise on the backpacker tax

Written by The Conversation

With time running out until federal parliament pulls up stumps for the year, the backpacker tax debacle has reached new heights. Yesterday the issue [seemed resolved](#) because of a 15% tax rate deal between One Nation, Nick Xenophon and the Coalition. It now appears to have [unravalled, with the Senate voting in support of a 10.5% tax rate](#) for backpackers.

So unless we're willing to charge backpackers the ludicrous tax rate of 32.5% from the first dollar earned, it's now incumbent upon someone to blink.

The Coalition, after saying "never ever" to going below 19%, has already agreed on 15%. Having already done this, it seems unlikely the Liberals would now be willing to agree to 10.5%. Perhaps the Nationals can be persuaded to [cross the floor](#), like some did on the [Adler shotgun](#) a few weeks back.

Equally unlikely, however, is that One Nation renegade Rod Culleton or independent senator Derryn Hinch will agree to 15%, given that they've announced today that they will only support 10.5%.

So it seems like the ball is firmly in Labor's court. If Labor gets behind a 15% tax rate then this issue can be resolved. During the election, Labor didn't present a view on the appropriate rate of taxation for backpackers, but since then has come out in favour of a 10.5% rate.

The politics of the backpacker tax

What has been particularly interesting about the politics of the backpacker tax is the confusion of messages being sent by the major parties.

The Coalition has long been the champion of regional Australia and yet it proposed the 32.5% tax with no consultation with this core constituency, and without seemingly considering the impact of the tax on the horticulture industry.

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Now the Coalition has changed its position, lining up with the National Farmers' Federation in advocating for a 15% tax. Ironically, it is Labor, traditionally the friend of local workers, that is advocating for growers to have easier access to backpackers, falling in behind Jacqui Lambie's 10.5% tax rate.

Behind the political confusion lies a deeper uncertainty about the role backpackers play in the Australian workforce. On the one hand, there is a concern that they be sufficiently remunerated so they remain part of the workforce. There's an [argument that we don't want them to take their working holiday in a range of competitor countries](#) including the UK, New Zealand and Canada.

On the other hand, there is a concern that they contribute to the economy through paying tax on a par with everyone else, and that they are not too well paid so as to flood the labour market and replace local jobs. There is a delicate balance here.

And, there is a related issue that is not being spoken about at all in this debate. A [report](#) by the Fair Work Ombudsman recently exposed the extent to which backpackers were being exploited in the horticulture industry. Many backpackers are paid off the books at well below award wages. The issue of tax is moot for these workers.

Why 15% is the appropriate tax rate

Having conducted a year-long, comprehensive review into the labour needs of the Australian vegetable industry, it is our opinion that the appropriate tax rate for backpackers is 15%.

Our research has shown that growers in particular regions have a very heavy reliance on backpacker labour which has come to characterise the industry. At 15% backpackers would [still receive more income in Australia](#) than they would receive in NZ with a 10.5% tax rate, or in Canada or the UK.

Growers depend upon backpackers at harvest time and without this source of labour, and without a genuine alternative, a vast array of fruit and vegetables will be lost. The harvest season is now upon us and with growers in Tasmania reporting a [40% drop in backpackers](#) applying for horticultural jobs because of the political uncertainty around the tax, the risks are

too great of leaving this issue unresolved.

In order to meet the needs of growers for the current harvest season, a tax rate of 32.5% is simply too high to incentivise backpackers to work in the industry. Equally however, a tax rate of 10.5% is too low when important contextual factors are taken into account.

There are currently two migrant labour supply solutions provided by the Australian government for growers. One is the [Working Holiday Maker visa](#) which allows backpackers a second year extension on their visa if they complete an 88 day period in certain industries. About 90% of backpackers work in horticulture to meet this requirement, providing an army of between 33,000-40,000 to growers in the past few years.

The second option for growers is to use the [Seasonal Workers Program](#) which enables the sponsorship of workers from the Pacific for a period of six to nine months. Overwhelmingly, growers use the backpacker visa instead of the Seasonal Workers Program. In its current iteration, the Seasonal Workers Program doesn't meet the needs of industry.

It is both important and appropriate that the two labour supply solutions be taxed at the same rate. Workers in the Seasonal Workers Program are taxed at 15% and so should backpackers.

Our research has found that the Seasonal Workers Program is a superior labour supply solution for the horticulture industry. It has the potential to become a much better source of workers for growers, to supplement the participation of local workers. In our [research report](#), to be released for Horticulture Innovation Australia in early 2017, we advocate the redesign and expansion of the Seasonal Workers Program so that it better meets the needs of growers and workers.

The use of backpackers in the horticulture industry has long undermined the ability of the industry to grow and plan for the future, has been associated with endemic exploitation of workers. It has also resulted in the use of a far less productive and reliable group of workers. In recent months the political uncertainty around the backpacker tax has exposed the unpredictability of backpackers as a labour supply solution for the industry.

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The horticulture industry deserves better. It contributes [A\\$2.1 billion in exports](#) and produces [93% of fresh food](#) consumed in Australia. It's an industry of critical importance to Australia's food security and economic prosperity.

Labor needs to recognise that a 15% tax rate is the appropriate outcome to this mess. Going forward, it is now incumbent upon both major political parties to develop long-term, bipartisan labour supply solutions for the horticulture industry.

Dr Joanna Howe is the leader of a project investigating labour supply options in the Australian vegetable industry (VG 15025) commissioned by Horticulture Innovation Australia in 2016. The project's report, co-authored with Associate Professor Alex Reilly, Associate Professor Diane van den Broek and Dr Chris F Wright will be released in early 2017.

Alex Reilly is currently conducting funded research into labour supply in the Australian vegetable industry for Horticulture Innovation Australia, and into international students and work for the Fair Work Ombudsman. Alex is a volunteer on the Management Committee of the Refugee Advocacy Service of South Australia, which offers means tested legal and migration assistance to asylum seekers who are not eligible for government assistance.

Chris F. Wright is currently working on research projects funded by the University of Sydney and Horticulture Innovation Australia.

Diane van den Broek works for the University of Sydney. She has received funding from Hort Innovation.

Read more <http://theconversation.com/why-its-now-labors-turn-to-compromise-on-the-backpacker-tax-69650>