

# **NORTHERN TERRITORY GOVERNMENT SUBMISSION TO THE REVIEW OF THE PROPOSED CHANGE OF TAXATION STATUS FOR BACKPACKERS IN AUSTRALIA**

## **1. Introduction**

This Northern Territory Government submission seeks a reversal of the proposed change to the taxation status for Working Holiday (subclass 417) and Work and Holiday (subclass 462) visa holders in Australia. Collectively this Working Holiday Maker (WHM) cohort makes a significant contribution to the Northern Territory economy, not only as international visitors to our region but also a critical source of skilled, semi-skilled and low skilled labour.

Northern Territory employers across a wide range of industry sectors anticipate that the proposed imposition of the 'backpacker' tax will considerably reduce the number of WHMs that choose to work and holiday in Australia and, as has been demonstrated in the past, any reduction in the number of WHMs will be magnified in regional areas of Australia such as the Northern Territory.

In preparing this submission, the Northern Territory Government, through the Department of Business, sought and incorporated input from a range of Northern Territory employers, industry associations and other government agencies.

The Northern Territory Government recommends that the Australian Government:

- reverses the decision to change the taxation status of the Working Holiday (subclass 417) and Work and Holiday (subclass 462) visa holders in Australia from 1 January 2017; and
- before proposing and/or proceeding with any policy changes that may impact on the number of WHMs available to Northern Territory employers, a comprehensive cost/benefit analysis be undertaken.

## **2. Environment**

### **2.1 Economic and Labour Environment**

The Northern Territory's economy, while relatively small compared to other Australian jurisdictions, offers considerable potential for sustained economic growth. With its geographic proximity to Asia, the fastest growing region of the global economy, the Northern Territory is poised to capitalise on potential business and investment opportunities. Mining and energy, tourism/hospitality, agribusiness, defence, and international education and training are major sectors for the Northern Territory's Economic Development Strategy.

The Northern Territory's business community is overwhelmingly comprised of small and medium enterprises (SMEs), with 99.9% of registered businesses in the Northern Territory being SMEs that employ between 0 and 199 people; the majority of these Northern Territory SMEs employ less than 20 staff (95.7%)<sup>1</sup>. Small business plays a major role in sustaining the Northern Territory economy and combined, are the largest employer in the Northern Territory.

The Northern Territory's small population base means that the absolute number of workers is extremely low.

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<sup>1</sup> ABS Cat. No. 8165.0, 2014-15 publication – released 26 February 2016

The most recent data available from the ABS indicates that the Northern Territory has a total population of 244,031 persons<sup>2</sup>, of which 186,977 are of working age<sup>3</sup>.

Low unemployment and high labour force participation rates are features of the Northern Territory's labour market. The most recent data available shows an unemployment rate of 3.7% compared to an Australia wide rate of 5.7%, and a participation rate in the Northern Territory of 74.8% compared to 64.8% Australia wide<sup>3</sup>. This, combined with its distance from the larger labour pools on the Australian eastern seaboard, make the Northern Territory's labour market significantly different to those of other Australian jurisdictions. The challenges facing the Northern Territory are not only the lack of skilled workers but also a limited pool of suitable people within the region available to participate in training and upskilling. As a result the Northern Territory does not have the internal buffer to absorb changes in labour market demand and is heavily reliant on overseas workers as a source of labour.

A key priority identified in the White Paper on Developing Northern Australia (the White Paper) is the need to 'build a sustainable workforce in the north.' If this vision for Australia's north is to be realised, Australian Government policies must support and complement this priority.

While the Northern Territory expends significant resources on an interstate worker attraction program, interstate migration has not been fully effective in filling workforce shortages. The lack of population mobility within Australia (and even within regions of the Northern Territory) inhibits interstate and intrastate migration. In addition, attracting overseas workers and migrants in a global environment is becoming increasingly competitive.

Working Holiday Makers (WHMs) provide the Northern Territory with a valuable source of skilled, semi-skilled and unskilled labour across a broad range of sectors. As many Northern Territory employers rely heavily on WHMs to meet their workforce needs, they will be severely impacted if access to this labour source decreases.

Employers in the Northern Territory, who rely heavily on WHMs as a source of seasonal labour, hold significant concerns over the potential of the proposed taxation status to reduce the number of WHMs who choose Australia as a working holiday destination. The impact of any decrease in WHM numbers to Australia will be most significant in the Northern Territory. Industry feedback, particularly from the agribusiness, and tourism and hospitality sectors, suggests that the announced change has already resulted in a reduction in WHM numbers coming to the Northern Territory.

The Northern Territory economy is making an increasingly important contribution to the overall Australian economy and is well poised for significant growth. The Northern Territory's low unemployment and high participation rates mean Northern Territory employers rely heavily on WHMs than those in other Australian jurisdictions.

<sup>2</sup> ABS Cat. No. 3101.0, December quarter 2015 publication – released 23 June 2016

<sup>3</sup> ABS Cat. No. 6202.0, June 2016 publication – released 14 July 2016

## 2.2. Access to Robust Information and Data

A comprehensive review that was undertaken to determine the data and information currently available on the contribution WHMs make to the labour market and the overall economy has identified significant gaps. Further, the information and data about WHMs' contributions to regional Australia is even more limited and, where this exists, often assumptions are made that bring into question its accuracy. The Northern Territory understands that a volume of work has commenced in some industry sectors in an attempt to address this issue.

The Department of Immigration and Border Protection's (DIBP) 'Working Holiday Maker visa programme report' provides information about this cohort applying from overseas and in Australia. DIBP statistics show that between 31 December 2014 and 31 December 2015, the number of these visa holders in Australia declined by around 5%. However, there is limited meaningful information about where the WHM visa holders are spending their time while they are in Australia and what they are doing while they are here.

DIBP data are historic and often not reliable bases upon which to predict future outcomes. For example the 'Regional Net Overseas Migration Year ending June 2005 to June 2017' forecasts a constant number of WHMs for the periods June 2014 to June 2017. However, DIBP acknowledges in the publication that the forecasts are based on historic behaviour and do not take into account changes in policy such as a potential backpacker tax.

In order to address the lack of robust information, the Northern Territory Government has commenced work with a number of industry sectors to gather information on the potential effect changes in WHM numbers will have on their workforces, as well as base line data to accurately measure the impact after the taxation change comes into effect.

A recently completed survey of farmers in the horticultural sector has highlighted the contribution of WHMs as a source of workers for the Northern Territory farm sector, and confirmed that the proposed 'backpacker' tax has the potential to significantly adversely affect the industry.

Calculating the increased revenue that would flow from the change to the taxation treatment of the WHM cohort that has been proposed would have been a simple exercise. However, it is difficult to understand how an accurate benefit/cost assessment of the impact of the proposed change could have been undertaken given the paucity of robust national and regional information/data currently available on the economic contribution that WHMs make.

Currently the information available on the contribution WHMs make to the Northern Territory economy is extremely limited. This gap makes it difficult for government to develop and implement evidence-based policy. Before proposing and/or proceeding with any policy changes that may impact on Northern Territory employers' ability to access to this important source of labour, a comprehensive cost/benefit analysis must be undertaken by the Australian Government.

### **3. Importance of Working Holiday and Work and Holiday visa holders for Northern Territory employers**

There is little doubt that growth and development of the region's workforce are key to realising the economic growth for the region identified in the White Paper.

The ability to attract, maintain and grow a suitable workforce remains the greatest challenge to the Northern Territory's continued strong economic performance. Therefore, it is not surprising that the large majority of the Northern Territory's business community consider that the proposed 'backpacker tax' is likely to impact their operations adversely. It has also been suggested that the proposed tax demonstrates the Australian Government lacks a true understanding of the dynamics of the Northern Territory economy and indeed regional Australia.

The White Paper provides the most contemporary and comprehensive assessment of the northern Australian economic landscape. It focuses on the region's opportunities and highlights workforce growth as a significant threat to the continued economic growth of the northern Australian region. It is difficult to see how the revenue that may result through imposition of the 'backpacker' tax can offset the opportunity cost of impeding northern Australia's ability to grow and maximise its long term economic potential.

The three key workforce challenges identified in the White Paper are listed below. This submission outlines the contribution the WHMs in the Northern Territory make in assisting to meet these challenges.

#### **Challenge 1: Key industries in the north require flexible and mobile labour but are regularly faced with a shortage of workers.<sup>4</sup>**

Many businesses in northern Australia require access to a flexible workforce that is sensitive to the conditions in which they operate, effectively shutting down or cutting back during the wet season, contrasted with extended hours in the dry or peak season.<sup>5</sup> Of course, the demand for seasonal labour is greatest in the agricultural, hospitality and tourism sectors in the Northern Territory. These are sectors that are well placed to take advantage of significant growth potential in the short to medium terms that will result from the Northern Territory's proximity to Asia and the comparatively low Australian dollar. These are also the sectors that rely heavily on WHMs to meet their seasonal workforce needs.

The Northern Territory horticulture industry estimates that WHMs pick around 85% of the total Northern Territory harvest. Therefore, it is not surprising that employers in this sector are particularly concerned about the impact that the proposed 'backpacker' tax will have on their capacity to grow.

Changes to the *Pastoral Land Act* in the Northern Territory have led to the possibility of non-pastoral activities on Pastoral Leases for a longer term than has been previously possible. These changes have generated significant investment interest in pastoral tenure across the Northern Territory, particularly in the horticultural sector but also in tourism and aquaculture (e.g. Seafarms Group Project Sea Dragon). Current investors are watching government policy closely as these industries rely heavily on seasonal workers and access to workers will affect their appetite to progress their investment plans.

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<sup>4</sup> White Paper on Developing Northern Australia

<sup>5</sup> Ibid

This investment in remote parts of the Northern Territory could amount to a step-change in the economies of these areas, and quite possibly to the lifestyles of generations of Indigenous Australians.

For some businesses in the tourism/hospitality sector, particularly those in regional and remote locations, WHMs are their sole source of labour as they have no access to a local labour force and their location is not attractive to Australian residents.

As well as the tourism/hospitality and agribusiness sectors, there is also a level of concern among employers in other Northern Territory industry sectors about how the 'backpacker' tax will impact their access to workers. These sectors include the fishing and aquaculture, construction, motor trades, manufacturing and retail as well as personal and social services.

Anecdotal evidence suggests that WHMs have made an increasingly significant contribution to the Northern Territory's workforce needs and economy since the program commenced in 1975.

All employers are required to do to access WHM labour is to offer them work conditions that meet national employment standards. WHMs are a critical and flexible workforce that Northern Territory employers can access as, when and for the period of time they are required. Employers are not required to be approved as sponsors by Australian Government agencies as they are required to do in order to access overseas labour under the Seasonal Worker Program or engage skilled overseas workers on subclass 457 visas. Further, employers are able to multi task WHMs across several skills and occupations without fear of breaching DIBP rules.

In short, without the burden of administrative processes, employing WHMs is a particularly attractive option to many Northern Territory businesses, particularly SMEs, when local workforce numbers are inadequate. As with Australian citizen/permanent resident employees, when employing WHMs, Northern Territory employers need only to ensure that they are offering employment to this cohort in accordance with Australian workplace laws. This means that the WHMs provide them with ready access to a flexible workforce to address short term, seasonal needs.

WHMs have also been proven to be a significant source of skilled workers in the Northern Territory.

The Northern Territory Department of Business receives numerous enquiries from Northern Territory employers about what options are available to allow them to retain WHMs in their workforces for longer periods of time. However, there are no options unless the position and the WHM can meet the criteria of one of DIBP's skilled visa schemes. Many Northern Territory employers and WHMs would like to continue their working relationships but they are unable to do so as they do not meet DIBP requirements. Often, the WHM is required to cease employment and the position that they vacate remains unfilled for long periods of time.

The visa initiatives in the White Paper to allow WHM visa holders to work for longer periods of time for one employer if they are working in the specified industry sectors in northern Australia has been welcomed. In addition, introduction of a second 12 months for subclass 462 (Work and Holiday) visa holders, if they undertake 88 days of eligible work in northern Australia, has also been well received. However, Northern Territory businesses fear introduction of the proposed 'backpacker' tax will decrease the effectiveness of these initiatives as it will herald a significant decline in the overall number of WHMs that choose to work in regional Australia.

The research undertaken to prepare this submission suggests there is very limited statistical information available on WHMs such as where they reside while they are in Australia, the work they undertake and the periods of time they stay in regional Australia. Certainly there is no reliable information available specific to the Northern Territory. The Northern Territory Government considers that this is an issue that needs to be addressed as a matter of priority to better inform future policy development.

The question must be asked, how can an effective cost benefit analysis of the impact of the 'backpacker' tax be undertaken when there is little or no statistical reliable information available to support such an analysis?

While there is a paucity of limited statistical information available, there is substantial anecdotal evidence suggesting that the overwhelming majority of WHMs who take the opportunity to work in the Northern Territory are subclass 417 (Working Holiday) visa holders. The subclass 462 (Work and Holiday) visa holder cohort working in the Northern Territory is comparatively small.

With the exception of Taiwanese and South Korean nationals, most subclass 417 visa holders working in the Northern Territory are from Western Europe. Therefore, most are well educated, possess good English skills and many are multi-lingual. They are also from countries that share similar values, rule of law and government institutions to those in Australia. From a DIBP perspective, the subclass 417 visa cohort are also considered to be 'low-risk' for visa compliance purposes and their background make them less vulnerable to any potential for exploitation while they are in Australia.

Given that WHMs are a valuable source of labour and also an important source of skilled workers for Northern Territory employers, many are of the view that more should be done to encourage this calibre of worker to the Northern Territory.

Northern Territory employers acknowledge and welcome the White Paper visa initiatives as they have the potential to allow them to retain valuable workers and reduce the turnover of their workforces. However, they hold grave concerns that the potential benefits that could accrue through these initiatives will be significantly diluted by introduction of the 'backpacker' tax.

**Challenge 2: There are significant personal and financial barriers for labour to move to, and within, the north. They include the financial costs of relocation, housing and occupational licensing, a (real or apparent) lack of infrastructure and services, and strong family and community ties to current locations.<sup>6</sup>**

Ideally, the Northern Territory's workforce shortages would be met through training and up-skilling Territorians and supplemented by the relocation of Australians from other states. However, net interstate migration has made a limited contribution to the growth of the Northern Territory's workforce. As stated previously in this submission, successive governments have invested heavily in promoting the Northern Territory to Australians living in other states as a place to live, work and study. Despite these government efforts, attracting and retaining workers from other Australian jurisdictions to grow the Northern Territory's workforce has proven to be particularly challenging.

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<sup>6</sup> White Paper on Developing Northern Australia

In recent years, there have been considerable goodwill and resources from both the private and public sectors focused on improving educational and employment outcomes for Indigenous Australians in the Northern Territory. Although there are many examples of positive outcomes in this area, this issue is complex and will most likely require generational change before this segment of the workforce will be making a tangible impact on the overall growth of the workforce base.

It should also be acknowledged that a significant number of Territorians relocate to Australia's larger urban centres to live. The urbanisation phenomenon is neither new nor unique to the Northern Territory. It has been occurring in the developed world since the industrial revolution. In addition, many younger Territorians and other Australians also use the reciprocal rights of the WHM program and travel overseas to work, often in positions that are in acute shortage in the Northern Territory.

Just as it is rare to find a restaurant or bar in the Northern Territory without staff from the United Kingdom or Ireland, it is also rare to find such an establishment in London or Dublin without Australian staff. The reciprocal component of the WHM program has worked well for the Northern Territory. Although it is challenging to attract and retain Australian workers in the Northern Territory, many WHMs continue to be lured by the opportunity for adventure and the unique working experience the Northern Territory provides.

Undoubtedly the Northern Territory has a very transient working population. This leads to very high staff turnover rates which in turn add to the costs of doing business in the Northern Territory.

While many businesses acknowledge that it is essential for Australia's economic issues to be addressed, they are also of the view that the costs of imposing the 'backpacker' tax will far outweigh the benefits in Australia's north.

### **Challenge 3: Economic and labour market conditions differ significantly both at regional and subregional level.<sup>7</sup>**

In a country as diverse as Australia it would be unrealistic to expect the size and composition of each region's labour market to be homogenous. The disparity between workforces in the Northern Territory and Australia's large urban centres is vast. Businesses in the north require an adaptable and mobile labour force, from engineers to fruit pickers, welders to medical specialists and managerial staff.<sup>8</sup>

A number of Northern Territory businesses encounter ongoing challenges in finding workers, and identify constant staff churn and long-term unfilled vacancies as one of the most significant impediments to their growth. Most employers in Australia's larger urban centres would be completely unfamiliar with this situation.

The diversity in Australia's workforce is also reflected in the differing demand for WHMs. Some Northern Territory employers have expressed the view that the net economic benefit of a WHM working in the central business district of a major metropolitan centre on the eastern Australian seaboard cannot be compared to them undertaking the same role in a remote area of the Northern Territory where often an employer has no other option to fill a vacancy available to them.

There is also considerable disparity in the composition of workforces within the northern Australian subregions.

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<sup>7</sup> A Northern Workforce for Growth – White Paper on Developing Northern Australia

<sup>8</sup> White Paper on Developing Northern Australia

Some areas, like Cairns and Townsville, most closely represent the types of jobs found in the south; while others like Darwin and remote Western Australia, differ significantly.<sup>9</sup> In addition, unemployment in Alice Springs, Darwin and Katherine has been consistently around 4% or lower for many years, whereas other regions in northern Australia face unemployment rates of around 40%.<sup>10</sup>

Low unemployment levels and high participation rates have been a feature of the Northern Territory labour market landscape for a considerable period of time. Many Northern Territory employers in a broad range of industries say they simply have no other choice but to rely on this visa cohort for a significant proportion of their workforce. It is understandable therefore, for many businesses not to support any initiative that may threaten their access to a reliable and available workforce.

#### 4. Case Studies

##### **Horticulture/farm sector**

The Northern Territory Department of Business, working closely with the Northern Territory Farmers Association, commissioned an independent NT Farm Labour Survey in early 2016. The results from this survey are considered highly reliable with an 85% response rate.

The survey has particularly highlighted:

- the contribution of the 'backpacker' cohort as a source of employees for the Northern Territory farm sector; and
- confirmed that the proposed change to the taxation status for WHMs has the potential to significantly adversely affect the Northern Territory farm industry.

Survey results show the following.

In 2014-15, Northern Territory farmers employed an average 35 persons per farm business. The majority of these employees were temporary or casual employees and are not Australian citizens or permanent residents. However, it also revealed that the majority of management and permanent employees employed in the industry are not overseas workers. Further, one in five of the farm sector full time employees are overseas workers on employer sponsored visas.

Jobs growth in the farm sector is expected, with 28% of survey respondents indicating they would have new full time positions available within 12 months. In the mango sector this increased to 37%.

The majority of the respondents to the survey indicated they expect to increase the number of all types of employees in the 2016-17 seasons, with the mango sector expecting an increased need of an average of four employees per farm and the melon sector an average of 14 additional employees per farm. The jobs are primarily casual farmhand/fruit/vegetable pickers and fruit packing positions usually filled by overseas workers, i.e. WHMs. Farmers also indicated that these same positions were the most difficult to fill in 2015-16.

While the survey revealed an expected increase in the number of jobs available, it also showed that farmers hold concerns about filling the jobs. The majority of the respondents (62%) believe that the 'backpacker' tax will negatively affect the number of backpackers available in the Northern Territory for this work, with nearly 50% expecting the number of WHMs working in their business to reduce by 20-80%.

Forty (40) per cent of respondents indicated they would not be able to access workers from

<sup>9</sup> A Northern Workforce for Growth – White Paper on Developing Northern Australia

<sup>10</sup> Ibid



any other source to overcome the anticipated decrease in WHM availability.

Survey respondents feel the combination of increasing demand for workers, the ongoing difficulty farm operations face in filling positions, the potential negative effects of any change to the taxation arrangements for WHMs, and the lack of other labour alternatives will impact the growth, productivity and viability of the Northern Territory farm industry in 2016-17.

### **Hospitality sector**

The Northern Territory hospitality sector experiences considerable difficulty in accessing experienced, reliable staff. Industry advice is that workforce issues are one of the greatest operating challenges faced in the Northern Territory. International workers are a traditional and vital source for this industry due to a lack of domestic supply.

While hospitality businesses in the major centres of Darwin and Alice Springs encounter great difficulties in accessing and retaining experienced workers, this is compounded in regional and remote operations such as road houses.

The Australian Hotels Association NT gathered workforce data through three separate surveys in December 2015 and February and July 2016. The majority (57%) of the respondents to July 2016 survey were from outside the Darwin/Palmerston area.

Responses to the most recent survey showed, on average, establishments employed 41 working holiday or employer sponsored overseas staff during 2015-16. The survey responses also indicate that working holiday makers provide a significant proportion of the staff needed to operate Northern Territory hospitality businesses.

Further, the Northern Territory hospitality businesses that responded to the July 2016 survey anticipate the number of working holiday makers in the Northern Territory will reduce as a result of the 'backpacker' tax, with 39% of the respondents expecting the reduction in numbers to be between 51% and 75%.

Small hospitality businesses in regional and remote areas of the Northern Territory that responded to the recent survey reported a very high reliance on working holiday maker staff. Quote: *'Without working holiday staff we would have to shut down as we do not get enough residents want to come and work remotely....'*

### **Aquaculture sector**

The Northern Territory fishing and aquaculture industry relies heavily on WHMs as a source of skilled and semi-skilled labour. A prime example of this reliance is provided by the Paspaley Group of Companies, the largest producer of south sea pearls in Australia and a provider of marine engineering services.

The business has faced difficulties in recruiting and retaining suitable local workers for several years and is heavily reliant on overseas workers, in particular WHMs in a wide range of positions. Depending on the time of year backpackers can contribute between 22% and 81% of the business's pearl farm/pearl fleet workforce; an average 51% over a year.

This dependence has occurred despite dedicating all its efforts in 2015-16 into recruiting Australian workers and permanent residents.

These recruitment activities include interstate recruitment drives and seminars, recruitment

agencies, online advertising and a wide range of training initiatives. Paspaley recently won the 'People Training Award' at the Northern Territory Seafood Industry Awards for its joint venture initiatives with Charles Darwin University. Despite this, retention of Australian workers remains a challenge and the business has been forced to revert to a core casual labour force of WHMs.

WHMs also provide the company with a source of skilled workers. The business currently has three pearl farm managers, two senior divers, 11 masters, five vessel skippers and seven senior engineers who have come through either subclass 417 or 457 visas and been sponsored by the company to permanent residency.

Advice from the business is that any reduction in its access to overseas workers such as WHMs will impact not only on its ability to compete in international markets and remain a world leader in wild pearl production, but will also cause negative flow on effects including a reduction in the size and numbers of the pearl farms, decreases in the number of support vessels and staffing requirements that will flow on to a loss of Australian jobs.

### **Motor Vehicle Industry sector**

In June/July 2016, the Motor Trades Association NT, the peak industry association in the Northern Territory, undertook a telephone survey of 10 businesses in Alice Springs and Darwin in each of the following sectors: Tyre Retailers, Independent Mechanical Repairers, Body Repairers and Licensed Motor Vehicle Dealers (New).

The survey showed that a majority of tyre retailers, body repairers and motor vehicle dealers surveyed rely heavily on WHMs to fill low skilled (detailers), semi-skilled (tyre fitters and trade assistants) and skilled (motor technicians, panel beaters and spray painters) positions. During the Northern Territory's peak season, the reliance increases considerably.

All but 20% of the tyre retailers reported that they are experiencing labour shortages specifically in skilled and semi-skilled occupations, and an overwhelming majority of respondents indicated that they believe the proposed 'backpacker' tax will negatively impact the number of WHMs who come to the Northern Territory.

## **5. Importance of Working Holiday and Work and Holiday visa holders to the Northern Territory Tourism Industry**

The international youth holiday market is of vital importance to the Northern Territory as a significant number of that holiday market are WHMs, and WHMs are the backbone of the tourism industry – both as tourists and a valuable labour source, particularly in regional and remote areas. In the year ending March 2016, it is estimated that around 76% of the visitor nights spent in the Northern Territory from the international youth holiday market were from people on a WHM visa.

The impact of the decline in WHMs following the announcement of the 'backpacker' tax is already being felt in the Northern Territory with falling occupancy rates in backpacker accommodation and inquiries for work in the hospitality sector substantially declining. The imposition of the 'backpacker' tax will have a dual impact on the Northern Territory's hospitality sector as it will also result in a drop in patronage and expenditure at restaurants, cafes, hotels, pubs and clubs.

The negative impact on WHM numbers to Australia that is anticipated by the industry following the imposition of the 'backpacker' tax will have a significant impact on the Northern Territory's tourism industry and the wider Northern Territory economy.

## **6. Increased Red Tape for many Northern Territory employers**

In 2015, a Deloitte survey of 100 Northern Territory businesses identified regulatory compliance as one of the top three growth inhibitors, adversely affecting both productivity and international competitiveness. This same survey identified difficulties attracting and retaining suitably qualified, reliable staff as one of the top two growth inhibitors. (Deloitte Private Survey, 2015)

The imposition of the non-resident taxation rate that has been proposed for all WHMs will introduce an additional layer of administrative complexity and regulatory impost on top of the existing red tape businesses already face.

A clear example is provided by the Northern Territory tourism sector. Feedback provided by businesses has been that the hospitality and tourism sector is consistently encountering difficulties in procuring staff and the demand for both skilled and unskilled workers is simply not being met through either domestic or international labour under the current regulatory environment. This is happening despite significant amounts of work being done to both attract workers from interstate and overseas and provide training pathways for locals in this industry.

The lack of a domestic workforce has meant that many Northern Territory businesses have been forced to look overseas to fill vacancies; however, this has not been easy. Australian Government laws such as those surrounding the various employer sponsored visa options, as well as those targeted at building human capital, often do not fit the operating conditions and specific labour requirements of the Northern Territory. There are very few programs that allow businesses to sponsor semi or low skilled workers that are in shortage. Further, there are significant administrative and regulatory requirements that must be met to access existing migration/visa programs and many of the Northern Territory's SMEs face difficulty in meeting these requirements. As a result, accessing the workers they require has been difficult and in many cases impossible.

Additional red tape and administrative processes that increase the impost on Northern Territory SMEs could potentially be counterproductive as they struggle to maintain compliance in the face of time and resource pressures.

Consistency in regulatory frameworks will simplify the compliance environment for all businesses and improve productivity.

The proposed 'backpacker' tax change will introduce different taxation treatments for different classes of workers and add unwelcomed complexity for businesses employing workers who are not Australian citizens or permanent residents.

The majority of visa holders who have work rights in Australia are treated as residents for taxation purposes. Currently, international students, who are often in Australia on temporary visas for a similar lengths of time as backpackers, are treated as residents for taxation purposes as are Temporary Work (Skilled) subclass 457 visa holders, subclass 402 Training and Research visa holders, the subclass 489 provisional visa holders and many other types of temporary residents living in Australia for more than six months.

The Northern Territory acknowledges that many backpackers are already taxed as foreign residents for taxation purposes as they 'are visiting Australia for more than six months, but for most of the time have travelled and worked in various locations around Australia and have not developed ties in a local community' (Australian Taxation Office , 2016).

However, from the employer point of view, backpackers will invariably indicate to Australian employers they are Australian residents for the purposes of PAYG deductions. Therefore an employer generally has to apply one of two PAYG options; either for a resident employee with a Tax File Number (TFN) or without a TFN to all of their employees. The introduction of a new tax treatment for all WHMs means employers have to apply one of four PAYG options for a resident employee with a TFN or resident employee without a TFN to all of their employees or non-resident with a TFN or non-resident without a TFN.

## 7. Options

The great strengths of the WHM program in terms of providing a mechanism to fill worker shortages in the Northern Territory are:

- the relative ease with which applicants can obtain a visa with broad work rights;
- the absence of administrative involvement for business in WHMs obtaining their first visa and the minimal requirement in place for visa holders to obtain their second visa; and
- flexibility in terms of work that can be undertaken.

The Northern Territory Government considers there is a mismatch between the existing regulatory framework and the needs of Northern Territory businesses to access skilled and unskilled overseas workers that needs to be addressed. This can be done through the identification and implementation of a number of changes to the Australian visa system, the introduction of new mechanisms to facilitate access to a growing labour force and an overhaul of the delivery of overseas worker programs.

These strengths of the WHM program need to be transferred to other existing programs and/or new programs implemented which specifically target the labour market gaps that are met by the WHM program.

Australia is not the only country on the globe that offers an attractive working holiday option to young people. The pool of potential WHMs is finite, and young people considering a working holiday often take stock of a wide range of alternative countries. When considering where to travel, WHMs consider factors related to visa cost, costs of travel, net pay, employment opportunities and cost of living. A comparison of Australia's WHM program to other countries participating in the program reveals that Australia's competitive advantage has been considerably reduced. Evidence of this is provided in the reduced numbers of WHM visa holders in Australia. As at 31 December 2015, there were 146,601 WHM visa holders in Australia (first and second visas); this is a 5.2% reduction in their numbers compared to 31 December 2014.<sup>11</sup>

Our competitors offer similar tourism and working experiences and some have much lower costs. The visa application charges for the subclass 417 visa is AUD 440, significantly higher than our close competitors, Canada (AUD 260), New Zealand (AUD 200) and the United States (AUD 260).

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<sup>11</sup> DIBP WHM report 31 December 2015

The potential introduction of the non-resident taxation status for all backpackers will also reduce the program's international competitiveness. Some other countries not only have lower costs of living but also a higher portion of 'take home pay'.

The Australian program is less flexible than competitor programs, targeting a smaller pool of eligible applicants. The maximum age for the WHM program is 30 years of age in Australia. This is lower than the maximum age of countries such as Canada. The Australian WHM program also does not allow the inclusion of secondary applicants, either of working age or below the age of 18. This contrasts with some other countries which allow applications by a family unit.

The following changes can be made to the program to make it a more effective tool for filling workforce shortages in northern Australia and other regional areas.

WHMs need to be encouraged to work in regions of low unemployment and fill labour and skills shortages.

This can be done at the supply end through the implementation of sustainable, long term marketing campaigns that promote working holiday opportunities in the areas where workforces are needed, such as the Northern Territory and regional Australia. The age range of our working holiday programs must also be extended to allow northern Australia greater access to international labour.

While the Seasonal Worker Program has the potential to address some of the workforce issues in the Northern Territory, its administrative complexity and reporting requirements make it challenging for Northern Territory SMEs or for those employers who are seeking small numbers of workers or workers for short periods of time. The Northern Territory Government considers there is a need to make significant changes to the administrative, reporting and training requirements embedded in the Seasonal Worker Program before it will become a viable workforce option for many of the Northern Territory SMEs.

It is true that over time, as a greater pool of Seasonal Workers develops in the participating countries in the South Pacific and Timor-Leste, there is potential for these workers to replace WHM workers. However, until it can be demonstrated that such a position has been reached, it would be detrimental to industries in the Northern Territory to implement changes, such as the proposed 'backpacker' tax, that have the potential to impact labour supply to regional Australia.

## **8. Conclusion**

The importance of WHMs to the Northern Territory economy cannot be overstated. The vocal condemnation of the proposed 'backpacker' tax from a broad cross section of the Northern Territory's industry sectors is testament to this fact.

Northern Territory employers consider that initiatives such as this proposed taxation status change for WHMs suggests there is little understanding within Australian Government circles of the important roles that WHMs play in addressing the workforce needs of the Northern Territory. This position seems difficult to refute given the paucity of statistically information available on WHMs in Australia. Rather than implementing measures that will most likely discourage WHMs to travel to Australia and reduce the numbers who work in the Northern Territory, policies need to be developed to encourage more of this cohort to work in northern Australia.

While the visa initiatives in the White Paper on Developing Northern Australia were welcomed, the proposed 'backpacker' tax is likely to considerably dilute their positive impact.

Reliance on anecdotal evidence is essential given the scarcity of statistical information on WHMs in Australia. It is clear that WHMs are essential to sustain and grow the Northern Territory economy and maximise its future economic potential.

As well as making an important contribution to the Northern Territory's labour force, WHMs are also a key contributor to the tourism industry in the Northern Territory.