



## Policy costing

### Restoring fairness to Australia's skilled visa system

Party:

Australian Labor Party

#### Summary of proposal:

This proposal would increase the Temporary Skilled Migration Income Threshold (the Income Threshold) and change the application charges and levies on the Temporary Skill Shortage visa (subclass 482). The levy would be equal to 3 per cent of the Income Threshold per visa per year for businesses with a turnover under \$10 million per year, and 6 per cent of the Income Threshold per visa per year for businesses with a turnover of \$10 million and above per year.

Under the proposal, the Income Threshold would be increased to \$65,000, indexed with wage growth. The subclass 482 visa would no longer be separated into short-term and medium-term streams but would have a single stream of up to four years, with a pathway to permanent residency. The annual migration intake would remain unchanged at the current level of 160,000. The new visa application charge would be \$2,455 per visa application, indexed with the consumer price index. Currently, the visa application charge is \$1,175 for the short-term stream and \$2,455 for the medium-term stream.

The proposal would also abolish the component of the Skilling Australians Fund Levy that applies to subclass 482 visas, and replace it with a new yearly visa levy paid by employers who hire subclass 482 visa holders. The new levy would be calculated as a percentage of the Income Threshold, based on the size of the employer's business, and would be deductible for company tax purposes. Consistent with the Skilling Australians Fund Levy, the proposed new visa levy will also be paid upfront.

Revenue from the Skilling Australians Fund Levy is currently appropriated for the Skilling Australians Fund to support ongoing vocational education and training. Revenue from the new visa levy would continue to fund the Skilling Australians Fund at the current projected level, with any additional revenue collected returned to consolidated revenue.

The proposal would have effect from 1 July 2019.

## Costing overview

### Policy background

Currently, sponsors for applicants of the Temporary Skill Shortage visa (subclass 482), the Employer Nomination Scheme visa (subclass 186) and the Regional Sponsor Migration Scheme visa (subclass 187) are required to pay the applicants an acceptable market rate wage for their work so that Australian workers would not be disadvantaged by cheap overseas labour. The minimum salary required is called the Temporary Skilled Migration Income Threshold and is currently set at \$53,900. Employers of holders of the abovementioned visas are also required to pay the Skilling Australians Fund Levy to provide funding for vocational training of Australian workers. The current levy rates are \$1,200 per year and \$1,800 per year for small (turnover under \$10 million per year) and large (turnover over \$10 million per year) businesses respectively. The levy needs to be paid upfront,

based on the number of years employers intend to hire each migrant worker. The current visa application charge for the subclass 482 visa is \$1,175 for the short-term stream and \$2,455 for the medium-term stream, both of which are indexed to the consumer price index.

### Financial implications

The proposal would be expected to increase the fiscal and the underlying cash balances by \$510 million over the 2019-20 Budget forward estimates period. This impact reflects a net increase in revenue and a decrease in administered expenses.

A breakdown of the financial implications of the proposal over the 2019-20 Budget forward estimates period is provided at [Attachment A](#). The proposal would be expected to have an ongoing impact beyond the 2019-20 Budget forward estimates period.

The proposal would not be expected to have an impact on departmental expenses because it would not be expected to change the administrative complexity of the visa system.

There is a small difference between the fiscal and underlying cash balance impacts due to a timing difference between when indirect tax liabilities are recognised and when they are collected. However, fiscal and underlying cash balance impacts are identical after rounding.

### Uncertainty

This costing is subject to a high level of uncertainty, particularly in relation to the labour demand elasticity for skilled migrant workers and the substitutability between domestic and foreign workers. The estimates are also very sensitive to the assumptions used in this costing, such as future visa applications, substitutions between visas, visa grants, visa fees, and the income distribution of skilled migrant workers. Changes in the assumptions could affect the costing estimates significantly. The proposal would be expected to reduce the overall size of the labour force in the economy, which could have broader economic effects. It would also be expected to have an impact on the overall level of corporate profits as a result of an increase in the cost of skilled labour. The magnitude and timing of these broader economic effects are highly uncertain and have not been included.

**Table 1: Financial implications (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	<b>Total to 2022–23</b>
Fiscal balance	50	160	140	160	<b>510</b>
Underlying cash balance	50	160	140	160	<b>510</b>

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

(b) Figures may not sum to totals due to rounding.

## Key assumptions

The Parliamentary Budget Office has made the following assumptions in costing this proposal.

### Businesses

- Businesses would not be able to replace temporary foreign workers with local workers, as evidenced by the strict labour market testing requirements already in place as part of the visa application process. Additionally, research suggests that the skilled migrant intake does not materially affect labour market outcomes of Australians.<sup>1</sup>
- The labour demand elasticity for temporary skilled visa holders (subclass 482) would be -0.5 and the labour demand elasticity for permanent skilled visa holders (subclass 186 and subclass 187) would be -0.4 over the 2019-20 Budget forward estimates period.<sup>2</sup> These elasticities would mean that some visa holders whose current salary level is below the proposed Income Threshold would no longer be employed in Australia under the proposal, while others would see their salaries and wages increase to the new Income Threshold as businesses could not find suitable replacements in the domestic labour market and have to pay higher salaries to skilled migrant workers.<sup>3</sup> It should be noted that if the response of employment to the increase in wages was more significant, the fiscal impacts could be reduced.

### Visa holders

- The grant rate of subclass 482 visas would be equal to the historical average grant rate of subclass 457 (the previous Temporary Skilled Migrant visa replaced by subclass 482 visa) and subclass 482 visas over the 2019-20 Budget forward estimates period.
- The number of applications and grants for the subclass 186 and subclass 187 visas would remain unchanged from their 2020-21 levels over the 2019-20 Budget forward estimates period.
- The increase in the visa application charge for the subclass 482 visa would cause some behavioural changes by applicants.
  - Around 20 per cent of the applications for the short-term stream of the visa would switch to the Temporary Work (Short Stay Specialist) visa (subclass 400) in response to the increase in visa application charges.
- The number of secondary visa applications as a proportion of the number of primary visa applications for each visa subclass would remain constant at around 80 per cent over the 2019-20 Budget forward estimates period, based on historical data from the Department of Home Affairs.
- The total amount of salaries and wages earned by secondary visa holders would be approximately 40 per cent of that of primary visa holders for each year over the 2019-20 Budget forward estimates period, based on an analysis of data provided by the Australian Taxation Office (ATO).

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<sup>1</sup> See Breunig, Deutscher, To, 2016, *The Relationship between Immigration to Australia and the Labour Market Outcomes of Australian-Born Workers*, Economic Record, Volume 93, Issue 301.

<sup>2</sup> The labour demand elasticity is a measure of the responsiveness of labour demand to changes in wages. It measures the proportional change in the number of people employed resulting from a proportional change in employees' wages. An elasticity of -0.5 means that for every 1 per cent increase in wages, there would be a 0.5 per cent decrease in the number of people employed.

<sup>3</sup> Mowbray, Rozenbes, Wheatley and Yuen, 2009, *Changes in the Australian Labour Market over the Economic Cycle*, Australian Fair Pay Commission Research Report No. 9/09.

- The income distribution of holders of the Employer Nomination Scheme visa (subclass 186) and the Regional Sponsor Migration Scheme visa (subclass 187) is assumed to be the same as that of Temporary Skilled Migrant visa (subclass 457 and subclass 482).
- Wages of temporary foreign workers would increase in line with the projected growth in full-time adult average weekly total earnings.
- There will be no ongoing impact from creating a pathway to permanent residency for subclass 482 visa holders since the current level of total migration intake of 160,000 would remain unchanged.

### Skilling Australians Fund Levy

- 65 per cent of temporary skilled migrants would be employed by businesses with an annual turnover of less than \$10 million, while the other 35 per cent would be employed by medium and large businesses.
- 72 per cent of holders of the Employer Nomination Scheme (subclass 186) visa and the Regional Sponsor Migration Scheme (subclass 187) visa would be employed by businesses with an annual turnover of less than \$10 million.

### Flow-on effects

- Decreases in the number of temporary skilled workers would lead to decreases in indirect taxes such as excises, custom duties, and the goods and services tax (GST).

## Methodology

The proportion of visa holders subject to the Income Threshold who would be affected by the proposal was estimated using data provided by the ATO for the 2016-17 financial year, adjusted for wage growth. Based on the assumptions listed above, the decrease in the number of visa holders was estimated for each year over the 2019-20 Budget forward estimates period. The impact on personal income tax revenue was calculated by applying the average marginal tax rate to the difference between the increase in total taxable income from increased wages and the decrease from fewer migrant workers.

The financial implications of the visa application charge component were estimated by multiplying the increase in visa application charges with the projected number of applications subject to increased visa application charges for each year over the 2019-20 Budget forward estimates period, and then adjusting for the decrease in fees from fewer applicants.

The financial implications of abolishing the Skilling Australians Fund Levy were estimated by multiplying the current forecasts of the number of visa holders by the levy rate for each year over the 2019-20 Budget forward estimates period.

The financial implications of the visa levy component were estimated by examining the total levies collected under the current arrangement and under the proposed arrangement.

The indirect tax impacts were estimated by multiplying the change in the number of residents by the estimated indirect tax revenue per resident for each year over the 2019-20 Budget forward estimates period.

Estimates have been rounded to the nearest \$10 million.

## Data sources

The ATO provided data on primary holders of visas subject to the Income Threshold for the 2015-16 and 2016-17 financial years.

The Department of Home Affairs provided data on the number of applications, grants and fees for visas subject to the Income Threshold over the period to 2022-23.

The Department of Home Affairs provided the model used for the 2017-18 Budget measure *Skilling Australians Fund Levy – introduction*, as well as the proportion of visa holders employed by companies with turnover less than \$10 million.

Department of Home Affairs, 2019. *Temporary visa holders in Australia*, Canberra: Commonwealth of Australia, accessed on 15 March 2019.

Department of Home Affairs, 2019. *Temporary resident (skilled) visas granted pivot table*, Canberra: Commonwealth of Australia, accessed on 15 March 2019.

Department of Home Affairs, 2019. *Temporary resident (skilled) visa holders pivot table*, Canberra: Commonwealth of Australia, accessed on 15 March 2019.

Breunig, Deutscher, To, 2016. *The Relationship between Immigration to Australia and the Labour Market Outcomes of Australian-Born Workers*, Economic Record, Volume 93, Issue 301.

Mowbray, Rozenbes, Wheatley and Yuen, 2009, *Changes in the Australian Labour Market over the Economic Cycle*, Australian Fair Pay Commission Research Report No. 9/09.

## Attachment A – Restoring fairness to Australia's skilled visa system – financial implications

**Table A1: Restoring fairness to Australia's skilled visa system – Fiscal and underlying cash balances (\$m)<sup>(a)(b)</sup>**

	2019–20	2020–21	2021–22	2022–23	Total to 2022–23
<b>Revenue</b>					
<i>Personal tax revenue</i>	..	..	..	..	..
<i>Skilling Australians Fund Levy revenue</i>	-110	-120	-120	-130	-480
<i>New levy revenue</i>	140	280	300	330	1,050
<i>Company tax</i>	-	-10	-50	-50	-110
<i>Visa fees revenue</i>	20	20	20	30	90
<i>Indirect tax revenue</i>	-10	-30	-40	-60	-140
<b>Total – revenue</b>	<b>40</b>	<b>140</b>	<b>110</b>	<b>120</b>	<b>410</b>
<b>Expenses</b>					
<i>GST to states and territories</i>	10	20	30	40	100
<b>Total – expenses</b>	<b>10</b>	<b>20</b>	<b>30</b>	<b>40</b>	<b>100</b>
<b>Total</b>	<b>50</b>	<b>160</b>	<b>140</b>	<b>160</b>	<b>510</b>

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms.

A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms.

A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

(b) Figures may not sum to totals due to rounding.

.. Not zero but rounded to zero.

- Indicates nil.