

How much tax should backpackers pay?

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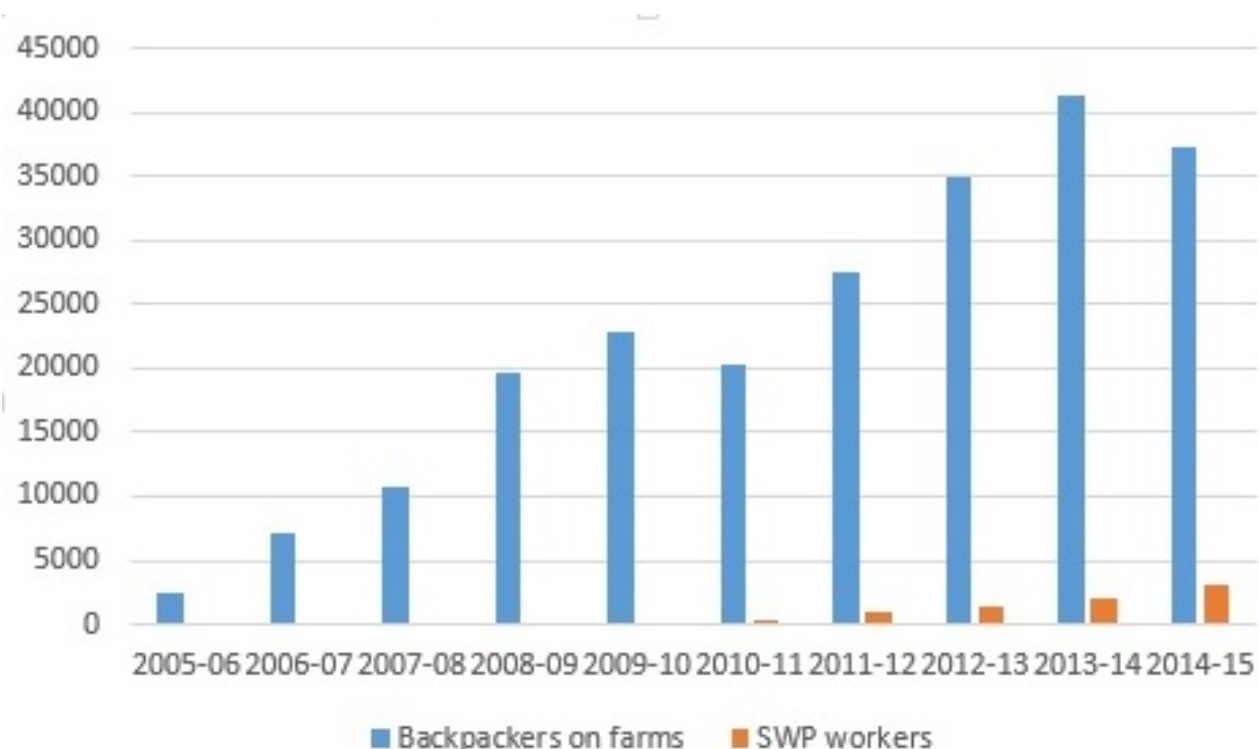
Farmers are up in arms that the backpackers they rely on to pick their fruit and vegetables will have to start paying tax. Currently, backpackers (Working Holiday Makers) benefit from the tax-free threshold available to Australian residents, which means that they don't have to pay tax on their first \$18,200 of income. Under the federal government's 2015 proposal, they will have to pay 32.5 cents in the dollar in tax from the first dollar earned. Given the outcry, that's the policy that is now under review.

In this article, I argue that an integrated approach is needed.

Workers under the Seasonal Worker Program (SWP) only pay tax of 15 cents in the dollar. It does seem odd to subject one group of foreign labourers to one tax regime, and another group doing similar labour to another. Levelling the playing field is a good goal for public policy. From this perspective, taxing backpackers at 15 cents in the dollar would make sense.

But it would be a mistake to look at this reform in isolation. Another good guide to public policy is the "second-best theorem". This says that a reform which solves a single problem may in fact make things worse once a broader range of considerations is taken into account.

When we compare seasonal workers and backpackers, we see that the field is far from level. In fact, it is tilted in favour of backpackers in a number of ways. For example, if an employer wants to hire a seasonal worker, they have first to conduct labour market testing. But not if they hire a backpacker. If an employer wants to hire a seasonal worker, they have to register with, and be approved by, the government. But not if they hire a backpacker. If an employer wants to hire a seasonal worker, they will have to arrange their accommodation. But not if they hire a backpacker. No wonder there are, as the graph below shows, more than ten times as many backpackers working in horticulture as there are seasonal workers.



To avoid perverse outcomes, in particular a further tilting of the playing field in favour of backpackers, the government should consider an integrated reform package. Fully levelling the playing field will not be possible, but two key reforms would go a long way. Labour market testing should either be introduced for all foreign workers in horticulture, or, I would suggest, given how dominated this market already is by foreign workers, done away with altogether.

Similarly, all employers who want to use foreign workers should have to register with government, or, I would suggest, the requirement to register should be done away with altogether. Far better in this area would be a requirement for all labour hire companies to be licensed by government, as this would do much to end the abuse of workers.

The third and final principle that is relevant to this issue is that of policy coherence. The second-year visa which backpackers can obtain by working on a farm directly undermines the SWP. That visa was introduced back in 2006, when there was a labour shortage in horticulture and when the government of the day was unwilling to introduce a seasonal worker program. But now both sides of politics support the SWP. Seasonal workers from the Pacific have very limited choices; nearly all of them can only work on farms. Backpackers can work in any sector. Either the second-year backpacker visa should be abolished, or it should be generalized, and given in return for any three months of work, or, at a minimum, any three months of work in a regional area. Other countries use horticultural work as an opportunity to help their developing country neighbours: think the US and Mexico, Canada and the Caribbean, New Zealand and the Pacific. We should be doing the same. Yet 95% of backpackers are from developed countries. Greater policy coherence would result in us providing more horticultural opportunities to our Pacific neighbours, who need them far more.

A level playing field and policy coherence are sound principles on which to base a solution to the backpacker tax issue. I suggest the same tax rate for backpackers as for seasonal workers (15%), but only as part of an integrated reform package.

Stephen Howes is the Director of the Development Policy Centre. This post is based on his [submission](#) to the backpacker tax review. The figures in the graph are from government statistics. Consistent with the data, it is assumed that 90% of those applying for a second-year visa have worked on a farm. Backpackers who have worked on a farm but not applied for a second-year visa are not included in the graph, which therefore underestimates the number of backpackers working on farms.