KPMG submission to the

Senate Economics Legislation Committee

Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016 and related Bills

20 October 2016

Comments

1.1 Thank you for the opportunity to make a submission to the Senate Economics Legislation Committee in relation to *Tax Rates Amendment (Working Holiday Maker Reform) Bill 2016* and related Bills.

1.2 The Bills propose to:

- define a working holiday maker as an individual that holds a Subclass 417 (Working Holiday) visa, Subclass 462 (Work and Holiday) visa, or certain other bridging visas. Working holiday taxable income is also defined by reference to this definition;

- from 1 January 2017, to apply a 19 per cent income tax rate to working holiday maker taxable income derived from Australian sources on amounts up to $37,000, with ordinary marginal tax rates applying to taxable income exceeding this amount;

- require employers of working holiday makers to register with the Commissioner of Taxation (Commissioner), allowing such employers to withhold tax;

- from 1 July 2017, to increase the rate of the departing Australia superannuation payments tax to 95 per cent for certain payments working holiday makers;

- allow the Commissioner to disclose certain information to the Fair Work. Ombudsman to help protect working holiday makers from unfair employment arrangements;

- require the Commissioner to give the Treasurer, for presentation to the Parliament, certain statistical information; and

- from 1 July 2017, to reduce Subclass 417 and 462 visa application charges from $440 to $390 but increase the passenger movement charge from $55 to $60.

1.3 From a tax perspective, KPMG considers that:

- retaining the current legislation regime will perpetuate the uncertainty over the current residency test and the associated tax compliance risks;

- classifying all working holiday makers as residents and thus entitled to a tax-free threshold would be overly generous and wrong based on general tax principles;

- on the other hand, a 32.5 per cent tax rate up to $87,000 appears somewhat draconian and not internationally competitive;

- the proposed compromise of a 19 per cent rate up to $37,000 is considered a reasonable compromise; and

- linking the tax treatment to certain types of visa seems administratively attractive and simple.

1.4 From the view of the visa system as a whole, KPMG would note:

- the significant contribution that working holiday visa entrants make to the economy;

- raising the age limit from under 31 years to under 35 years would increase the pool of individuals eligible to apply for the working holiday makers visa; and

- from 1 January 2017, working holiday makers will be allowed to work for the same employer for up to 12 months (from 6 months currently) on the proviso that the second 6 months is worked in a different location. This affords greater flexibility for the working holiday makers visa holder and bodes well for employers with multiple sites/offices in various locations.

1.5 Accordingly, KPMG, supports the Government's compromise position in these Bills.

1.6 KPMG would like to take this opportunity to ask the Australian Parliament to consider a review of the entire Visa system. This is clearly beyond the terms of reference of this inquiry. We do however believe that a root and branch review of the rules surrounding the visa system would give rise to long term economic benefits. If the Senate Economics Reference Committee would like us to make a submission on this point, we would be pleased to do so.