Hybrid visa charging options

Discussion paper for workshop
to be held on 2 February 2016,
Productivity Commission, Canberra

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1 Background and aim of the workshop

The terms of reference for the Productivity Commission's inquiry into *Migrant Intake into Australia* directed the Commission to examine future options for the intake of temporary and permanent immigrants, and to particularly consider the role that prices and charges might play.

At present, the intake is managed through a mix of qualitative requirements, quotas (mainly for permanent visas) and imposts. The latter include visa fees for each visa subclass, ranging from zero for most humanitarian visas through to almost $50 000 for a Contributory Parent Visa. (Attachment A contains some example of current visa charges and related application costs.) The basis for setting these charges lacks transparency and appears ad hoc.

In chapter 12 of its draft report, the Commission examined the merits of an immigration entry system based mainly on pricing (with basic health, character and security checks). Among other things, it found that such an approach, by changing the composition of the immigrant intake, could reduce the 'demographic dividend' from immigration, while realising few of the gains normally associated with a price-based system.

While the Commission did not favour such a system, it noted that there can be a role for prices in allocating visas when used in conjunction with the current system's eligibility criteria. In identifying the scope for other, 'hybrid' options and approaches, chapter 13 of the draft report focused on those that could maintain the current:

- level of skill and family visa grants (at around 190 000 immigrants per year)
- balance between the skill and family streams and the qualitative criteria attached to these streams
- health, character and security checks
- exemption from a visa charge for humanitarian immigrants.

The draft report identified several approaches that could meet these criteria (including the first three listed in box 1). The draft report noted that, by and large, the approaches it identified would raise government charge revenue relative to the current system. However, it noted that most of these approaches have not been adopted elsewhere in their entirety, and there is scant evidence on the likely behavioural responses of immigrants. The incentives created by differential charging could change the composition of immigrants *within* the skill and family streams, with potential economic and social implications. In addition, approaches that are more tightly targeted are likely to be more administratively complex.

Since the draft report, the Commission has refined and undertaken some further analysis of some of these approaches. As well as the first three approaches listed in box 1, which relate to visa charging options, it is examining whether there may be a case for altering the taxation arrangements of some immigrants in lieu of changing visa charges.

This workshop is intended to provide further input and views from key interested parties on the effects and merits of these options, to inform the Commission's deliberations as it works to finalise its inquiry report. This paper provides some qualitative analysis of the options. The Commission is also modelling some of the effects of the options. Preliminary results will be presented at the workshop.

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Box 1 **Some other visa charging options**

Below are four broad options for setting visa fees/charges or taxing (non-humanitarian) immigrants that could be considered in conjunction with elements of the existing immigration selection system. While presented as discrete options, in practice if may be possible to combine elements of the different approaches.

Option 1: A uniform levy — all skilled and family immigrants would pay a flat levy for infrastructure, in addition to a base fee based on current visa charges or visa processing costs.

Option 2: A fiscally-reflective charge by visa category — the existing qualitative criteria for each subclass would be retained. Charges would be set according to the expected net lifetime fiscal costs (or a proportion thereof) for each visa category.

Option 3: A market-clearing price by visa category — the existing qualitative criteria for each subclass would be retained. Charges for each visa category would be set (through an auction, tender or administrative approach) to clear the market.

Option 4: Special taxation arrangements for immigrants — rebates of the tax free threshold could be abolished for work performed by (all) immigrants and/or differential tax rates applied, varying by visa category.

2 Key objectives and considerations for assessing immigration charges

In the draft report, the Commission took the overarching aim of Australia's immigration policy to be to maximise the welfare of the incumbent community (as it is before immigration decisions are made), recognising that there can be interactions between the wellbeing of incumbents and the wellbeing of potential new immigrants (including refugees).

For the final report, the Commission is proposing to articulate some more specific principles and potential objectives for charging immigrants to help guide assessments of the merits of alternative charging approaches and options.

Covering fiscal costs and raising revenue

The draft report noted that immigration entails a range of fiscal costs, although these vary both within and between visa classes. The fiscal costs can include administrative costs in processing visa applications, the cost of resettlement programs and services provided for newly arrived immigrants (such as language classes), and longer-term costs associated with the use of welfare and government-subsidised services such as health care and education. Governments may also face greater public infrastructure costs where immigration exacerbates congestion.

Levying a visa charge on immigrants could recover some or all of these fiscal costs. In this sense, it would afford an element of 'user pays', and the moneys so obtained could help governments fund the services consumed by immigrants after their arrival.

Of course, immigration can also provide fiscal benefits, including through the payment of income taxes, and so there would be an argument for limiting cost recovery objectives to only some measure of 'net' fiscal costs. When calculated on this basis, an appropriate visa charge would be very low (or even negative) for some groups, such as the highly skilled.[1]

Beyond recovering costs or net costs, it would be consistent with the overarching objective of the immigration program set out above for government to increase visa charges so as to maximise the revenue from immigrants (to the extent that this does not unduly hamper achieving other objectives). The additional revenue that could be raised would essentially represent a transfer from immigrants to the government on behalf of the incumbent community, and would be akin to a special tax on immigrants. It would enable governments to increase spending on community services, or reduce general taxes, or retire debt (thus enabling more sustainable provision of government services in future), or some combination of these.

[1] A broader conception of net costs or net benefits would take into account assessments of any other unpriced economic, social and environmental costs and benefits of immigration. In theory, a net cost recovery visa charge could be adjusted to also reflect the balance of these other costs and benefits.

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Testing demand and influencing composition

Another possible objective for immigration charges would be to inform, or help shape, aspects of the immigration program.

Putting a price on an item or service provides a test of its value to prospective purchasers. If a prospective purchaser does not value the benefits he or she expects to attain from the item or service sufficiently highly to be willing to pay its price, and if the price is set as a level below (or equal to) the net social cost of the item, the implication is that the consumption/use of the service or item would likely reduce wellbeing.[2] For example, the current Contributory Parent Visa Charge provides a test that immigrants (and/or those financially supporting their immigration) entering under that category value moving to Australia *at least* at $50 000. This figure appears to be much less than the actual average net fiscal costs of such immigration (which are estimated in the order of $300 000 on average[3]). That some people are not willing to pay the charge can be taken to imply that their immigration would be unlikely to enhance overall wellbeing.[4] Prices thus have the potential to provide an extra check or test on whether the immigrant category quotas and requirements set administratively are appropriate.

Prices could also be used to affect the composition of immigrants within visa categories. For example, the net fiscal benefits of immigrants within the skilled category generally falls with age. Charges that increased with immigrants' age of the could be used to provide incentives for a shift in the age structure towards younger immigrants (other things equal, and recognising that capacity to pay may also differ by age).

On the other hand, prices within categories could potentially worsen the composition of immigrants in some cases. In the draft report, the Commission noted that a pure price-based approach could provide incentives for more highly skilled immigrants to choose competitor countries, with their places likely taken by lower skilled immigrants (in relation to whom the net fiscal benefits would be lower). It might also affect the gender and family composition of the intake. Risks around such compositional shifts would also need to be considered when assessing prices set by visa class.

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2 Some key exceptions arise where there are benefits to others from one person's consumption of an item that are not captured in the price levied and/or whether equity concerns would be most efficiently addressed by providing the item in question.

3 This estimate does not incorporate some possible fiscal savings, such as childcare subsidies where grandparents look after children, nor any broader social costs or benefits that might flow from their presence in Australia.

4 Another caveat here is that high charges on family members may reduce the demand to immigrate of other individuals including skilled immigrants, who might generate net fiscal benefits. Given the long term nature of immigration decisions, it is also likely that some immigrants will overestimate and others underestimate the actual benefits they would obtain from immigration.

Equity issues

Any effects that immigration charges may have on equity are also relevant. Some would see some bases for visa charges, such as compensating the incumbent population for some of the costs attributable to immigration, as promoting equity. But there are also concerns that visa charges, particularly if set at very high levels, could diminish equity.

One concern is that (high) visa charges would reduce the average wealth of immigrants relative to the incumbent population, although (domestic) equity concerns are generally addressed through more targeted instruments:

- Australian governments, on behalf of the community, address their equity objectives principally through the progressive taxation and social security system, and subsidies and universal service obligations around the provision of certain goods (such as education and basic health services). The system does not seek to ensure that any particular Australian becomes or remains relatively well-off, or vice versa. Rather, it generally allows individuals to achieve as their talents, efforts, circumstances and choices allow, and then the system augments these outcomes, to compress but not eliminate differences between those deemed well-off and those less so.
- Against this background, one view is that any initial reduction in the wealth of immigrants who choose to come to Australia would not of itself be problematic from an equity perspective. Those who still elected to immigrate would presumably still be better off by taking up the offer, inclusive of the visa charge, as otherwise they be unlikely to accept the offer. And once settled and meeting other visa requirements (such as any time-based exclusions), immigrants would enjoy the same public supports and/or tax obligations as incumbent Australians in equivalent circumstances.
- A proviso to the above argument is that the charges or taxes to be paid were clear to prospective immigrants ahead of their decision to immigrate. In the case of the family reunion program, however, some immigrants will have come to Australia on the expectation that family members could later join them. Any significant increase in the charges applying to family reunions would effectively represent a retrospective change to the conditions of their immigration. This raises the issue of whether it would be appropriate to 'grandfather' (or phase in) any substantial changes to visa fees attaching the that program, were that envisaged.

There are also equity arguments related to potential compositional effects of visa charging:

- A prominent issue is whether the use of visa charges would see immigrants selected at least partly on the basis of their ability to pay rather than other merit-related indicators.
- Some submissions have argued that global inequalities, including gender equalities, mean the use of visa charges to ration demand would skew Australia's immigrant intake.[5]

[5] As indicated above, the social and economic impacts on Australia of any compositional changes consequent on the use of charges are relevant for assessing the merits of such charges. However, it is a separate issue as to whether compositional changes in Australia's intake would have any substantive impact on international equity, either between or within other countries, and what weight these considerations would warrant.

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- On the other hand, attracting immigrants from richer countries (in preference to poorer countries) might have smaller (adverse) effects on the donor country, which has its own, complex, implications for global equity.
- And there may be a view that Australia should address international equity issues through more general policies, such as its aid and perhaps trade policies, rather than through immigration selection policies that provide benefits to individual foreigners but at a cost (or foregone benefit) to the budgets from which aid is drawn.

Policy simplicity and administrative costs

As with other areas of policy, options entailing less administrative cost and complexity are preferable, other things equal. There is a range of issues to consider under this heading:

- Some charging options would be relatively straight-forward. An infrastructure levy would entail a uniform across-the-board charge which could either augment existing visa charges or supplant them. By contrast, market-based and fiscally-reflective pricing would involve a range of charges, tailored to reflect the relevant attributes of individual sub-groups or categories of immigrants (specifically, their willingness to pay or net social costs). It may also be necessary to respecify current visa categories to enable more precise charging (see box 2). Changing to a new system would entail administrative costs.
- Some charging systems require significant information on aspects of immigrants in order to determine the charges. For example, market-based charges would require an estimate of the willingness to pay of different immigrants or classes of immigrants (or use of tenders or auctions where immigrants themselves reveal their willingness to pay), while fiscally-reflective charges would require estimates of the fiscal costs and benefits associated with immigrants in particular classes.
  - There are presently no definitive estimates of immigrants' willingness to pay at the disaggregated visa class level. Were it decided to set these prices administratively, some policy experimentation is required to assess the responsiveness of demand to different price levels over time.
  - Current estimates of the fiscal costs of immigration are imprecise and allow only limited tailoring. The Australian Government Actuary has calculated the 'tangible' fiscal costs associated with the Contributory Parent visa, but not the full fiscal costs and benefits (for example, any childcare savings). A net fiscal cost estimate would also entail consideration of taxes received. The Commission has calculated some preliminary estimates for the Commonwealth level, but not for the States. Moreover, there is no feasible way at present of calculating a reasonable estimate of the broader unpriced costs and benefits.
  - Even calculating a precise 'infrastructure' charge would be demanding, entailing an understanding of longer-term trends in technology and their implications for infrastructure provision and use.

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- These points mean that any price based on such estimates will inevitably be imprecise and require adjustment for subjective judgments about difficult-to-quantify elements. Depending on the pricing model adopted, there may be a need to collect new or different data, either through new surveys, by augmenting existing surveys, by drawing on, linking and analysing existing data sets, or through policy experimentation.[6] The uncertainties entailed may also mean that charges should be set 'conservatively', at least in the first instance.

Box 2 Segmenting visa classes to reduce adverse selection

Existing visa categories may not align well with variations in immigrants' willingness to pay or their net fiscal costs. This box explains this problem, and a possible solution, focussing on the fiscally reflective charging option. (Similar principles would apply were a market-based charging option adopted).

The net fiscal costs associated with each immigrant will differ, depending on not just age, skill levels and current English proficiency etc but less readily observed factors including future career success (and thus income), genetics and lifestyle (which will impact on health and aged care costs), self-reliance, support networks and so on.

It is infeasible to levy individually-tailored charges, so charges must be levied for classes or sub-classes of immigrants, taking an average of the fiscal costs of immigrants in each particular class or sub-class.

This leads to risks of adverse selection. A particular 'average' charge in a sub-class will exceed the actual costs for some in the class and vice versa. With higher cost immigrants effectively 'undercharged' and lower cost immigrants 'overcharged', there will be incentives for costlier immigrants to displace less costly immigrants within a subclass.

If adopting a charging regime, there may thus be a need to redesign the current visa categories (or introduce more granularity within them). For example, other things equal it seems likely the immigrants in the skills stream with relatively high skill levels will have lower net fiscal costs (or higher net fiscal benefits) than less skilled immigrants in the skill stream. It might thus be sensible to split the skill stream applicants by skill level, levying a lower charge on those in the highest skill category.[7] Segmenting by age group is also likely to limit adverse selection issues. In practice, determining the optimal specification of classes and sub-classes for these purposes would require focused research and testing, to determine what observable factors are most relevant for segmenting groups to limit variability in fiscal costs.

6 Experimentation with varying immigration charges ought not be problematic as changes are easily reversible and would not create major problems — for example, three years with excessive or insufficient charges in a particular visa category would be unlikely to have significant and long-lasting effects of immigration programme outcomes.

7 For the final report, the Commission is considering the merits of a revised points testing system, wherein all skill stream immigrants would be assessed on a points test. (At present, employer-nominated immigrants bypass this hurdle. In the new system, employer sponsorship would attract significant points, but would be insufficient per se for permanent immigration). This new system might also enable a ranking of prospective secondary immigrants, and could be used for the purposes of establishing classes of charges among primary and secondary immigrants.

Other considerations

In assessing visa charging options, it is also prudent to consider matters including:

- The implications for temporary immigration of an additional cost on permanent immigration. A levy for a permanent visa may dissuade some temporary immigrants from taking up permanent immigration (although some might simply 'roll over' their temporary visas throughout their working lives (as the Commission understands already happens in a small number of cases)). This would approach a guest worker model, with such immigrants avoiding the permanent visa charge but also losing the benefits that permanent immigration would afford them.
- Whether there would need to be discounts or exemptions for regional settlement — for example, a rebate for immigrants who settle in regional areas where infrastructure pressures are less? (These issues are discussed further in section 4)
- Whether there would need to be discounts or exemptions from charges for family members. (Again, this is discussed further in section 4).
- Whether it would be necessary or desirable for government to provide loans or financing arrangements for immigrants unable to afford the upfront costs of visa fees.
- Bureaucratic constraints and possible pathways to reform. For example, in view of the complexities in estimating charges under some options, there may be a case for adopting a simpler option in the short term, enabling further research and policy development to be undertaken with a view to implementing a superior alternative in the longer term.

The Commission is interested in workshop participants' views on the appropriate objectives for the use of visa charging within the context of the current immigration system and what considerations should bear on the assessment of different options.

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3 Main impacts of the visa charging options

To assist in analysing the charging options, table 1 below outlines how each could operate and some design issues specific to each. Tables 2 to 4 examine each option in turn, speculating on their effects on charges for different visa categories and then on their effects on the level and composition of the immigrant intake. As noted, the Commission is modelling the options: preliminary results will be presented at the workshop.

The Commission is interested in workshop participants' views on the design, effects, and the merits, of the different charging options.

Table 0 **How would the charge options work?**

Option	*General approach*	*Some specific design issues*
1 Uniform levy	All immigrants (outside the humanitarian stream) would pay a flat levy, for (at least notionally) future infrastructure use and possibly other services that an immigrant may receive on arrival, such as settlement services. The levy would be administratively determined. The draft report suggested a range $10 000-$25 000 per person might apply. The levy could be on top of current charges or visa processing costs.	• To what extent is the charge able to reflect the costs of delivery of services or infrastructure? • Should the levy supplement existing charges or an estimate of visa processing costs?
2 Fiscally-reflective charges	Charges would be set according to the expected net lifetime fiscal costs for each visa category (or some proportion thereof). Because of the importance of age in determining fiscal costs, charges in each visa category would vary on this basis. In the first instance, the existing qualitative criteria for each visa subclass would be retained. A variant of this approach would involve the segmenting of visa classes in ways that would allow a closer tailoring of charges to the fiscal costs of particular immigrants, for example by splitting the skilled immigration scheme into segments based on the relative skill level (say, high, medium or low) of the immigrant — see box 2.	• Should the charge reflect just Commonwealth or also State fiscal impacts? How accurately can these be assessed? How would future policy changes (for example, a change in the health services that are publicly supported) be taken into account? Should the charge reflect the full net costs or some proportion? • How would the charge revenue received be apportioned between the different levels of government? • Is enough information available on secondary applicants to estimate net their fiscal costs, and at what level of granularity?
3 Market prices by visa category.	A quota would be set for each visa subclass (potentially based on current subclasses and caps), with the final price set at the level of demand that exactly fills the quota. Charges could be determined through a tender, auction or administratively. Participants in each market would be required to meet a set of selection criteria unique to the market. At its simplest, this could be the criteria associated with the current structure of visa subclasses (effectively creating a market for each subclass) or an amalgamation of current subclasses. Alternatively, the markets could be defined by a new set of criteria, such as those relating to skill, age, or level of English, as discussed in the previous section.	• Would the price be set by auction, tender or administratively? If the former, would visas be auctioned/sold at one point or multiple points throughout the year? Would use of a tender or auction raise extra concerns about 'buying visas'? • The timing of vetting applicants. Would this occur before or after they have participated in the market? • How would currently uncapped subclasses (such as employer sponsored visas) be addressed? For example, would they be included in an overall skilled visa category (with points awarded for sponsorship)? • What price should secondary applicants pay? Should this be part of the primary visa market? Or should there be separate markets created?
All	Current caps on the various visa streams would be retained, and/or entrants still required to meet current selection criteria.	• Would there be discounts or exemptions for regional settlement, or children, or (foreign) spouses of incumbents? • Would there be refunds for immigrants who subsequently choose to emigrate?

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Table 1 **Uniform resource or infrastructure levy**

An administratively determined uniform levy (say $10 000–$25 000), plus a baseline charge (current charges or processing costs).

Possible charge and fiscal impacts	*Possible level and composition effects*
Should the baseline cost remain the current set of visa charges, the cost of all visas across all classes would increase by the same dollar amount. The increase would be greatest in percentage terms for lower costs visas, such as those in the skill stream. The levy would represent a relatively large increase in cost for secondary applicants, many of which currently only pay half of the primary applicant charge. There would be a different outcome if the baseline cost was the processing cost for each subclass, which is lower than current charges. A uniform levy of $10 000 to $25 000 on top of a baseline cost would mean that while most charges would increase, it would be possible that the overall charge for contributory parent visas would decline. In the absence of any compositional changes or reductions in overall take up of places consequent upon the levy, the government on behalf of the incumbent community would gain between $1.9 billion and $4.75 billion annually in additional revenue (assuming current permanent immigration levels and a levy ranging from $10 000 and $25 000). In practice though, there would be some prospect of level and compositional changes.	In theory, there could be a reduced take up of visas as well as compositional changes across and within visa categories. These would depend on the price sensitivity of immigrants in different visa categories. To the extent that skilled immigrants are more price sensitive that those in the family stream(1), there could be a greater reduction in demand in the skilled stream than in the family stream. With current visa category caps in place, there would not be scope for places to shift from the skilled category to the family reunion category (as there was in the price-based option modelled in chapter 12 of the draft report). However, it is possible that the reduction in demand may mean that visas in the skilled stream would be undersubscribed (with the relative fall greater than any reduction in take up that might also occur within the family stream). Within the skilled stream, the potential effects are complex: • Were higher-level skilled immigrants more price sensitive than lower level skilled immigrants (because of having greater ability to gain entry to other countries(1)), relatively fewer of the former may enter. Given that the former are associated with higher net fiscal benefits than the latter, this would reduce/increase the fiscal benefits. • To the extent that the infrastructure charge may provide greater disincentives for older immigrants relative to younger ones (who have longer to recoup/defray the levy, though), this aspect could lead to an age shift within the skills category. Younger skilled immigrants typically have more positive net fiscal impacts than older ones, so this element may add to the overall benefits of the policy (although if capacity to pay issues outweighed cost per year issues, this conclusion could be reversed). • Another impact within the skill stream is that an infrastructure levy, if applied to secondary applicants as well, would provide greater incentives for primary immigrants with fewer children relative to those with more, and primary immigrants with skilled spouses relative to those with unskilled spouses. Within the family reunion stream, there would be incentives for smaller families or reduced take up.

(1) Skilled migrants may be more price sensitive as other countries (such as Canada) may be good substitutes for Australian, whereas family reunion applicants presumably have little choice of country for the purposes of uniting with family. On the other hand, it has been argued that to the extent that skilled applicants are (or expect to be) wealthier than family applicants, the levy will have a smaller proportional impact on their future income and thus on their willingness to pay a given visa charge. The latter point also applies to higher-level skilled applicants relative to lower level skilled applicants.

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Table 2 **Fiscally-reflective charges**

Charges would be set according to the expected net lifetime fiscal costs for each visa category (or some proportion thereof).

Possible charge and fiscal impacts	*Possible level and composition effects*
Primary immigrants in the skill stream, particularly younger immigrants, have positive lifetime fiscal costs and so no charge would be imposed (although in practice the government might opt to level a visa processing charge). There would, however, probably be charges for secondary applicants. There would be very high charges for some family subclasses (some parent visas would potentially be as much as $300 000 if set to cover full net fiscal costs, although less if only a share of net fiscal costs were covered).	As some immigrants may not be willing to pay a charge equal to fiscal costs, there could be an undersubscription of quotas for some visa categories, and thus an overall reduction in immigration (unless some reallocation of quotas between categories were allowed). Within the skilled stream, there could be lower charges than at present for most primary applicants but possibly an increase in charges for older primary applicants and for dependents, compared to the present situation. As such, it could be expected that there would be compositional shifts within the category towards: • younger primary applicants (provided capacity to pay issues were not decisive) • primary applicants with fewer dependants • primary applicants with fewer ambitions to bring out extended family (given the much higher charges that would be levied on elder parents in the family reunion stream) To the extent that higher-skill skilled immigrants have more country options and thus lower willingness to pay Australian visa charges, there could also be a shift (other things constant) from higher-skill to lower-skill applicants within the skill stream. A counterview is that higher-skill skill stream applicants can expect to have higher lifetime earning than lower-skill skill stream applicants and, thus, a given charge would have a smaller proportional impact on their willingness to pay. It should also be noted that were charges tailored by skill level within the skilled stream (as suggested in box 2), this could lead to lower charges for the more highly-skilled applicants, and thus provide an incentive for a shift towards such applicants. Within the family reunion stream, there could be incentives for smaller families or reduced take up of places with fiscally-reflective charges. There could be particular disincentives for older family immigrants.

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Table 3 **Market-based prices by visa category**

The final price for each category set (via auction, tender or administratively) at the level of demand that exactly fills the quota.

Possible charge and fiscal impacts	*Possible level and composition effects*
The extent to which charges will significantly differ from current charges will depend on market characteristics. Given current excess demand conditions, it seems likely that there would be an almost universal increase in most charges. The final charge in each market will reflect the willingness to pay of the successful quota of applicants. Broadly, it might be expected that prices for family stream visas would be higher than for skilled stream visas, reflecting that applicants under the family stream highly value being close to their families, and the current high rates of demand for family visas. In contrast, many skilled immigrants may be more flexible in their choice of destination, which might depend on a range of factors such as employment opportunities, lifestyle and choice. These immigrants may be less willing to pay high prices.(1) The parent visa market provides a neat indication of price under a market clearing approach. Currently the contributory parent visa has virtually no waiting list at the charge of almost $50 000, while the non-contributory parent visa has a waiting list of around 30 years, with a significantly lower charge. Those on this non-contributory parent waiting list (admittedly the number of visas granted in this category each year is less that for the Contributory Parent Visa) have expressed a clear preference that they are unwilling/unable to pay the full price for express entry. Should a single market (with a single price) be created for 'parent visas', it might be expected that the charge would be less than the current $50 000 (provided there are no new entrants to the market, such as those who are deterred by long waiting lists).	By design, there would be no reduction in the level of immigration under this approach. However, in theory there could be some compositional changes within visa categories. For example, if the skill stream were treated as one category, some who would enter under the current arrangements might be replaced by others who meet the (minimum) skill requirements but have a higher willingness to pay. (The more granular the market segmentation (ie, the more narrow the selection criteria), the larger the number of markets, the more likely each market will result in a price for visas that is closest to current participants' true willingness to pay, and the less scope for such compositional changes — see box 2).

(1) Skilled migrants may be more price sensitive as other countries (such as Canada) may be good substitutes for Australian, whereas family reunion applicants presumably have little choice of country for the purposes of uniting with family. On the other hand, to the extent that skilled applicants are (or expect to be) wealthier than family applicants, the levy will have a small proportional impact on their willingness to pay.

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4 Possible rebates, discounts and exemptions from visa charges

Were one of the charging options discussed above to be adopted, there may be a case for certain rebates, discounts or exemptions for certain classes of immigrants. This section canvasses two important possible cases.

Regional settlement incentives

Prices could also be used to affect where immigrants settle when they come to Australia. Most immigrants tend to settle in the major capital cities, particularly Sydney and Melbourne, but there are concerns that this is putting pressure on infrastructure and has social congestion issues.

The Commission understands that governments have sought to entice immigrants, including through visa conditions, to settle elsewhere, but that these attempts have by and large proved unsuccessful. This is partly due to the political difficulties faced in seeking to enforce the visa conditions or to cancel visas where breached.

Were it deemed desirable, charges could be structured in a way that provided financial incentives for immigrants to settle outside designated cities. For instance, immigrants who could demonstrate that they had resided elsewhere in Australia for, say, five years might be eligible for a rebate on some or all of the applicable visa charges. Such financial incentives might stand alone, or complement existing visa conditions that seek to encourage immigrants to particular locations.

The Commission is interested in exploring with workshop participants whether there is a genuine problem that might warrant incentives for immigrants to settle in particular parts of Australian (or away from particular places such as Sydney or Melbourne), whether a financial incentive such as visa charge rebate would be an effective instrument, and what practical issues might arise in designing and using it for this purpose.

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Children and family members

Under current arrangements, family members can immigrate to Australia as secondary applicants under the skill stream or under the family reunion stream. Secondary applicants are typically charged less than primary applicants.

At present, the permanent immigrant intake is skewed towards families relative to the Australian population in general. Family members represent around two thirds of the immigrant intake (including half the skill stream intake), and immigrants tend to be more likely to be married than Australian-born people. However, this reflects the higher likelihood of immigrants from non-English speaking countries being married; those from mainly English speaking countries are less likely to be married compared to Australian

born people. Overall though, immigrants are also less likely to live in a lone person household or a household without children (Draft Report, p. 87).

In 2013, female permanent immigrants made up around 54 per cent of the permanent intake (and 44 per cent of the temporary intake). Females account for around 65 per cent of immigrants in the family reunion stream, and around 46 per cent of the skilled and humanitarian streams. Primary applicants are more likely to be male than female (Draft Report, p. 86).

The charging options being considered would generally result in higher fees for secondary applicants and family members (unless discounts or exemptions were provided). This could result in a compositional change in the intake.

The Commission is interested in exploring with workshop participants whether there is a case for discounts and exemptions from visa charges for family members. Are there social (as distinct from private) benefits from family reunion that would warrant support, and how large are they? If there is a case for discounts or exemptions for family members, should these apply (or apply equally) to children, spouses and the parents of primary applicants? What issues would be relevant to such assessments?

The Commission is also interested in exploring whether there is a case, within the skill stream, for favouring couples where the secondary applicant (spouse) is also skilled relatively to couples where the spouse is unskilled.

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5 Taxes on immigrant workers

One suggested alternative to charging immigrants a lump sum entry price, such as a fiscally reflective charge or an infrastructure levy, is to subject them to special taxation arrangements for work performed in Australia. This could involve charging immigrants differential rates of income tax (for example, based on their visa category), or limiting their access to tax rebates such as the tax free threshold or low income tax offset.

Whereas the Commission has focused on permanent immigration when considering visa pricing options[8], taxation options are clearly applicable to temporary immigrants too, as illustrated by recent changes (discussed immediately below).

Recently announced changes to taxation of working holiday visas

In 2015 the Australian Government announced that it would modify taxation arrangements for persons on working holiday visas in Australia (box 3). The effect of these changes

8 The draft report did not see the use of price-based systems as appropriate for temporary visa holders, noting among other things that such visas are generally uncapped, that temporary visa holders are highly mobile with alternative destination options, and that temporary immigration can be a pathway to permanent migration.

would be to substantially increase the amount of tax paid by working holiday visa holders — for some it will mean going from paying no income tax to paying roughly one third of their income in tax. The 2015 Budget projected that this change would bring in an extra $540 million in revenue over the forward estimates.

Box 3 Tax changes for Working Holiday visas in 2015 budget

In the 2015 Budget the Australian Government announced that it would change tax residency rules for temporary immigrants on working holiday visas.

Previously, working holiday visa holders could claim residency for tax purposes if they stayed in Australia longer than 6 months, giving themselves access to the tax free threshold and low income tax offset. This meant that any tax paid on income under $20 542 — which could be up to $6 680 — would be refunded to them.

Under the new rules, working holiday visa holders will be treated as non-residents for tax purposes, regardless of how long they stay in Australia. Non-residents do not have access to the tax-free threshold, and face a marginal tax rate of 32.5 per cent from the first dollar they earn (table 4).

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Table 4 Resident and non-resident tax rates

2014-15

Resident [a]		*Non-resident*	
Taxable income	**Tax paid**	**Taxable income**	**Tax paid**
0 – $18 200	None	0 – $80 000	32.5c for each $1
$18 201 – $37 000	19c for each $1 over $18 200		
$37 001 – $80 000	$3 572 plus 32.5c for each $1 over $37 000		
$80 001 – $180 000	$17 547 plus 37c for each $1 over $80 000	$80 001 – $180 000	$26,000 plus 37c for each $1 over $80,000
$180 001 and over	$54 547 plus 45c for each $1 over $180 000	$180 001 and over	$63,000 plus 45c for each $1 over $180,000

[a] Residents can also claim the low income tax offset, which is equal to $445 minus 1.5 per cent for every dollar of income over $37 000.

Source: ATO website.

The main argument for levying higher taxes from immigrant workers is that they could be a relatively efficient source of tax revenue, provided that foreign workers accrue sufficient economic rents from working in Australia when compared to working in their home country or undertaking a working holiday elsewhere. For example, these rents could accrue from higher real wages, location-specific environmental benefits (such as cleaner air, natural beauty, or proximity to recreational areas like beaches), or simply the utility derived from satisfying their 'wanderlust'.

Any resulting increases in tax revenue could be used to compensate incumbents for any costs associated with immigration (noting that temporary immigrants are likely to impose few fiscal costs on government), or simply to finance other government spending.

However, policies to increase taxes on temporary immigrants would also not be without potential risks and drawbacks. The first is that a tax increase may 'overshoot' and go beyond taxing rents, thus reducing the supply of immigrant workers. Second, increased taxes may encourage employers and immigrant workers to engage in tax avoidance and underpayment.

The magnitude of any revenue increase could thus depend on a number of uncertain factors, including the overall effect on labour supply and tax avoidance behaviour.

Effect on labour supply

Temporary immigrant workers comprise a large share of the workforce in some sectors. For example, in the agricultural sector, working holiday makers and other temporary immigrants make up almost one third of total non-managerial workforce (NFF, sub. 31).

Unless they have sufficiently strong non-monetary reasons to choose Australia as a destination (such as cultural exchange), substantially reducing the after-tax wages[9] of temporary immigrant workers could markedly reduce their willingness to come to Australia and/or engage in paid work while in Australia. Many of the main source countries for working holiday visa holders — such as the UK, France, Ireland, Germany, Canada, Netherlands, Belgium — have real minimum wages and/or average annual wage levels that are similar to Australia's (OECD 2014). Some have argued[10] that a substantial reduction in after-tax earnings for visa holders from these countries could be a strong deterrent to come and work in Australia. They may instead choose to stay in their home country to work, or choose an alternative destination with more favourable taxation arrangements.

However, it is worth noting that in some other source countries for working holiday visa holders — such as South Korea and Italy — minimum and average wages are much lower than Australia's in real terms (OECD 2014).[11] Arguably for temporary workers from these countries, a higher tax burden could be ameliorated by the substantial wage premiums from working in Australia, compared with the home countries of temporary immigrants. Indeed, recent reports of extensive underpayment of immigrant workers in some sectors would suggest that many immigrant workers are willing to accept wages substantially below

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9 For example, the recently announced changes to taxation arrangements for working holiday visa holders would reduce their after-tax wages by almost one third.

10 Nielson 2015 *Changed rules for working holiday makers*; Carvalho 2015 *Budget 2015: plucking the foreign flock may backfire*; National Farmers Federation, sub. 31; Master Builders Australia, sub. 49.

11 It is worth noting that immigrants from some of these countries also make up a large share of those who apply for a second working holiday visa to extend their stay.

minimum wages in Australia (though this also presents an added risk of underpayment and 'cash in hand' employment — this is discussed further below).

It is also possible that reductions in temporary immigration from higher-income source countries could be offset by increases in temporary immigrants from lower-income countries. This would require a loosening of the existing caps on visas for temporary immigrants from these countries — for example, 462 visas, which apply to temporary immigrants from countries such as Indonesia, Thailand, Bangladesh, and some South American countries. However, increasing the number of temporary immigrants from less-developed countries may also come with other hidden costs — for example, language or cultural barriers, or potentially increased risks of exploitation or tax avoidance.

Changes to tax residency rules may also influence decisions about how long temporary immigrants choose to stay and work in Australia. The financial benefits from gaining residency for tax purposes (such as a refund of the tax-free threshold) may have given many temporary residents an incentive to lengthen their stay. It is therefore possible that the recently announced changes could lead to a reduction in the duration of stays for some visa holders.

At this point, the magnitude of any effect of special taxation arrangements on labour supply and wages is unclear. The size of the labour supply reduction will depend on the size of the Australia-specific rents that are accrued by various immigrant workers. Prima facie, a decrease in labour supply should put upward pressure on wages in the sectors that temporary workers are predominant.[12] Further, if currently unemployed incumbent Australian workers are an imperfect substitute for immigrant workers — for example, if they are not willing to move or travel to regions where temporary workers are required — firms that employ temporary immigrants may face labour shortages. Thus incumbent Australian firms may ultimately bear a large share of the increased tax burden through reduced workforces and higher wage costs.

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Tax avoidance and underpayment

Income tax creates a wedge between the money paid by an employer and the after-tax income received by the employee. An increase in the size of this tax wedge will increase the benefits to both parties from engaging in tax avoidance through 'cash-in-hand' payments for work, allowing each to capture some of the revenue that would have otherwise flowed to government.

Incentives to avoid tax can also encourage underpayment, as:

- untaxed income below the minimum wage may still leave the employee better off in net financial terms

[12] Noting that if minimum wages currently are having a binding effect on employment in these lower skilled jobs, it is possible that a reduction in labour supply could simply reduce any disemployment effects of the minimum wage.

- unrecorded, cash-in-hand work is less likely to be detected by regulators enforcing minimum pay and conditions.

In its report into Australia's Workplace Relations Framework, the Commission outlined a number of factors that can make immigrant workers particularly vulnerable to underpayment and cash-in-hand work. In its submission, United Working Holiday Youth (sub. 94) provided survey evidence suggesting that this kind of work is common among temporary immigrant workers.

Underpayment through cash-in-hand work not only affects government revenue — it also reduces the ability for incumbent Australian workers to compete in the labour market.

There are two potentially mitigating factors that arguably could reduce the prevalence of unrecorded cash-in-hand payments to temporary immigrant workers:

- temporary immigrants can be subject to requirements to work with a particular employer for a set number of months — for example, 417 visa holders can obtain a second 12-month visa if they complete three months of specified work in regional Australia. However, this could still be circumvented by underreporting the number of hours worked by an immigrant worker. Further, as mentioned previously, the incentive to stay longer would be somewhat reduced by the loss of access to tax residency after 6 months.
- the introduction of new technologies — for example, single touch payroll — could improve enforcement activities, though any additional enforcement efforts or costs required specifically for immigrants would offset at least some of the gains to revenue from greater taxes on immigrants

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Extending taxation changes to other temporary immigrants

In addition to working holiday visa holders, special taxation arrangements could be extended to other immigrants engaged in paid work in Australia, including those here on student visas

Student visas

Foreign students in Australia can generally engage in paid work during their studies, though many are subject to caps (for example, vocational education and higher education students are limited to 40 hours of paid work per fortnight when their educational courses are in session).

It could be argued that their attachment to education at an Australian institution may mean that international students have fewer alternative countries to choose from, and would be more willing to bear a higher tax rate in order to stay in Australia.

However, the Commission's study into International Education Services in 2015 suggested that the ability to work and earn money in Australia can be an important factor in the decision by some students to study in Australia, rather than just an ancillary benefit (suggesting that some Australian universities may currently be capturing some of the rents that international students accrue from working in Australia). Reducing the benefits of working in Australia through higher taxes could therefore directly affect the study decisions of international students and the competitiveness of Australia's higher education sector

There is also some evidence that unreported and underpaid work is prevalent amongst international students. A survey of international students submitted to the Workplace Relations inquiry indicated that 60 per cent of student workers were paid less than the minimum wage of $17.29 per hour, with almost one third receiving $12 per hour or less. Only half of the student workers reported receiving a payslip. As discussed above, increasing the income tax burden on these immigrant workers could further exacerbate the incentive for parties to engage in unreported and underpaid work.

457 visas

Higher taxes could also apply to skilled temporary immigrant workers (457 visa holders). As with other temporary immigrants, the desirability of higher tax arrangements for skilled visa holders will depend partly on their mobility and the likelihood that they would choose to work in a competitor country instead. Due to their skills, 457 visa holders may have access to a greater number of alternative destinations, with comparable real wages to Australia, when compared with unskilled immigrant workers. Lowering the after-tax wages of skilled temporary workers may therefore lead to Australia being unable to attract these types of immigrants.

The consequences of a decrease in the supply of skilled immigrants may also be more costly than for working holiday makers. To the extent that 457 visas can only be obtained where an employer cannot find an appropriately skilled Australian citizen or permanent resident to fill the position, higher taxes may mean employers would either be unable to attract necessary employees or forced to pay substantially higher wages to compensate for higher tax rates. That said, the draft report raised issues about this facet of 457 visas.

The relative risk of higher taxes encouraging underpayment and tax avoidance by 457 visa sponsors and workers is debatable. On the one hand, some have argued that 457 visa workers are susceptible to exploitation, as they are dependent on their employer for ongoing sponsorship of their visa. On the other hand, the draft report noted that the implementation of recommendations from the Azarias report will improve compliance by employer sponsors of 457 visas. This may thus lower the risk of 457 visa holders and their employers engaging in tax avoidance and underpayment.

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In view of the above considerations, the Commission is interested in exploring with workshop participants whether there is a case for extending recent changes to the tax arrangements for working holiday makers to other temporary immigrants.

A supplementary tax on permanent immigrants?

Rather than using a fiscally-reflective charge or an infrastructure levy, *in theory* an option would be to recoup (some or all of) the costs of permanent migration to Australia through temporarily higher taxation arrangements for permanent migrants.

The duration of these temporary taxation arrangements could be time-limited (for example, for the first five years after migration), or based on some fixed amount of additional contribution (for example, set at some fiscally-reflective level). The former could lead to some over-payment by some new migrants and underpayment by others, while the latter would be somewhat analogous to an income-contingent loan. In either case, it would add some complexity of the tax system.

While potentially a source of additional government revenue, such an approach would also raise some concerns:

- Unlike an upfront lump sum migration fee, increased marginal tax rates may distort labour supply decisions and could decrease workforce participation among new permanent migrants. This would not only have fiscal impacts through increased income support payments, but would also have implications for social exclusion and integration. One means of counteracting this could be to restrict access to unemployment benefits for new permanent migrants, although this approach would raise its own concerns and problems.
- For those newly arrived permanent migrants who are in paid work, a higher taxation burden would translate into lower standards of living. One means of reducing the impact on workforce participation and living standards would be to apply temporarily higher taxation rates to migrants on higher incomes. For example, higher tax rates could begin to take effect at the $37 001 tax bracket — rather than the first dollar earned as was the case for the recently proposed 417 visa changes — though this could still have some negative effects on the level of labour force participation (for example, through reductions in the number of hours worked). However, the more the increased tax burden is targeted at higher income migrants, the more it will fall upon skilled migrants who are more likely to make a positive contribution to Australia and whom the system should be geared towards attracting.
- While there are in effect already several classes of people residing permanently in Australia (with different rights and calls on the public purse attaching to them), this tax policy would create another stream of Australian 'citizens'.

Do workshop participants see any merit in the use of differential tax arrangements for permanent immigrants, in preference to the charging options mentioned earlier?

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Attachment A Current visa charges

Table 5 **Examples of charges associated with visa applications**

Visa Charges[a]	*Other potential costs*
Employer Nomination Scheme (subclass 186)	
• Base application charge: $3 600; additional applicant charge 18 years of age and over: $1 800; additional applicant charge under 18 years of age: $900 • For applicants 18 years and over at the time of application and who are assessed as not having functional English, the second instalment for main applicants: $9 800; and secondary applicants: $4 890 • Employer nomination fee: $540	• Migration agent fee[b]: $2 500–$5 500 • Health check: around $200–$300 plus extra for other tests • Australian Federal Police (AFP) check: around $40 • International English Language Testing System (IELTS) test: around $330
Skilled Independent (subclass 189)	
• Base application charge: $3 600; additional applicant charge 18 years of age and over: $1 800; additional applicant charge under 18 years of age: $900 • For applicants 18 years and over at the time of application and who are assessed as not having functional English, the second instalment is $4 885. Other applicants pay no second instalment	• Migration agent fee[b]: $2 000–$4 500 • Skills assessment by an accrediting authority: unknown • Health check: around $200–$300 plus extra for other tests • AFP check: around $40 • IELTS test: around $330
Partner (subclasses 309/100)	
• Base application charge: $6 865; additional applicant charge 18 years and over: $3 435; additional applicant charge under 18 years of age: $1 720	• Migration agent fee[b]: $500–$4 000 • Health check: around $200–$300 plus extra for other tests • AFP check: around $40 • IELTS test: around $330
Contributory Parent (subclass 143)	
• Base application charge varies depending on the pathway, up to $3 695; additional applicant charge 18 years and over: $1 245 and additional applicant charge under 18 years of age: $625 • Second instalment varies, up to $43 600	• Migration agent fee[b]: $1 650–$4 000 • Bond of assurance $10 000 • Health check: around $200–$300 plus extra for other tests • AFP check: around $40 • IELTS test: around $330
Business Innovation and Investment stream – Significant Investor stream (subclass 188)	
• Base application charge: $7 010; additional applicant charge 18 years and over: $3 505; additional applicant charge under 18 years of age: $1 755 • For applicants who have turned 18 at the time of application and who are assessed as not having functional English the second instalment for main applicants: $9 795; and secondary applicants $4 890.	• Minimum complying investment required — $5 million • AFP check: around $40 • IELTS test: around $330

[a] The first instalment is payable at the time the visa application is made; the second instalment is payable before the grant of the visa. [b] Migration agent fees are the range of fees charged by registered migration agents for the period 1 July 2014 to 31 December 2014.

Source: Draft report; Table 13.1.

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