ACCESS ECONOMICS Pty Limited

11 April 2008

Migrants Fiscal Impact Model: 2008 Update

Report by Access Economics Pty Limited for

Department of Immigration and Citizenship

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EXECUTIVE SUMMARY

The task

The Department of Immigration and Citizenship (DIAC) commissioned Access Economics to update its Migrants' Fiscal Impact Model (the Model). This Model provides a detailed profile of the effect of new migrants to Australia on the Commonwealth government budget, both in terms of revenues and outlays.

A key element of the update was to incorporate results from the second wave of LSIA 3 (the third Longitudinal Survey of Immigrants in Australia). This data represents the latest information on migrants' contributions and take-ups in their second year after arrival in Australia. LSIA data is used in the model for estimates of income by visa class, labour force characteristics and the take-up of a range of government benefits/payments.

A range of other changes to visa categories, government programs, tax rates and thresholds and other data have been included in this update.

The Model results

TABLE 1: NET OPERATING SURPLUS (DEFICIT) PER 1,000 PERMANENT MIGRANTS, CONSTANT 2007-08 PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	-4.8	-3.5	-4.0	-3.9	-4.2	-4.7	-9.2	-7.7
Family - Partner and Other	2.1	4.3	3.6	4.3	3.5	6.6	6.6	6.9
Family - Parents Contributory	25.7	-1.2	0.4	-1.2	-1.4	-2.1	-8.4	-8.7
GSM - Sponsored	2.7	5.1	5.1	5.6	5.8	6.7	7.0	7.5
GSM - Independent	4.7	6.7	7.0	8.0	8.3	10.3	10.8	11.7
GSM - Independent - Student	4.6	7.3	6.9	7.3	7.6	9.1	8.9	9.1
GSM - Regional Sponsored	3.8	4.4	4.6	6.0	5.6	6.2	6.4	7.0
Employer Sponsored	13.8	14.3	14.2	14.4	14.4	15.0	15.1	15.2
Business Skills	5.0	5.9	6.0	5.2	5.2	6.0	5.4	4.5
Humanitarian or refugee	-20.1	-7.2	-6.6	-5.8	-5.6	-1.1	1.2	4.3
Total Permanents	3.4	5.4	5.3	5.9	5.8	7.7	7.8	8.4

Table 1 presents the estimates of the **impact on the Budget per 1,000 new migrants** by visa category using characteristics of migrants from the 2006-07 migrant intake. The bottom line result is that new migrants provide a substantial contribution to the Commonwealth government budget initially, and this contribution grows over time in real terms.

The contribution is positive across all visa categories, with the exception of the Family-Parents categories, which remain negative (apart from a substantial visa application charge paid by migrants in the Parents Contributory category which goes some way to offsetting their expected health care costs). The contribution is also negative for the Humanitarian category for the first 12 years, as labour force participation is very low initially, and there is considerable use of government services.

Strong contributions are delivered by migrants in each of the Skilled streams examined. Key reasons for this strong contribution to the Budget bottom line include:

- high incomes (as reported in the LSIA) leading to a high level of direct tax receipts;
- high rates of labour force participation (generally well above the Australian average);
- strong levels of English proficiency which reduce the need for language services;

- an exclusion from many government benefits for the first two years after arrival;
- a further exclusion from most government services and benefits (other than education) for those migrants who initially enter on a provisional visa (until they receive permanent status); and
- an age profile generally much younger than the Australian population on average.

Among the Skilled streams migrants under the Employer Sponsored category are the standout in terms of net contribution, with labour force participation by principal applicants of very nearly 100% and very high incomes earned.

The contribution from migrants in the Family – Partners and Other category (the category here which had the highest intake in 2006-07) is also solid throughout. Expenses for this group are kept low initially (with 81% initially on a provisional visa for two years which excludes access to most government services and benefits). Incomes earned for this cohort are solid and labour force participation grows over time.

The **age profile of migrants** (with only 9% of migrants in 2006-07 aged 45+, compared with 38% of the general population) generally supports a strong contribution to the Commonwealth budget bottom line over a 20 year horizon. One might think of contributions to the Commonwealth budget over a person's life cycle as encompassing three broad phases:

- A **childhood phase** where people are not contributing any revenue but do draw on education and some social security expenses.
- A **working age phase** where the majority of people are in the labour force and contributing taxation revenue well in excess of their call on government expenses.
- A **retirement phase** where direct incomes are lower (though people are still contributing some tax, often via earnings on accumulated wealth), but government expenses are notably higher as health costs increase markedly and the age pension is paid.

Because most principal applicants (particularly in the Skilled streams) tend to be aged between 20 and 40, over the 20 year time horizon most would remain in the workforce, and not draw significantly on health costs or age pension costs.

The Budget impact of the 2006-07 intake

In terms of the **2006-07 migrant intake** in total, the Model estimates that, in the first year, the Commonwealth government budget will benefit by some $536 million. That level of benefit grows steadily over time, to reach $1.34 billion by Year 20, in 2007-08 prices.

Temporary Business (457 visa) migrants

Table 2 summarises the net impact of Temporary Business migrants on the Commonwealth government budget. Overall, the net impact of these migrants is highly positive during the average term of their temporary visa (which is two years), and remains strong for those who stay on as permanent migrants (around 42% of the Temporary Business migrant group). With high skills, a young age cohort and either exclusion from or little call on government outlays, the result is consistent with prior expectations.

TABLE 2: NET OPERATING SURPLUS (DEFICIT) PER 1,000 TEMPORARY BUSINESS MIGRANTS, CONSTANT 2007-08 PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Net operating surplus (deficit)	12.6	13.0	5.0	5.2	5.1	5.4	5.7	6.4

The 2006-07 intake of Temporary Business migrants numbered some 87,000. The net fiscal contribution of that whole group amounts to $1.097 billion in Year 1. In Year 3 the net fiscal contribution of those remaining is still very strong at $437 million.

The context

It is particularly timely to be examining the potential impact of new migrants on the Commonwealth budget at present with Australia currently in a skill shortage environment.

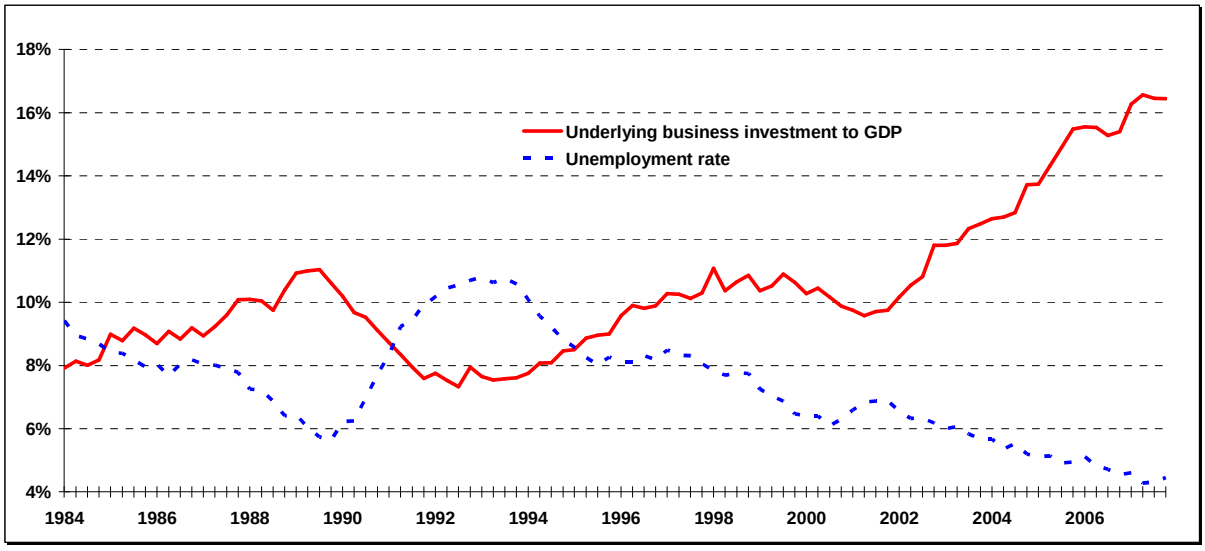
The national unemployment rate fell to 4.0% in early 2008 – a 33 year low. Employment as a share of the population is at a record high. We are no longer in a world where we are asking where the next job is coming from. Rather, we are asking where the next worker can be sourced.

> To quote Treasury Secretary Ken Henry, Australia cannot: "… generate higher national income without first expanding the nation's supply capacity: one of the 3Ps — population, participation or productivity."

Why is this so important? Because if the demand side of the economy surges ahead of the nation's supply capacity then the result is higher imports, prices and wages. The past year has seen pressures building in all of these areas.

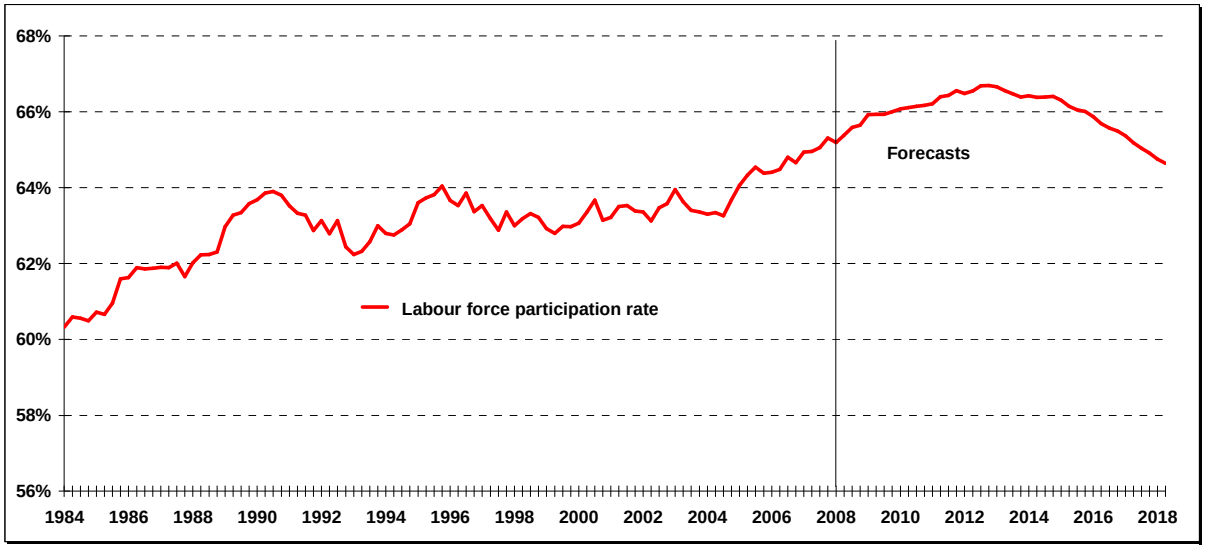
Indeed, the returns to capital and labour have been strong for several years now in Australia, producing a surge in demand for both. Chart 1 shows that demand for capital has risen (businesses are now investing much more as a share of the economy than they have for a long time), and demand for labour has also grown (with the unemployment rate at a generational low).

CHART 1: AUSTRALIAN BUSINESS INVESTMENT/GDP AND THE UNEMPLOYMENT RATE



That strong demand however is running into capacity constraints. Looking forward, demographic changes will sharpen the focus on building Australia's supply side. Chart 2 shows that Australia has done magnificently over recent years to lift the labour force participation rate. But the potential gains on that side can't run much further. Within five years there will be a turning point as baby boomers retire in increasing numbers.

CHART 2: LABOUR FORCE PARTICIPATION RATE, ACCESS ECONOMICS PROJECTIONS



Migration implies an increase in the supply of labour. Migration is clearly one means of bolstering Australia's labour force, and should be seen as part of the answer to the supply side challenges which Australia faces (rather than how it has been perceived at times - a competition for jobs). Indeed, Australia's migration program has notably expanded over recent years at the same time as the unemployment rate has been steadily falling.

Access Economics

11 April 2008

1. INTRODUCTION

The Department of Immigration and Citizenship (DIAC) commissioned Access Economics to update its Migrants' Fiscal Impact Model (the Model). This Model provides a detailed profile of the effect of new migrants to Australia on the Commonwealth government budget, both in terms of revenues and outlays.

The Migrants' Fiscal Impact Model has not been updated for two years. During that time there have been changes to the structure of some migrant visa classifications, as well as changes in Commonwealth government service delivery and payments provided, and changes to tax rates and thresholds. Key elements of this update include:

- Incorporating results from the second wave LSIA 3 (representing the latest information on migrants' contributions and take-ups in their second year after arrival in Australia). LSIA data is used in the model for estimates of income by visa class, labour force characteristics and the take-up of a range of government benefits/payments.
- Incorporating in the model any changes to government programs and personal income tax rates and thresholds from the 2006-07 and 2007-08 Commonwealth budgets.
- Placing the model on a 2007-08 price basis (where 2007-08 represents the base year for constant price estimates and Year 1 of the model results).
- Including the most recent migrant age/gender profile (incorporating results from the Settlement database) and data on English proficiency by visa category.
- Reporting results on the basis of ten broad visa streams which represent Australia's permanent migration program going forward.
- Incorporating temporary business (457 visa) migrants into the analysis.

The remainder of this report is organised as follows:

- Chapter 2 defines the various visa categories used within the Model and how significant these categories are to Australia's overall migration program.
- Chapter 3 explores the age and English proficiency characteristics of migrants by visa category.
- Chapter 4 provides an overview of the Migrants' Fiscal Impact Model, and its use and limitations.
- Chapter 5 provides summary estimates of migrants' use of various expenses.
- Chapter 6 provides summary estimates of migrants' contribution to taxation revenues.
- Chapter 7 reports the 'bottom line' net operating surplus shown in the Model per visa category, on a per 1,000 migrants basis, and extrapolated to the total 2006-07 Migration and Humanitarian programs.
- Chapter 8 compares current Model estimates with those which have previously been reported.
- With the analysis to this point focusing on permanent migrants, Chapter 9 presents the expected fiscal impact resulting from temporary business (457) migrants.

An accompanying user guide outlines the operation of the Excel model and details sources for data used within the model.

2. AUSTRALIA'S MIGRATION PROGRAM

2.1 DEFINING VISA CATEGORIES

Australia has two programs for those who wish to come to Australia to live permanently: the migration and the humanitarian programs. The latter is designed specifically for refugees and others in special humanitarian need. In 2006-07 there were just over 11,000 people who came to Australia as part of the humanitarian program.

The migration program enables those with recognised skills, family or a significant relationship with Australia to immigrate to Australia.

The Model reports the expected fiscal impact from ten broad program categories within three streams as shown below:

- Family
  - Parents
  - Parents Contributory
  - Partners and Other
- Skilled
  - General Skilled Migration (GSM) - Sponsored
  - GSM – Independent (relating to offshore applications under the Independent category)
  - GSM – Independent – Student (relating to onshore applications under the Independent category)
  - GSM – Regional Sponsored
  - Employer Sponsored
  - Business Skills
- Humanitarian or refugee

These ten categories of migration reported in the Model represent an aggregation of specific visa classes. The two tables which follow detail the visa sub-classes contained within these ten visa categories.

TABLE 3: VISA CATEGORIES, FAMILY STREAMS

Stream	Program category	Program group	Subclass (code)
Family	Parents	Parent	103
		Parent	804
	Parents Contributory	Contributory Parent	143
		Contributory Parent	173
		Contributory Parent	864
		Contributory Parent	884
	Partners and Other	Child	101
		Child	445
		Child	802
		Child - Adoption	102
		Child - Adoption	117
		Child - Adoption	837
		Fiance	300
		Interdependent	110
		Interdependent	310
		Interdependent	826
		Aged Dependent Relative	114
		Aged Dependent Relative	838
		Carer	116
		Carer	836
		Remaining Relative	104
		Remaining Relative	115
		Remaining Relative	806
		Remaining Relative	835
		Spouse	100
		Spouse	309
		Spouse	820

Note that migrants are recorded by the visa subclass of the principal applicant. Those who come to Australia as dependents accompanying a principal applicant have the same visa subclass as the principal applicant. For example, a spouse and child of a Business Skills visa holder are classed as dependents within the Business Skills visa stream.

Some migrants (and their dependents) initially receive a provisional visa. If they meet the conditions of the provisional visa they can then apply for a permanent visa after a period of time.

The proportion of migrants who are provisional and how long they are provisional is important for this Model as migrants on provisional visas are excluded from a range of government services. In addition, their two year waiting period for some government services commences when they move from provisional to permanent, rather than from when they arrive in Australia.

The share of migrants by visa stream seen as provisional are:

- 100% of GSM – Regional Sponsored (provisional for two years);
- 88% of Business Skills (provisional for three years); and
- 81% of Family – Partners and Other (provisional for two years).

The user of the Model can easily alter the share of provisional migrants (and thus their eligibility for benefits) in each visa stream in order to undertake sensitivity analysis.

TABLE 4: VISA CATEGORIES, SKILLED STREAMS AND HUMANITARIAN

Stream	Program category	Program group	Subclass (code)
Skilled	GSM - Sponsored	SAL	105
		SAL - Regional (SSRM)	105
		SAS	138
		SAS	862
		SAS	881
		SAS - Regional Study (SSRM)	138
		SAS - Regional Study (SSRM)	881
		State/Territory Nominated Independent - Regional Study (SSRM)	137
		State/Territory Nominated Independent (SSRM)	137
	GSM - Independent	Skilled Independent	136
		Skilled Independent	861
		Skilled Independent - Regional Study (SSRM)	136
		Skilled Independent - Regional Study (SSRM)	880
	GSM - Independent - Student	Skilled Independent	880
	GSM - Regional Sponsored	SAS - Regional (Designated Area Sponsor) (SSRM)	139
		SAS - Regional (Designated Area Sponsor) (SSRM)	496
		SAS - Regional (Designated Area Sponsor) (SSRM)	882
		Skilled Independent Regional (SIR) - Regional Study (SSRM)	495
		Skilled Independent Regional (SIR) (SSRM)	495
		SAS - Regional (Designated Area Sponsor) (SSRM)	863
	Employer Sponsored	Employer Nomination Scheme	121
		Employer Nomination Scheme	856
		Labour Agreement	120
		Labour Agreement	855
		Regional Sponsored Migration Scheme (RSMS) (SSRM)	119
		Regional Sponsored Migration Scheme (RSMS) (SSRM)	857
		Distinguished Talent	124
		Distinguished Talent	858
		State/Territory Nominated Independent (SSRM)	134
	Business Skills	Business Skills	127
		Business Skills	128
		Business Skills	131
		Business Skills	160
		Business Skills	161
		Business Skills	162
		Business Skills	845
		State/Territory Sponsored Business Skills (SSRM)	129
		State/Territory Sponsored Business Skills (SSRM)	130
		State/Territory Sponsored Business Skills (SSRM)	132
		State/Territory Sponsored Business Skills (SSRM)	163
		State/Territory Sponsored Business Skills (SSRM)	164
		State/Territory Sponsored Business Skills (SSRM)	165
		State/Territory Sponsored Business Skills (SSRM)	846
		State/Territory Sponsored Business Skills (SSRM)	892
Humanitarian	Humanitarian or refugee	Refugee	200
		In-country special humanitarian	201
		Global special humanitarian	202
		Emergency rescue	203
		Woman at risk	204

2.2 NUMBER OF MIGRANTS

Table 5 summaries the visa categories used within the Migrants' Fiscal Impact Model with the number of migrants who arrived in Australia under these broad streams in 2006-07 in terms of principal applicants and others (dependents).

The 2006-07 migrant profile is used in the Model as the basis for a several characteristics of migrants – the number of migrants (split into principal applicants and others) by visa category, the age and gender profile of those migrants, and the English proficiency of those migrants.

TABLE 5: DIAC MIGRATION AND HUMANITARIAN PROGRAM, 2006-07

	Principal Applicants	Other	Total
Family - Parents	634	366	1,000
Family - Partner and Other	39,978	5,601	45,579
Family - Parents Contributory	2,177	1,323	3,500
GSM - Sponsored	4,144	5,160	9,304
GSM - Independent	14,143	20,374	34,517
GSM - Independent - Student	17,150	3,138	20,288
GSM - Regional Sponsored	5,026	6,139	11,165
Employer Sponsored	6,725	9,860	16,585
Business Skills	1,703	4,133	5,836
Humanitarian or refugee	3,204	7,982	11,186
Total	**94,884**	**64,076**	**158,960**

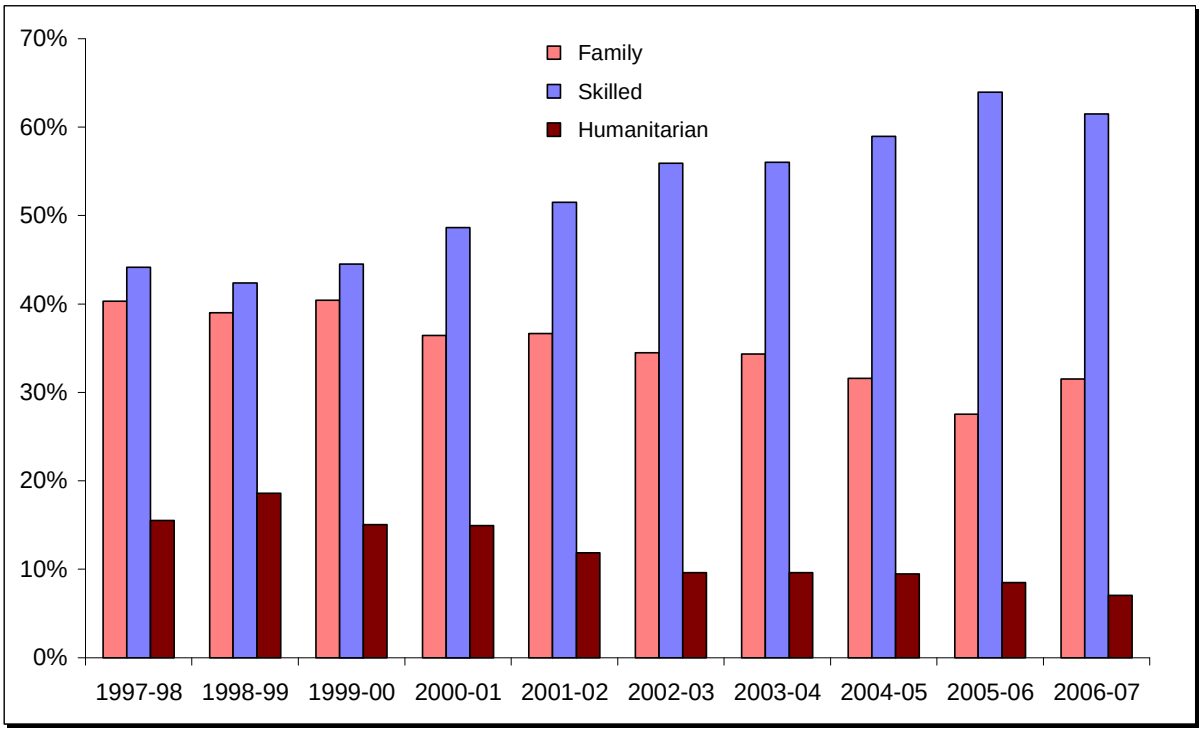
Note that while principal applicants accounted for just under 60% of all arrivals in 2006-07, for some visa streams the number of dependents exceeds principal applicants. Under the Business Skills stream for example dependents account for more than double the number of principal applicants.

Chart 3 shows changes in the Australian migrant intake by broad stream over time. The trend towards a larger number and share of total migrants entering through the Skilled stream continued for seven years until 2005-06. The number of migrants under the Skilled stream held steady during 2006-07 while further growth occurred through the Family stream.

The number of migrants received under the Humanitarian stream has hovered between 11,000 and 13,000 over the last six years, declining as a share of the overall migration program over that time.

The Model indicates that Skilled stream migrants generally deliver a stronger fiscal benefit to the Commonwealth initially, so the shift in favour of the Skilled stream over recent years has been a positive one in terms of net revenue to the Commonwealth.

CHART 3: AUSTRALIAN MIGRATION PROGRAM BY VISA CATEGORY



3. MIGRANT CHARACTERISTICS

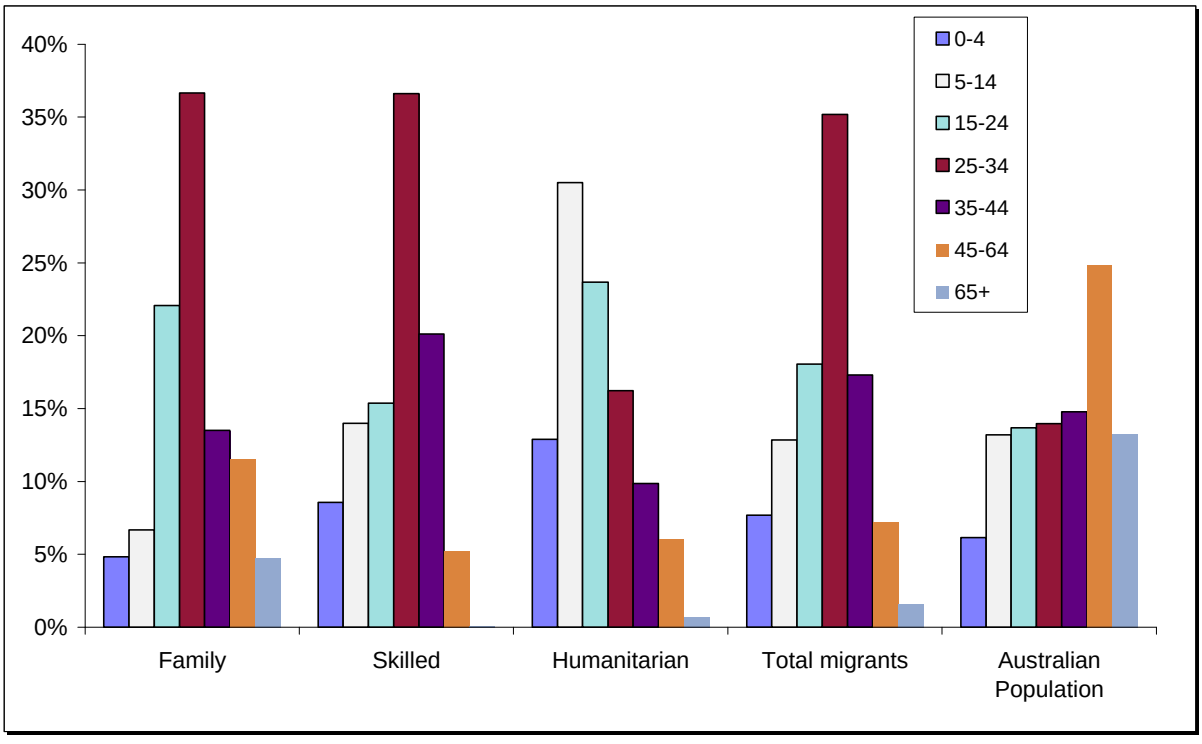
3.1 AGE PROFILE

Chart 4 shows the age structure of the 2006-07 migrant intake by broad age cohort compared to that of the Australian population. The age structures are quite different, and the migrant age profile is quite important in considering the impact migrants have on the Commonwealth budget.

While the Australian population has a notable spike in the 45-64 age cohort, for migrants these older age cohorts form only a small share of the total intake.

- The **Family stream** is heavily weighted towards the 25-34 age cohort (37% of Family migrants, compared with 14% of the Australian population), while the 15-24 age group is also over-represented (22% of the Family stream relative to 14% of the Australian population).
- The **Skilled stream** is also over-represented in the key working age cohorts (15-24, 25-34 and 35-44). However, it is also over represented in the younger cohorts with 23% of the skilled stream aged 0-14, compared with 19% of the Australian population. The compensation comes with a very low share of those aged 45+ (5% of the Skilled stream compared with 38% of the general population).
- **Humanitarian** migrants are also heavily weighted towards the younger age cohorts (43% of this group are aged 0-14 compared with 19% of the Australian population). Humanitarian migrants are under-represented in the age cohorts from 35+.

CHART 4: AGE PROFILE OF MIGRANT INTAKE AND AUSTRALIAN POPULATION, 2006-07



The age profile of the 2006-07 migrant intake suggests that more of the new migrant group will enter the workforce than will exit it over coming years, and it is while in the workforce that people make the greatest contribution to the Commonwealth budget.

The estimated net labour force entry profile (new participants less those retiring or otherwise leaving the labour force) of the 2006-07 migrant intake is shown in Chart 5, Chart 6 and Chart 7. The charts reflect the total number of migrants in the 2006-07 intake, rather than being shown on a per 1,000 migrants basis.

The charts show that new labour force entrants will generally exceed the number of retirees across most of the migrant streams across most years. That is a trend which in the main delivers a positive contribution to the Commonwealth budget.

CHART 5: NET LABOUR FORCE ENTRY (NEW PARTICIPANTS LESS RETIREES) FROM TOTAL 2006-07 MIGRANT INTAKE (A)

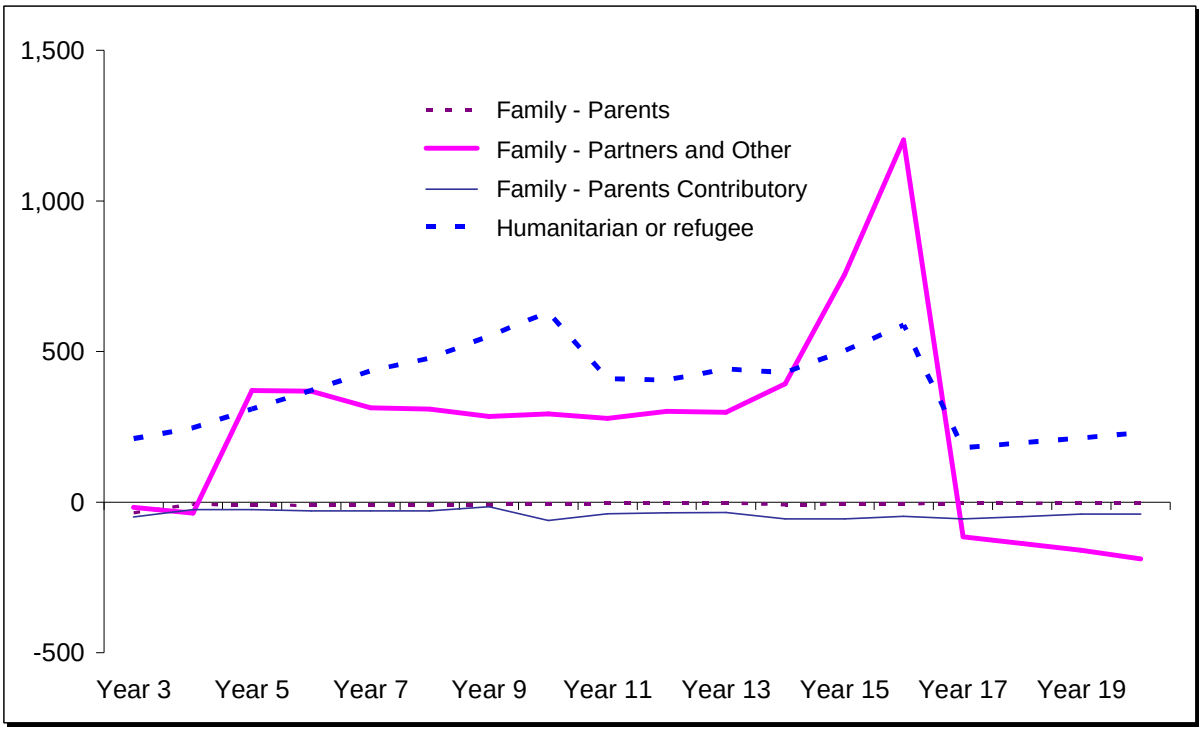


Chart 5 shows net labour force entry by year for components of the Family and Humanitarian streams. Within the Family stream, net labour force entry for the categories of Parents and Parents Contributory is a notably different profile to the Partners and Other stream. The former categories cater specifically to parents of Australian residents and thus the majority of migrants entering on these visas are already of working age and sometimes already retired from full-time work.

The Family - Partners and Others category is populated by a typically younger cohort of migrants with the majority of entrants aged under 30 in Year 1 of the Model. This means that net labour force entry is mostly positive over the Model's time horizon. Note however that net labour force entry turns negative (more retirees than new labour force entrants) by Year 17. By this time, the youngest of the migrant intake has entered the labour force so movements are largely driven by retirees.

The profile of the Humanitarian intake is also heavily skewed towards the younger age cohorts so that new labour force entrants exceed new retirees over the forecast horizon. Labour force participation rates for this group (which start low) are also expected to move up steadily over time.

The Family-Partners and Other category has a high number of persons less than one year old in Year 1, which explains the surge in labour force participation in Year 16.

The profile of net labour force growth until around Year 16 before a drop-off in Year 17 is repeated across most of the Skilled categories in the charts below.

CHART 6: NET LABOUR FORCE ENTRY (NEW PARTICIPANTS LESS RETIREES) FROM TOTAL 2006-07 MIGRANT INTAKE (B)

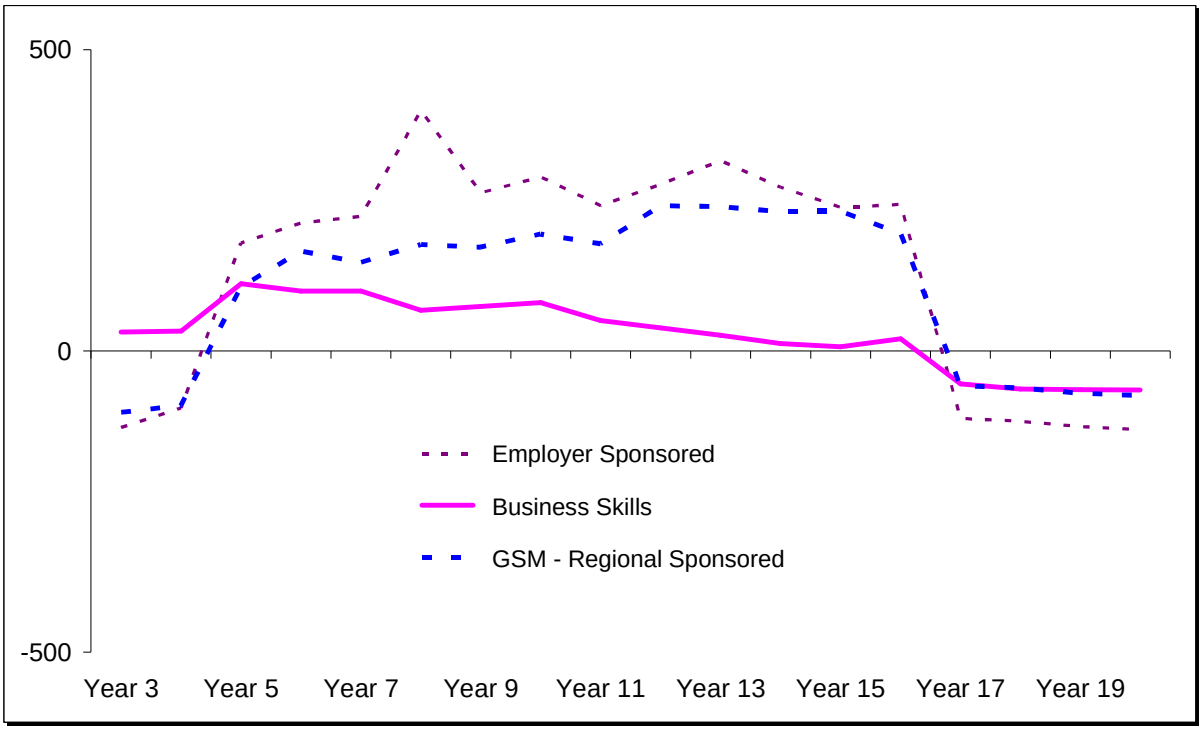
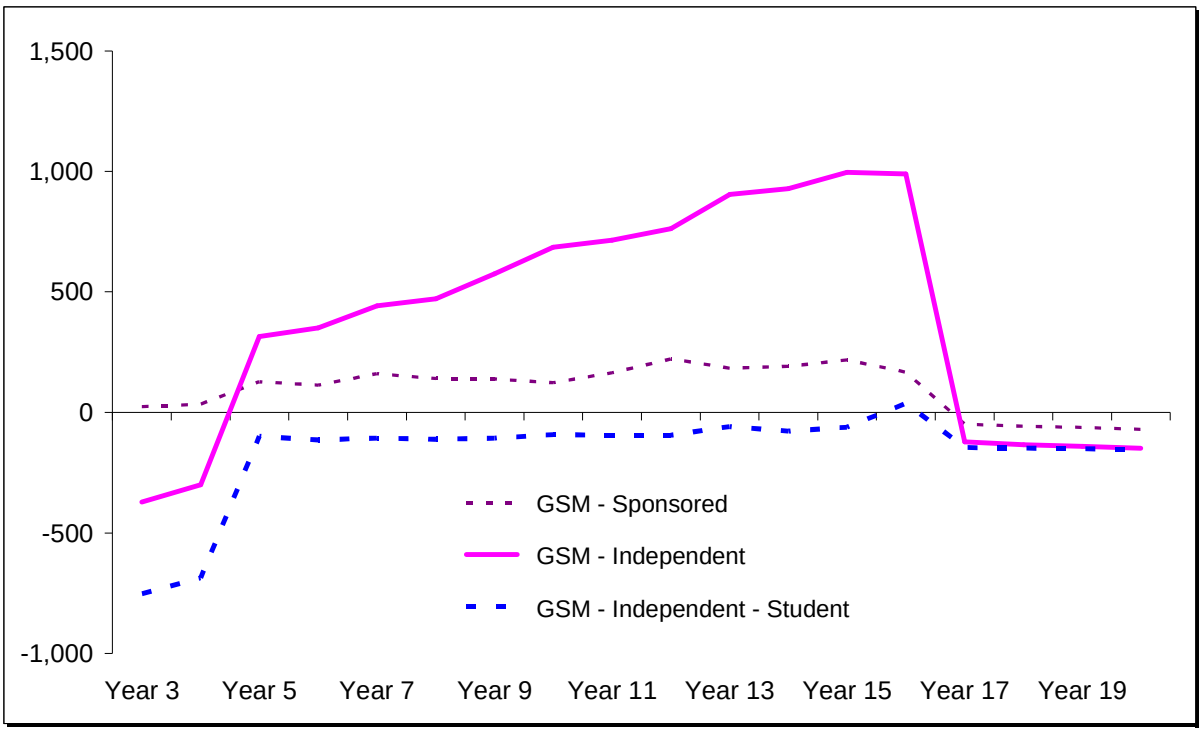


Chart 6 shows that net labour force growth across the Employer Sponsored and GSM – Regional Sponsored streams is generally positive up to Year 16. That is true too for the Business Skills stream though at a much lower net contribution. That reflects both the lower number of migrants in this stream compared to the other streams shown in Chart 6 and the older age profile on average for Business Skills migrants (more than half of Business Skills migrants are aged 35+, which is not true of any of the other Skilled streams).

Note that for many of the Skilled categories there is negative labour force entry in the initial years after arrival. This is driven by the labour force participation rates derived from the LSIA data, the specific age demographics of migrants entering Australia in 2006-07, and the underlying Model assumptions. In particular, labour force participation rates are assumed to move over time towards Australian average rates, which for many Skilled stream categories means lowering participation rates in each age cohort over time (with some of these age cohort participation rates starting at 100%).

Chart 7 shows net labour force entry for the final three Skilled categories with a marked build up in labour force participation in the GSM – Independent category until Year 16 (reflecting a high proportion of this category being school aged on arrival).

CHART 7: NET LABOUR FORCE ENTRY (NEW PARTICIPANTS LESS RETIREES) FROM TOTAL 2006-07 MIGRANT INTAKE (C)



The GSM - Independent – Student category shows negative net labour force entry over the Model's forecast horizon:

- Migrant profile information shows only 2.7% of this group being aged under 15 upon granting of visas.
- The Model shows that the very high initial labour force participation rate for principal applicants in this category moderates over time, hence driving labour force exits (as average participation rates move towards the Australian average over time). With very few people aged under 15 upon receiving a visa, there are few labour force entrants to offset these exits.
- Hence the result is negative net labour force entry over most of the Model's 20 year timeframe.
- This can be contrasted with the GSM - Independent category (representing offshore applications as opposed to onshore student applications) where 29% of the migrant group was aged under 15 on arrival. Hence, as high rates of labour force participation for principal applicants moderate (driving some labour force exits), these are more than offset by new entrants, leading to strongly positive net labour force entry over time as shown in Chart 7.

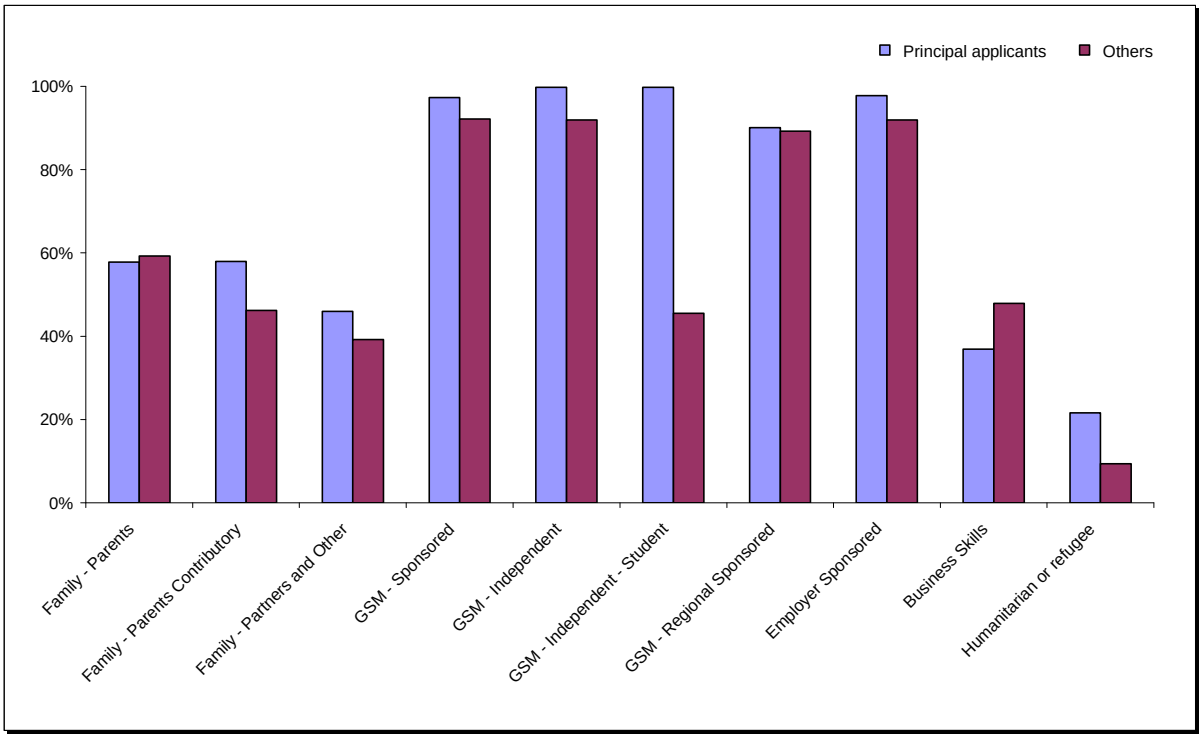
3.2 ENGLISH PROFICIENCY

Chart 8 shows the English proficiency of the 2006-07 migrant intake by principal applicants and others in the migrating unit. English skills are defined on a self-assessment basis, with those who class their English skills as 'very good' or 'good' assumed in the Model to be English proficient, while the remainder may make use of Commonwealth-funded services such as English as a Second Language in schools, the Adult Migrant English Program (AMEP), or the Translating and Interpreting Service (TIS).

Chart 8 shows that many new migrants have a high level of English proficiency, particularly those entering through the Skilled streams. A notable exception within the Skilled streams is the Business Skills visa category where only 37% of principal applicants and 48% of dependents rate their English as very good or good. English proficiency is also low among dependents in the GSM – Independent – Student stream, although dependents comprise a small proportion of migrants in this stream.

Those migrating to Australia through the Family and especially the Humanitarian streams typically have much lower levels of English proficiency. These groups are therefore more likely to make use of relevant Commonwealth government services.

CHART 8: ENGLISH PROFICIENCY OF 2006-07 MIGRANT INTAKE, PRINCIPAL APPLICANTS AND OTHERS



4. MIGRANTS' FISCAL IMPACT MODEL

The Migrants' Fiscal Impact Model (the Model) provides an estimate of the impact an additional 1,000 migrants have on the Commonwealth government budget, in terms of expenses and revenues.

The additional migrants arrive in Year 1 which represents 2007-08, and the Model tracks those migrants over a period of 20 years.

The migrant cohort ages over time, and thus moves into and out of education and the workforce, with differing impacts on the Commonwealth government budget over time. Given the 20 year timeframe of the Model, the death of migrants is allowed for over time (which helps to present a more realistic picture of demand for services).

Note however that while the Model extends out for a considerable period of time (20 years) it is not a 'life cycle' model of migrants:

- Because most principal applicants (particularly in the skilled streams) tend to be aged between 20 and 40, over the 20 year time frame most would remain in the workforce, and not draw significantly on health costs or age pension costs.
- The Model also only examines the first generation of migrants (that is, the impact on the Australian Government Budget from any children of the migrant group born after arrival in Australia is not considered).

One might think of contributions to the Commonwealth budget over a person's life cycle as encompassing three broad phases:

- A **childhood phase** where people are not contributing any revenue but do draw on education and some social security expenses.
- A **working age phase** where the majority of people are in the labour force and contributing taxation revenue well in excess of their call on government expenses.
- A **retirement phase** where direct incomes are lower (though people are still contributing some tax, often via earnings on accumulated wealth), but government expenses are notably higher as health costs increase markedly and the age pension is paid.

These broad phases would hold for Australian born residents as much as for migrants.

While the bottom line results from the model shown in this report are very strong, they do generally represent the life cycle phase where people would be contributing more to the Commonwealth budget rather than drawing down on it (with most migrants remaining within the working age phase over the 20 years).

Types of expenses examined

The Model estimates the direct effect on the Commonwealth budget resulting after the arrival of new migrants. These are revenues and expenses which can be 'directly attributed' to migrants, either because their presence leads to higher receipts or outlays, or because such receipts or outlays are specifically related to increases in the population or client group and that effect occurs quickly.

Examining only those revenues and expenses which can be directly attributed to a particular population or client group leaves out a significant proportion of the Commonwealth budget, such as expenditure on public goods or infrastructure. New migrants would share the benefit of such expenses, so examining the Commonwealth budget from a 'benefit' or 'welfare' point of view should take into account such items.

This is particularly appropriate over a longer timeframe (beyond the standard budget projection period), where such expenses may change indirectly with changes in total population or economic growth (variables affected by the arrival of new migrants). The Model includes a mechanism which allows for such a 'broader budget' analysis.

The Model has been configured with a series of base assumptions. These project the likely net impact on the Commonwealth budget of additional migration. These assumptions can be changed by the user to provide alternate projections. They can also be changed to conduct scenario or 'what if' analysis. The Model can be examined in current or constant prices (with results in this report in constant 2007-08 prices).

Key data sources

Much of the information in the Model on migrant characteristics comes from the **LSIA surveys**. The most recent one (LSIA3) was conducted in August 2005 and so provides a very up-to-date view of migrants' characteristics (incomes, labour force participation, unemployment and take-up of some government benefits). This data is used for many Year 1 and Year 2 characteristics shown in the Model.

The LSIA2 survey was conducted on migrants arriving from offshore in the one year period from September 1999 to August 2000, and conducted interviews in the first year and second year after arrival.

The LSIA1 survey was conducted on migrants arriving from offshore in the two year period from September 1993 to August 1995, and conducted interviews in the first, second and fourth years after arrival.

While the LSIA3 data is the most recent, the LSIA1 survey does provide some information on how migrant characteristics changed between two and four years after arrival. In some areas of the Model, notably personal and household income, that change in characteristics from year 2 to Year 4 is combined with information from LSIA3. For example, personal income estimates for Year 2 are used from LSIA3 where available, with the change in income from Year 2 to Year 4 reported in LSIA1 added to this (appropriately scaled to current dollars) to provide the current estimate of Year 4 income.

Data on Humanitarian migrants was not collected in LSIA3 so LSIA2 data (appropriately scaled) is used as a base.

The primary source of information on migrant characteristics (such as number of migrants by visa category, principal applicant (PA) / dependant split, English proficiency, age and gender profile) is the 2006-07 settlement database.

The primary source of unit cost information in the Model is derived from the 2007-08 Commonwealth budget and supporting documentation and information.

A full list of data sources is provided in an accompanying user guide document.

5. EXPENSES

Direct additional expenses to the Commonwealth government occurring as a result of the additional migrants are shown under the Model's default setting. Expenses shown in the Model also cover those areas of expenditure where additional demands are generated by the additional migrants (though programs may be cash limited in the short term).

This chapter examines the primary expenses recorded in the Model by area of expenditure. The discussion also covers the sources used to estimate migrant usage of these services. In general, estimates of migrant use of services stem either from the Longitudinal Survey of Immigrants to Australia (LSIA) or are assumed to be the same as the average usage of the Australian population, adjusted for age and gender where appropriate and feasible.

Budget information is used to source unit costs of service provision. For future years, the nominal price of most services is linked to the CPI (which has a default growth rate of 2.5% per annum), with exceptions for some social security payments, which are indexed to wage growth, as well as for health costs.

5.1 HEALTH

Additional migration imposes a cost to the Commonwealth government via provision of Medicare benefits, pharmaceutical benefits, funding to the States under Australian Health Care Agreements (public hospitals) and aged care services (principally residential aged care and Health and Community Care (HACC)). Funding for these health services is not cash limited (that is, the fiscal cost grows as the eligible population grows).

The estimate of migrant usage of Medicare, aged care services and public hospitals (via grants to the States) is based upon the age and gender of the migrant cohort, and information on average usage by age and gender for the general population. For Medicare services, per capita usage tends to increase gradually with age and tends to be significantly higher for females than for males. For public hospitals, per capita funding increases with age, and is higher for females than males for ages 20-40, but beyond age 60 is higher for males than females. The usage of aged care services is highly concentrated in those aged over 75.

The estimate of usage of pharmaceutical benefits in the Model is also based on Australian average information (though not age-weighted), with the cost to the Commonwealth government depending on the number of concessional patients, an estimate of which for the migrant intake is obtained from LSIA information on social security take-up rates.

Table 6 summarises the projected health expenses associated with each of the modelled visa categories over the forecast horizon. Migrants in the Parents and Parents Contributory categories are estimated to have a much higher usage of health services than all other migrant categories, a difference which can be attributed to the older age profiles of these two categories.

The average age of entrants under Parents visas in the 2006-07 migration program was 69 years (compared to 27 years for all migrants from the 2006-07 program), while the corresponding average for those entering on Contributory Parents visas was 59 years. That older age profile explains the significantly higher health expenses for the Parents category compared with Parents Contributory in the early years of the projection. In comparison with

the other migrant categories, the average age of migrants in the Parents category was three standard deviations[1] above that for the overall migrant intake in the 2006-07 program, whereas it was two standard deviations above for migrants in the Parents Contributory category.

Migrants who are classed as provisional during the early term of their visa are unable to access health services (other than on a fee for service basis) until permanent residence is achieved. Therefore, for GSM - Regional Sponsored migrants, there are no health outlays for the first two years during which all migrants in this category are assumed to be provisional. For those in the Business Skills and the Partner and Other categories, it is assumed that 88% and 81% of migrants respectively hold provisional status initially, explaining low health outlays during the first three and two years respectively (the expected length of time until these migrants become permanent).

The allowance for health care prices to rise at a faster rate than general prices (as assumed in the Commonwealth government's *Intergenerational Report*) is a key factor behind the growth in expenses over time, along with the relative 'ageing' of the migrant groups, with more health services being used as people get older. The fall in health expenses in the second year is attributable to the increasing employment levels at this time and the consequently lower numbers of concessional patients under the Pharmaceutical Benefits Scheme.

TABLE 6: HEALTH EXPENSES PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	3,716.4	3,501.3	3,499.6	3,545.0	3,696.3	4,279.0	4,349.3	4,084.3
Family - Partner and Other	188.4	178.6	947.0	953.5	968.7	1,079.9	1,241.4	1,442.0
Family - Parents Contributory	2,275.8	2,138.9	2,140.9	2,143.2	2,262.5	2,875.8	3,412.6	3,687.6
GSM - Sponsored	811.2	772.1	768.5	764.5	777.8	900.2	1,077.6	1,282.8
GSM - Independent	835.7	784.8	762.6	741.0	746.3	843.0	1,015.7	1,200.8
GSM - Independent - Student	782.9	748.1	756.3	760.3	773.2	850.6	957.9	1,112.7
GSM - Regional Sponsored	-	-	769.6	738.8	749.8	866.3	1,035.5	1,230.5
Employer Sponsored	798.8	770.3	749.7	733.5	755.8	926.7	1,119.6	1,347.9
Business Skills	102.7	92.1	91.6	760.1	795.3	1,009.6	1,243.7	1,551.3
Humanitarian or refugee	918.5	852.7	845.9	841.6	857.7	997.4	1,178.0	1,359.0
Total Permanent	608.1	575.2	843.0	861.1	878.2	1,009.0	1,182.5	1,377.8

5.2 EDUCATION

Migrant use of schools, vocational education, tertiary education (universities) and study assistance imposes additional costs on the Commonwealth government.

Migrant enrolments in school are age based, with enrolments in Year 11 and 12 modified by the Australia-wide Year 12 retention rate. Funding for the 'English as a second language' (ESL) program is based on the share of new migrants deemed to be not proficient in English.

Tertiary education (university) take up rates are also estimated on the basis of migrant age. Information from the LSIA data is used for vocational education enrolments. Over time usage is assumed to converge to the Australian average.

[1] Standard deviation is a common statistical measure of the extent of the spread in the data. In the present case, the standard deviation for the age of migrants in the 2006-07 migrant program was calculated to be 14 years of age, which is reasonably large relative to the average age of 27 years.

As with health, the assumption of Australian average usage of education services by migrants is also one which could benefit from further data collection and analysis, though it may be a reasonable proxy, particularly over time for those migrants who are young on arrival and so have grown up in Australia.

TABLE 7: EDUCATION EXPENSES PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	50.7	42.6	38.2	30.6	27.8	13.5	4.8	3.1
Family - Partner and Other	586.4	266.2	631.4	576.8	658.8	500.0	441.6	312.2
Family - Parents Contributory	247.7	165.6	152.8	144.2	143.7	102.6	42.4	18.4
GSM - Sponsored	759.9	727.0	891.0	891.6	906.2	872.3	762.8	451.3
GSM - Independent	594.6	600.2	604.9	616.3	671.5	847.2	801.1	480.6
GSM - Independent - Student	914.5	744.9	586.1	470.3	411.8	265.6	268.9	242.3
GSM - Regional Sponsored	372.1	372.6	664.7	657.3	697.4	814.7	730.3	433.1
Employer Sponsored	677.6	650.4	653.6	660.0	708.2	835.4	694.2	404.2
Business Skills	1,178.8	500.3	454.2	728.0	733.3	737.9	494.3	276.5
Humanitarian or refugee	2,786.4	1,147.7	1,133.0	1,114.0	1,142.3	1,180.8	962.4	554.3
Total Permanent	800.4	541.4	654.2	634.9	673.8	669.2	590.1	373.4

Table 7 summarises the education outlays for each of the modelled categories. Funding for ESL is shown to take place in Year 1, although actual program delivery to eligible students may occur over a number of years. Education expenses are initially highest for Humanitarian, Business Skills and the GSM - Independent – Student categories. For the first two of these categories, the higher outlays (substantially so for migrants entering under the Humanitarian category) reflect a higher number of dependents who are of school age relative to the other categories, with a high proportion of these qualifying for ESL. For the GSM - Independent – Student category, that reflects a very high proportion of migrants being of the age for which higher education is sought (with the model applying Australian average age-weighted take up rates across all visa categories for higher education).

The costs to the Commonwealth government for education expenses fall over time, as the original migrant group pass through school and university. However, there are still education expenses over the longer term, largely through vocational education and training. The latter is less skewed towards younger migrants, and rises for some time with more migrants entering the labour force than those exiting it.

5.3 SOCIAL SECURITY

Additional migration imposes a cost to the Commonwealth government via direct payment of benefits, pensions and allowances, as well as the operational costs associated with administering such payments through Centrelink.

The LSIA data are used to estimate migrant take-up rates for a range of social security benefits. However, most new migrants are ineligible to receive a range of social security benefits for their first two years after arrival (along with any provisional period before permanent status is received). The exception to this is Humanitarian migrants, for whom social security benefits are available immediately upon arrival.

For the other migrant categories, eligibility to social security benefits varies across the type of category as well as depending upon the duration of the applicable provisional status. Hence, where there are zero social security take-up rates for the initial two years, this reflects the two year exclusion; where there are take-up rates marginally above zero, this represents some partial exemptions to the exclusion period. Estimates of the take-up rate beyond the two year exclusion period were obtained by assuming convergence to the Australian average.

Exceptions to the two year exclusion period include the age pension and disability support pension. These benefits are generally subject to a ten year exclusion period after grant of permanent residence for new migrants, though some pensions are paid under International Social Security Agreements (where Australia has a reciprocal social security arrangement with the migrant's country of origin). New migrants can receive the disability support pension if the disability was incurred post-arrival. The receipt of family payments (incorporating family tax benefits) and carer allowance is not subject to an exclusion period for migrants who have permanent residency.

Migrant usage of public housing is included within the total social security outlays shown in Table 8 (representing a call on the Commonwealth's contribution under the Commonwealth State Housing Agreement. Only Humanitarian migrants have a notably higher take-up rate for public housing in Years 1 and 2, with the take-up rate for all categories assumed to converge to the Australian average take-up rate by Year 20.

TABLE 8: SOCIAL SECURITY EXPENSES PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	774.6	473.2	1,073.6	1,065.3	1,142.5	1,401.0	5,525.4	4,076.2
Family - Partner and Other	505.8	426.7	806.7	884.3	1,799.8	1,581.9	2,348.6	2,638.2
Family - Parents Contributory	774.6	473.2	1,073.6	1,065.3	1,142.5	1,401.0	5,525.4	4,076.2
GSM - Sponsored	753.3	696.2	1,291.9	1,337.3	1,355.4	1,466.0	2,171.4	2,334.3
GSM - Independent	831.8	793.0	1,492.1	1,618.2	1,578.2	1,427.5	2,054.1	2,155.0
GSM - Independent - Student	211.5	176.6	1,264.5	1,616.6	1,595.1	1,503.0	2,025.2	2,084.1
GSM - Regional Sponsored	691.7	676.5	700.7	719.9	1,203.4	1,447.6	2,063.5	2,212.2
Employer Sponsored	521.7	520.7	820.1	825.0	912.1	1,432.2	2,273.6	2,665.1
Business Skills	129.6	123.6	248.9	329.9	417.5	1,386.0	2,597.7	3,489.3
Humanitarian or refugee	2,616.8	2,959.6	3,067.0	3,162.3	3,170.2	3,029.0	3,193.3	3,162.9
Total Permanent	710.6	685.9	1,182.4	1,291.0	1,592.1	1,596.0	2,363.7	2,526.5

The costs to the Commonwealth government for social security expenses are subject to a variety of influences. As new migrants gain employment and improve their incomes after arrival they become less reliant on social security.

Table 8 also shows a notable increase in expenses from Year 2 to Year 3 for many visa categories other than Humanitarian, reflecting the eligibility to a range of social security benefits upon the lapse of the two-year exclusion period. Social security benefits paid rise again after Year 10 as the age pension and disability support pension become available for non-Humanitarian migrants (with typically an additional two years wait for provisional migrants). Those benefits most notably show up in the Family – Parents categories.

Recorded social security expenses fall over time on family-type benefits (family payment and parenting payment), as children from the original migrant group age and become adults (leaving their parents no longer eligible for such family-type payments). The Model only examines the first generation of migrants (that is, the impact on the Commonwealth budget from any children of the migrant group born after arrival in Australia is not considered).

Take-up rates of benefits for provisional migrants are assumed to also converge to an Australian average take-up rate over time, subject to any periods of ineligibility. These assumptions for the provisional categories are conservative given no actual information on such migrants' take-up of benefits. The extra two years these migrants have generally spent in Australia (without access to social security payments) may indeed leave them better placed not to require social security payments when they do become available.

5.4 SETTLEMENT SERVICES

Additional migration imposes a cost to the Commonwealth government via provision of settlement services for Humanitarian and other migrants, use of Translating and Interpreting Services (TIS) and use of the Adult Migrant English Program (AMEP). The latter two recover some costs through charges. Charges for both TIS and AMEP are separately identified. These are shown on the receipts side of the Model, with gross costs on the expenses side.

DIAC's full annual settlement services budget (other than TIS and AMEP expenses) is assumed to be spent on the incoming group of Humanitarian migrants in the first year. New migrant take-up rates of TIS and AMEP are based on historic experience and the share of migrants with low English proficiency.

TABLE 9: SETTLEMENT SERVICES EXPENSES PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	966.2	783.7	701.3	675.2	656.3	22.4	-	-
Family - Partner and Other	1,390.7	1,278.8	1,220.2	1,200.7	1,199.5	20.6	-	-
Family - Parents Contributory	966.2	783.7	701.3	675.2	656.3	22.4	-	-
GSM - Sponsored	331.1	308.8	300.2	296.2	296.0	2.6	-	-
GSM - Independent	319.7	301.6	288.5	278.8	278.6	1.7	-	-
GSM - Independent - Student	333.0	305.3	288.0	277.8	277.8	5.8	-	-
GSM - Regional Sponsored	471.9	434.8	411.0	397.0	396.6	4.6	-	-
Employer Sponsored	384.1	358.3	342.1	331.5	331.3	3.5	-	-
Business Skills	1,559.3	1,352.2	1,266.3	1,226.5	1,224.8	23.2	-	-
Humanitarian or refugee	14,010.7	2,882.7	2,834.3	2,812.1	2,816.3	184.5	-	-
Total Permanent	1,673.8	831.8	797.2	782.1	781.4	22.3	-	-

Table 9 indicates that the costs to the Commonwealth for settlement services are highest in Year 1, reflecting the accounting of DIAC's settlement services budget to Humanitarian migrants in the first year. Beyond that, costs are related to the use of AMEP and TIS which in turn depends on the degree to which the new migrant intake lacks English proficiency. The new migrant intake is assumed to no longer require the former after 5 years of residence and the latter after 10 years of residence.

5.5 LABOUR MARKET SERVICES

Additional migration imposes a cost to the Commonwealth government via the provision of labour market services. These are delivered largely via the Job Network program, but also via Work for the Dole and some other labour market service programs. Commonwealth funding for Job Network and other labour market services is distributed to a number of providers and is demand driven.

Information from the LSIA on the number of unemployment benefit recipients and the number of people on special benefit is used in estimating the number of people accessing labour market services. Generally non-Humanitarian migrants who are unemployed and do not receive income support are only eligible for job matching services for the first two years. Beyond the two year waiting period (or four years for most provisional migrants) migrants are fully Job Network eligible, and can receive a wider range of services, which are also considerably more expensive for the Commonwealth government. Costs associated with Job Network eligible clients are tiered into a 'highly disadvantaged' rate, and a 'non-highly disadvantaged' rate.

TABLE 10: LABOUR MARKET SERVICES EXPENSES PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	114.2	9.6	81.2	32.8	28.6	14.3	10.2	6.3
Family - Partner and Other	67.1	18.9	44.5	46.5	167.5	58.5	82.1	106.2
Family - Parents Contributory	114.2	9.6	81.2	32.8	28.6	14.3	10.2	6.3
GSM - Sponsored	29.8	6.6	70.8	75.9	72.9	57.1	95.9	113.3
GSM - Independent	15.6	5.9	70.1	91.6	82.7	35.6	71.0	88.2
GSM - Independent - Student	25.1	10.8	110.2	158.0	144.2	66.9	76.9	86.5
GSM - Regional Sponsored	13.9	9.8	5.7	2.2	20.0	42.3	73.5	87.2
Employer Sponsored	3.5	2.3	13.5	8.0	12.7	48.8	76.9	89.0
Business Skills	1.7	0.5	15.5	6.9	7.7	58.8	73.3	79.2
Humanitarian or refugee	247.3	164.1	149.1	124.5	156.8	346.2	355.3	210.6
Total Permanent	49.6	21.3	61.4	68.8	103.5	71.4	95.5	100.6

As Table 10 shows, the cost to the Australian Government for labour market services rises sharply beyond Year 2. Over Years 3 to 5 eligibility to services (other than basic job matching) increases and so costs escalate.

Costs fall on average from Year 5 to Year 10, as unemployment rates in each visa category are assumed to converge towards the national average. For Humanitarian migrants, their unemployment rate is assumed not to converge to the national average until Year 20, while labour force participation steadily rises, which increases their demand for labour market services by Year 10. Demand from migrants in other visa categories gradually rises beyond Year 10, led by growth in the labour force (more people continue to enter the labour force than exit it for most of the time).

5.6 GENERAL REVENUE ASSISTANCE

The Model records GST revenue as accumulating to the Commonwealth government, with it then being distributed to the States in the form of general revenue assistance. In the Model, the dollar amount of these expenses is set to match the estimate of GST revenue collected from migrants. The Model incorporates a switch to allow for the inclusion or exclusion of GST from revenues and expenses. If GST revenue is excluded from the analysis, both gross revenues and expenses change but not the net impact on the Budget bottom line.

5.7 BROADER EXPENSES

The Model includes a 'switch' where both broader revenues and expenses (which cannot be directly attributed to new migrants) can also be included in the analysis, with these items attributed on a per capita basis.

Broader Commonwealth government expenses are included in the Model via the following functional categories:

- General public services
- Defence
- Public order and safety
- Housing and community amenities
- Recreation and culture
- Fuel and energy
- Agriculture, forestry and fishing

- Manufacturing and mining
- Transport and communications
- Other economic affairs
- Other purposes
- Public health and research
- Assistance to the aged not elsewhere included
- Administration for programs included under direct attribution.

Many of these areas provide public goods, infrastructure or services of general public benefit. New migrants would share such benefits.

In Year 1 the cost per capita from these broader expenses is similar to, though a little lower than, the per capita receipts from broader revenues (the latter is particularly boosted in of late by very high company tax receipts). That means the inclusion of broader revenues and expenses produces a small across-the-board addition to bottom line estimates of net operating surplus.

6. REVENUES

Estimates of revenues in the Model are driven by LSIA information on incomes (LSIA3 for Year 1 and 2, along with the transition from Year 2 to Year 4 based on LSIA1).

A wage index drives migrant incomes beyond Year 4 (the last year of LSIA information). Growth in this index is set at a base rate of 4% per annum, reflecting a projection of average economy-wide wage growth, consistent with Commonwealth budget projections for medium term wage growth.

6.1 DIRECT TAX

Additional migration delivers revenues to the Commonwealth government via personal income tax payments. These revenues are estimated on the basis of LSIA data which shows the personal incomes of principal applicants and others in the migrating unit.

The estimation of direct tax payments involves tallying all forms of income (salary, business income, investments and social security benefits), allowing for an average rate of deductions, and applying marginal tax rates to estimate the amount of personal income tax paid.

The Model allows for labour force entry and exit over time as migrants age. Migrants who first enter the workforce while in Australia, rather than prior to arriving in Australia, are assumed to do so at the average Australian wage, rather than a migrant specific wage (though a switch in the Model allows this to be changed).

TABLE 11: DIRECT TAX REVENUES PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	264.0	743.0	784.3	795.2	708.7	421.2	243.6	120.9
Family - Partner and Other	3,683.3	5,328.9	6,066.7	6,688.4	7,062.0	8,495.1	9,339.1	9,968.2
Family - Parents Contributory	692.2	1,728.6	1,988.5	2,190.0	2,181.5	1,896.1	1,372.9	888.2
GSM - Sponsored	4,390.1	6,764.1	7,427.5	8,007.5	8,228.2	8,978.0	9,972.3	10,544.5
GSM - Independent	6,275.1	8,121.9	9,163.2	10,294.2	10,637.8	12,379.8	13,599.9	14,427.4
GSM - Independent - Student	5,355.8	7,966.1	8,536.2	9,093.9	9,312.3	10,191.6	10,554.7	10,879.6
GSM - Regional Sponsored	4,286.3	5,110.5	6,326.3	7,694.9	7,841.8	8,445.3	9,373.0	9,955.8
Employer Sponsored	14,757.3	15,364.6	15,537.8	15,734.6	15,887.5	16,974.4	17,933.6	18,317.9
Business Skills	5,245.7	7,142.2	7,261.0	7,433.0	7,592.0	8,416.8	8,964.1	9,015.7
Humanitarian or refugee	143.2	421.8	963.9	1,717.1	2,000.6	4,074.6	6,422.0	9,112.0
Total Permanent	5,419.5	7,000.8	7,702.0	8,411.5	8,685.4	9,954.6	10,903.9	11,599.7

Table 11 shows that initially direct tax revenue is notably higher from the Skilled streams, particularly Employer Sponsored, with LSIA3 data suggesting a notable income gap between Employer Sponsored migrants and other streams.

Over time, the gap between Employer Sponsored direct tax revenues and that from other Skilled stream categories such as GSM – Independent narrows. That occurs as visa categories with a younger age profile still have members of the migrating unit entering the labour force for the first time, while those who were new to the labour force shortly after arrival move on to higher wages over time as their labour market experience improves.

Note that direct tax revenue from the GSM – Independent – Student category is a little lower than the GSM – Independent category. LSIA3 suggests that incomes for onshore (student) applicants are generally lower than for their offshore equivalents. That would generally reflect less experience in the labour market for onshore applicants, which appears to count

for more than additional local labour market knowledge which those resident in Australia when applying may have.

Direct tax estimates from the Family stream are initially notably lower, but over time tax revenue from Family – Partners & Others grows strongly. That reflects significant net labour force entry over time, as well as good growth in incomes for those employed.

For all categories, revenues improve over time in real terms. That reflects productivity growth being compensated by real wage rises (the Model allows for real wage rises of 1.5% per annum, matching the gap between assumed wage growth and general price growth). The improvement over time also reflects lower unemployment rates, particularly for Family and Humanitarian migrants. For some time it also reflects net labour force entry – more of the new migrant group is joining the labour force than is exiting it (as shown in the net labour force entry charts earlier). Eventually net labour force growth turns negative, which means direct tax revenue plateaus and starts to fall.

The Model effectively assumes indexation of tax brackets to wages beyond the tax changes in the 2007-08 Budget. That is, over the long term tax cuts and bracket creep (as wages growth pushes taxpayers into higher marginal tax brackets) are expected to offset each other.

6.2 INDIRECT TAX

Additional migration delivers increased revenues to the Commonwealth government via indirect tax payments. These revenues are estimated on the basis of LSIA household income data, average propensity to consume taxed goods and services as estimated from the 2003-04 Household Expenditure Survey (HES), and the average tax rate applying to those goods and services. Household income data relates to all members of the household, whether or not they were in the migrating unit.

For the calculation of indirect tax payments, household income is preferable to personal income as it would be otherwise difficult to allocate spending across members of the household.

In the Model, indirect tax revenues cover customs duty and excise, which stay with the Commonwealth government, and GST, collected by the Commonwealth but passed to the States (the Model separately shows Commonwealth government payments of this GST revenue to the States). The inclusion/exclusion of GST in indirect tax calculations can be altered via a switch within the Model.

TABLE 12: INDIRECT TAX REVENUES EXCLUDING GST PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	576.8	634.3	682.9	722.0	711.8	638.3	503.7	375.2
Family - Partner and Other	1,124.5	1,163.6	1,229.5	1,287.9	1,305.2	1,393.6	1,484.2	1,573.3
Family - Parents Contributory	576.8	642.3	692.4	735.6	736.8	730.2	692.1	608.6
GSM - Sponsored	850.0	946.2	1,012.3	1,072.0	1,086.7	1,162.9	1,241.1	1,319.7
GSM - Independent	1,016.0	1,066.4	1,078.8	1,085.2	1,100.3	1,177.7	1,257.8	1,338.7
GSM - Independent - Student	1,283.3	1,382.2	1,448.3	1,500.2	1,521.1	1,629.4	1,743.5	1,861.9
GSM - Regional Sponsored	770.3	836.5	869.1	894.3	906.6	970.1	1,035.5	1,101.3
Employer Sponsored	1,244.8	1,271.2	1,243.0	1,212.9	1,229.4	1,314.7	1,400.6	1,484.7
Business Skills	848.1	838.9	833.0	824.5	835.3	889.5	942.3	989.6
Humanitarian or refugee	341.3	455.2	487.5	517.0	524.1	560.6	598.3	636.6
Total Permanent	1,012.0	1,069.4	1,106.0	1,135.9	1,151.1	1,228.9	1,307.8	1,385.8

The revenue numbers in Table 12 exclude GST revenue. Indirect tax revenue in the Model rises at a relatively steady pace over time, with migrants benefiting from real wage growth (reflecting productivity gains). Given households' tendency to smooth consumption over time, household incomes (and indirect taxes) are not linked in the Model to changes in employment status.

Reflecting higher household incomes, indirect tax revenue is initially highest from the Employer Sponsored and GSM – Independent – Student categories (household income for the latter is not as high but it is spread over fewer persons in a household, so per capita income is greater).

The relatively low level of indirect tax revenue collected per migrant in the Business Skills and SM – Regional Sponsored categories reflects a higher number of people in the household unit as recorded from the LSIA (in comparison with other visa categories). The latter means that consumption per head is more diluted, and so indirect tax revenue per migrant is relatively lower.

HES data shows that households with the lowest recorded incomes tend to have very high propensities to consume. For the lowest income quintile in the HES survey, consumption is well over 100% of income. Consumption expenditure which is higher than income reflects a range of possible factors, including consumption being financed from wealth (which is common for the elderly), households which are increasing their debt, households whose consumption expenditure is reliant upon transfers from family or friends, or temporarily higher consumption or temporarily lower income.

As such, consumption growth tends to be smoother than income growth (and hence indirect tax collections are more stable than direct tax collections).

6.3 USER CHARGES

User charges in the Model reflect three elements – service fees for translating and interpreting services, fees for the Adult Migrant English Program (AMEP), and the additional visa application charges applying to Contributory Parents.

The latter are particularly notable in Table 13, with the additional visa application charge being $31,555 for most permanent Contributory Parents. There is also a provisional option for migrants in the Contributory Parents category, allowing an up-front payment of $18,935 in Year 1 with the balance to be paid in Year 3. Fees are less for persons aged under 18 in this category, but there are few of those. The visa application charges are in effect a down-payment on the future costs to the Commonwealth for providing health services and

age pension payments (after a waiting period of ten years). As highlighted in Table 6 and Table 8, these payments are significant.

TABLE 13: USER CHARGES PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	125.5	50.2	16.2	15.8	15.5	13.3	-	-
Family - Partner and Other	83.1	34.6	11.3	11.2	11.3	12.2	-	-
Family - Parents Contributory	28,468.9	35.5	2,296.8	10.5	10.0	7.7	-	-
GSM - Sponsored	168.3	3.1	1.0	1.0	1.0	1.2	-	-
GSM - Independent	103.7	2.9	0.9	0.9	0.9	1.0	-	-
GSM - Independent - Student	212.8	6.0	1.9	1.9	1.9	2.7	-	-
GSM - Regional Sponsored	407.4	4.8	1.5	1.5	1.5	1.7	-	-
Employer Sponsored	184.7	4.2	1.4	1.4	1.5	1.8	-	-
Business Skills	1,866.6	25.1	8.4	8.4	8.7	9.9	-	-
Humanitarian or refugee	149.0	93.1	80.6	83.6	87.5	109.4	-	-
Total Permanent	837.9	20.9	60.7	10.5	10.8	12.7	-	-

Other user charges relate to those migrants who require English language assistance. The AMEP user charge is an upfront fee for migrants under the Skilled streams who are not proficient in English. As it also forms part of a visa application charge, it is payable by all those migrant adults in the Skilled stream deemed to be not proficient in English, regardless of whether or not they eventually use the AMEP. A significant proportion of the Business Skills category are not proficient in English upon application, which is reflected in the substantial user charges in Year 1 for this group.

6.4 BROADER REVENUES

Broader Commonwealth government revenues are included in the Model via the following categories:

- Company taxes
- Superannuation surcharge
- Other superannuation revenues
- Petroleum resource rent tax
- Fringe benefits tax
- Other revenues.

These revenues provide an important offset to the inclusion of broader Commonwealth government expenses. Just as new migrants share the benefit of the suite of broader Commonwealth government expenses, they also post-arrival form part of the wider economy which generates the above revenue items (and which were not included in the direct tax and indirect tax sections earlier).

As with expenses, broader Commonwealth government revenues are attributed on a per capita basis across the entire population including the new migrant group, with allowance within the Model for the user to apply revenues in greater or lesser proportions to new migrants.

7. NET OPERATING SURPLUS

This chapter presents the estimates of the impact on the Commonwealth budget per 1,000 new permanent migrants by visa category using characteristics of migrants from the 2006-07 migrant intake.

Also presented is the estimated fiscal impact in total from applying the total expected number of permanent migrants in the 2006-07 migration program.

7.1 RESULTS ON A PER 1,000 MIGRANT BASIS

Results are presented in Table 14 under the standard **direct attribution setting**. That setting is the most useful for short term analysis of Budget requirements and demands.

The total reported is a weighted average impact where weights are based on the proportion of migrants in each visa category in 2006-07, as earlier reported in Table 5.

TABLE 14: NET OPERATING SURPLUS (DEFICIT) PER 1,000 MIGRANTS, CONSTANT 2007-08 PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	-4.8	-3.5	-4.0	-3.9	-4.2	-4.7	-9.2	-7.7
Family - Partner and Other	2.1	4.3	3.6	4.3	3.5	6.6	6.6	6.9
Family - Parents Contributory	25.7	-1.2	0.4	-1.2	-1.4	-2.1	-8.4	-8.7
GSM - Sponsored	2.7	5.1	5.1	5.6	5.8	6.7	7.0	7.5
GSM - Independent	4.7	6.7	7.0	8.0	8.3	10.3	10.8	11.7
GSM - Independent - Student	4.6	7.3	6.9	7.3	7.6	9.1	8.9	9.1
GSM - Regional Sponsored	3.8	4.4	4.6	6.0	5.6	6.2	6.4	7.0
Employer Sponsored	13.8	14.3	14.2	14.4	14.4	15.0	15.1	15.2
Business Skills	5.0	5.9	6.0	5.2	5.2	6.0	5.4	4.5
Humanitarian or refugee	-20.1	-7.2	-6.6	-5.8	-5.6	-1.1	1.2	4.3
Total Permanents	3.4	5.4	5.3	5.9	5.8	7.7	7.8	8.4

Table 14 shows that new migrants provide a substantial contribution to the Commonwealth budget initially, and this contribution grows over time in real terms. Base assumptions of 4.0% wage growth and 2.5% general price growth (higher for health costs and some social security outlays) reflect productivity improvements over time which are compensated by real wage growth. Other things equal, this productivity improvement helps to deliver an improved bottom line to the Commonwealth budget over time, including for migrants.

The contribution is positive across all visa categories, with the exception of the Family-Parents categories, which remain negative (apart from a substantial visa application charge paid by migrants in the Parents Contributory category which goes some way to offsetting their expected health care costs). The contribution is also negative for the Humanitarian category for the first 12 years, as labour force participation is very low initially, and there is considerable use of government services.

Strong contributions are delivered by migrants in each of the Skilled streams examined. Key reasons for this strong contribution to the Budget bottom line include:

- high incomes (as reported in the LSIA) leading to a high level of direct tax receipts;
- high rates of labour force participation (generally well above the Australian average);
- strong levels of English proficiency which reduce the need for language services;

- an exclusion from many government benefits for the first two years after arrival;
- a further exclusion from most government services and benefits (other than education) for those migrants who initially enter on a provisional visa (until they receive permanent status); and
- an age profile generally much younger than the Australian population on average.

Among the Skilled streams migrants under the Employer Sponsored category are the standout in terms of net contribution, with labour force participation by principal applicants of very nearly 100% and very high incomes earned.

Net operating surpluses from the GSM – Independent – Student category (reflecting onshore applications) are generally lower than surpluses from the GSM – Independent offshore counterpart. This difference reflects a higher level of direct tax collected from migrants in the offshore category.

The contribution from migrants in the Family – Partners and Other category (the category here which had the highest intake in 2006-07) is also solid throughout. Expenses for this group are kept low initially (with 81% initially on a provisional visa for two years which excludes access to most government services and benefits). Incomes earned for this cohort are solid and labour force participation grows over time. This category also has a very low rate of attrition (new migrants subsequently deciding to leave Australia).

Table 15 presents results under the **broader budget setting**, which attributes to migrants a share of all Budget outlays and revenues. This setting is more appropriate for longer term analysis of the implicit net contribution made by new migrants to the Commonwealth budget.

TABLE 15: NET OPERATING SURPLUS (DEFICIT) PER 1,000 MIGRANTS UNDER BROADER BUDGET SETTING, CONSTANT 2007-08 PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	-3.7	-2.6	-3.2	-3.3	-3.6	-4.3	-8.9	-7.5
Family - Partner and Other	3.2	5.2	4.4	4.9	4.2	7.2	7.2	7.5
Family - Parents Contributory	26.8	-0.3	1.1	-0.6	-0.9	-1.5	-7.9	-8.3
GSM - Sponsored	3.7	6.1	5.8	6.3	6.5	7.4	7.6	8.1
GSM - Independent	5.8	7.6	7.7	8.6	8.9	10.9	11.4	12.3
GSM - Independent - Student	5.6	8.3	7.7	7.9	8.2	9.7	9.5	9.7
GSM - Regional Sponsored	4.9	5.3	5.3	6.5	6.1	6.6	6.9	7.4
Employer Sponsored	14.9	15.2	14.9	15.0	15.0	15.6	15.7	15.8
Business Skills	6.0	6.8	6.7	5.8	5.8	6.6	6.0	5.1
Humanitarian or refugee	-19.0	-6.2	-5.8	-5.2	-5.0	-0.5	1.8	4.9
Total Permanents	4.4	6.3	6.0	6.5	6.4	8.3	8.4	9.0

The 'switch' to the broader Budget setting makes all visa categories return slightly stronger operating surpluses (or smaller deficits in the case of Family – Parents and Humanitarian) in the Year 1 results (with broader Budget revenues and expenses applying to all visa categories equally on a per capita basis). That is, revenues not specifically accounted for in the direct attribution setting are worth more to the overall Commonwealth budget than are expenses not directly accounted for. In part that reflects the very high level of company profits at present (which form the largest component of 'broader' revenue), which may in part be cyclical.

7.2 RESULTS FOR FULL 2006-07 MIGRATION PROGRAM

Table 16 shows the estimated effect on the Commonwealth government budget from the 2006-07 migrant intake in total under the **direct attribution setting**, and suggests there will be a significant benefit in terms of net operating surplus.

TABLE 16: NET OPERATING SURPLUS (DEFICIT) FOR 2006-07 MIGRANT INTAKE, CONSTANT 2007-08 PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	(4.8)	(3.5)	(4.0)	(3.9)	(4.2)	(4.7)	(9.2)	(7.7)
Family - Partner and Other	94.5	196.3	164.1	194.3	160.4	300.0	301.2	315.0
Family - Parents Contributory	89.9	(4.2)	1.3	(4.3)	(5.1)	(7.2)	(29.3)	(30.4)
GSM - Sponsored	24.8	47.9	47.1	52.5	54.3	62.7	64.8	69.9
GSM - Independent	163.4	229.8	240.5	275.0	286.9	356.7	373.4	404.5
GSM - Independent - Student	92.3	149.1	141.0	147.4	153.8	183.8	180.1	184.6
GSM - Regional Sponsored	42.9	49.1	51.3	67.3	62.9	68.9	71.5	77.8
Employer Sponsored	228.4	237.4	235.1	238.1	238.2	248.3	250.0	251.7
Business Skills	28.9	34.6	35.0	30.3	30.5	35.2	31.6	26.2
Humanitarian or refugee	(224.8)	(80.0)	(73.9)	(65.4)	(63.1)	(12.4)	13.3	48.0
Total	535.6	856.5	837.5	931.4	914.6	1231.2	1247.4	1339.6

Table 16 shows that, in the first year, the Commonwealth government budget is estimated to benefit by some $535.6 million as a result of the 2006-07 migrant intake. Initially, this is dominated by migrants from the Employer Sponsored and GSM – Independent categories, given their strong individual contributions and their large share of the total program. Over time, a notable level of benefits flow from Family – Partners and Other migrants – which is a large category – as their economic circumstances improve.

Table 17 presents the implicit net contribution to the Commonwealth government budget under the **broader budget setting**, showing that the 2006-07 migration program in aggregate provides a significant boost to the fiscal bottom line (some $707.3 million in Year 1). With revenues growing at a faster rate than the cost of non-health services, this contribution builds over time.

TABLE 17: NET OPERATING SURPLUS (DEFICIT) FOR 2006-07 MIGRANT INTAKE UNDER BROADER BUDGET SETTING, CONSTANT 2007-08 PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Family - Parents	(3.7)	(2.6)	(3.2)	(3.3)	(3.6)	(4.3)	(8.9)	(7.5)
Family - Partner and Other	143.8	238.4	199.9	223.3	189.4	328.8	329.7	343.1
Family - Parents Contributory	93.7	(1.1)	3.9	(2.2)	(3.0)	(5.3)	(27.6)	(29.0)
GSM - Sponsored	34.9	56.4	54.3	58.4	60.2	68.6	70.6	75.6
GSM - Independent	200.7	261.3	266.8	296.0	307.9	377.5	394.1	425.0
GSM - Independent - Student	114.3	167.5	156.3	159.6	166.0	196.0	192.2	196.6
GSM - Regional Sponsored	55.0	59.5	59.1	72.4	68.0	73.9	76.6	82.8
Employer Sponsored	246.4	252.4	247.7	248.2	248.2	258.4	259.9	261.5
Business Skills	35.2	39.7	39.3	33.7	33.9	38.6	34.9	29.5
Humanitarian or refugee	(212.8)	(69.5)	(65.0)	(58.0)	(55.8)	(5.1)	20.6	55.1
Total	707.3	1002.0	958.9	1028.2	1011.2	1327.1	1342.1	1432.8

8. COMPARISON WITH PREVIOUS RESULTS

This section compares the bottom line net operating surplus outcomes reported here with that reported in the 2006 update to the Model. Table 18 compares the respective net operating surplus results under the direct attribution setting.

TABLE 18: NET OPERATING SURPLUS (DEFICIT) PER 1,000 MIGRANTS, CONSTANT PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
2008 update (2007-08 prices)	3.4	5.4	5.3	5.9	5.8	7.7	7.8	8.4
2006 update (2005-06 prices)	2.1	3.2	3.5	4.2	4.4	6.3	6.5	7.2
Difference (from last update)	1.3	2.2	1.7	1.7	1.3	1.5	1.3	1.2

The 2008 update reports a net operating surplus which is stronger than that reported in the 2006 update. It is notably stronger through Years 2, 3 and 4, before settling at a level around $1.3 million higher per 1,000 migrants than that reported in the 2006 update.

This update incorporates a wide range of updated information and different treatment of some factors. A large number of individual updates and changes have pushed estimates of revenues or expenses either higher or lower, with the net effect of these shown above in Table 18.

These changes do not always apply in a uniform or consistent manner over time. In particular, different age profiles for each visa category (combined with a different set of weights across categories to form a weighted average migrant impact) influence the profile of when people enter and exit and labour force and when they take up benefits. Hence it is not possible to precisely decompose the 'difference' shown in Table 18 into a set of specific quantified factors. We can however list some of the major factors which underlie the change in estimates.

Factors apparent in the 2008 update which have led to a higher estimate of net operating surplus include:

- The LSIA3 survey details stronger incomes and higher rates of participation in the second year after arrival than had previously been estimated. This affected both direct tax collections and indirect tax collections. The stronger results affected most visa categories, including the Family – Partners and Other stream.
- A change in the eligibility profile for Partners and others migrants which shows access to fewer benefits, reducing estimated outlays on social security payments in particular.
- A broader representation of migrants with provisional visas who are subject to an additional exclusion period for many government benefits and services for two to three years (reducing estimated outlays).
- An increase in the share of migrants entering through the Skilled stream (61% in 2006-07 versus 59% in 2004-05), thereby raising the weighted average net operating surplus across all migrants.

There were also factors apparent in the 2008 update which have partially offset the above and moved towards a lower net operating surplus, including:

- Reductions in income tax thresholds over the past two years, which have reduced the amount of direct tax received for a given income earned.

- A fuller accounting of Family Tax Benefit payments with wave 2 of LSIA3 incorporating a specific field relating to these payments.
- A higher estimate of school costs based on all relevant program expenditure reported in Budget papers.

9. FISCAL IMPACT OF TEMPORARY BUSINESS (457) MIGRANTS

As part of the 2008 Model update, Access Economics was also asked to analyse the impact on the Commonwealth government budget from migrants who come to Australia on a Temporary Business (subclass 457) visa. This chapter reports on the expected fiscal impact of Temporary Business migrants.

Migrants entering Australia under this subclass, like those entering under the broad Skilled stream, help alleviate the rampant skills shortages and supply constraints currently facing Australian employers. The Temporary Business subclass enables Australian employers to alleviate skills shortages by facilitating a three-way arrangement between DIAC, the employer and the overseas worker. This arrangement involves the employer nominating the position to be filled and then sponsoring an overseas worker to work in Australia on a temporary basis of duration between three months and four years.

There are various requirements in place which govern this relationship. These include:

- the nominated position must be in an occupation which is on an approved occupation list;
- the employer sponsor cannot pay a salary which is below the stipulated minimum salary level for that occupation (although regional employers are entitled to apply for salary concessions); and
- while no age limitation applies to the overseas applicant, the applicant must meet the minimum English proficiency level.

An application for a Temporary Business visa may include, apart from the primary applicant, a secondary applicant who is either a spouse, interdependent partner or a dependent child or relative.

9.1 KEY DATA ON TEMPORARY BUSINESS MIGRANTS

The data used to estimate the fiscal impact of Temporary Business visa holders on the Commonwealth government budget were sourced from the Department's own database of 457 visa grants in 2006-07 (excluding Independent Executive "457" visa holders).

There were a total of 87,313 Temporary Business visa grants during 2006-07. Over half of these (around 53%) were primary applicants, while the remaining 47% were secondary applicants. In addition to whether the applicant was primary or secondary, information on other personal characteristics, including sex, age and nominated incomes for primary applicants were also available.

For the secondary applicants, there was no income information available from the visa applications. However, labour force participation and income earned was reported in a 2005 longitudinal study of Temporary Business migrants, and that information (appropriately scaled) is used here.[2]

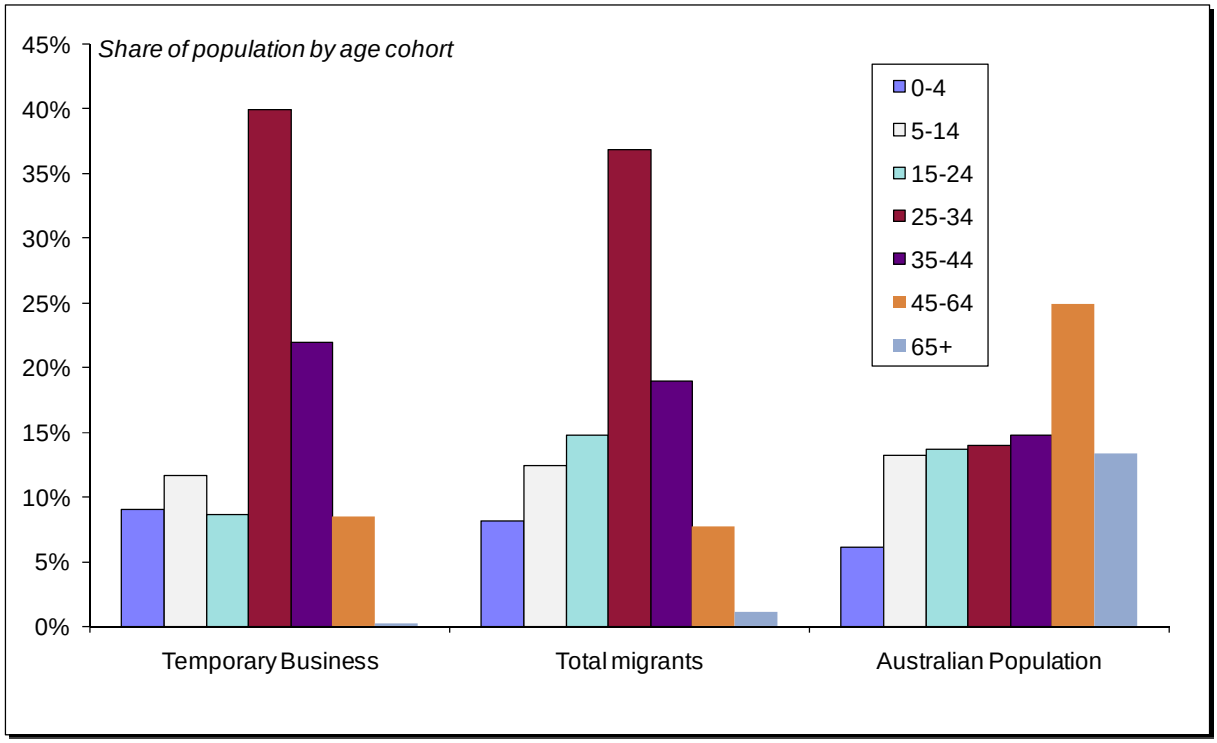
[2] Khoo, S., McDonald, P. and Hugo, G. (2005), "Temporary skilled migrants in Australia: Employment circumstances and migration outcomes", Department of Immigration and Multicultural Affairs.

Departmental analysis helped to inform some other key parameters in relation to Temporary Business (457) visa holders:

- While visas can be valid for up to four years the average length of stay in Australia on these visas is around two years.
- Temporary Business migrants have the option of applying for permanent residency under a different visa category at the end of their term of employment with the employer sponsor. The majority of these transitions (61.4%) are to visa subclasses within the Employer Sponsored category.[3]
- Around 42% of Temporary Business migrants make the transition to permanent residence.

Chart 9 compares the age distribution of Temporary Business migrants to that of total migrants and the Australian population. As can be seen, the age distribution for Temporary Business migrants is similar to that of the total migrant population though is slightly skewed to the younger age cohorts. For both migrant groups, the 24-34 age cohort is clearly the most prevalent, followed by the 35-44 age cohort. The average age of Temporary Business migrants was 28 years. As was shown for permanent migrants, the young age profile in itself is supportive of fiscal gains over the 20 year horizon.

CHART 9: AGE DISTRIBUTION OF TEMPORARY BUSINESS MIGRANTS



[3] Accordingly, for those Temporary Business migrants who become permanent residents, where information on their characteristics is otherwise not available the characteristics of Employer Sponsored migrants are used as a proxy.

9.2 MODEL RESULTS

The expected fiscal impact of Temporary Business migrants are summarised in Table 19 through Table 22 below.

Temporary Business migrants are not eligible for a number of services upon their arrival. In particular, these migrants do not qualify for medical or pharmaceutical benefits during the term of their temporary visa in Australia. This is by virtue of the sponsorship agreement between the employee, the employer sponsor and DIAC. Employer sponsors are responsible for all medical and hospital expenses incurred by the sponsored employee (as well as the accompanying secondary applicant) within the duration of the employment contract. For this reason, private health insurance is usually included as part of the employee's remuneration package.

As mentioned above, the average length of stay in this visa is around two years (though for individuals it will vary from a few months to four years). The assumptions applied in this modelling utilise the average result. That is, the entire Temporary Business cohort is represented as staying in Australia for the average two years, from which point some 42% remain in Australia (transitioning to a permanent visa, which is more often than not in the Employed Sponsored stream), while the other 58% return to their home country.

As the Model reports results per 1,000 migrants who arrive in Australia there is therefore a notable drop in net revenue after Year 2 reflecting the fact that 58% of the cohort depart Australia.

Table 19 reports outlays for Temporary Business migrants which are low in the first two years. The social security payment reflects Family Tax Benefit which Temporary Business migrants are entitled to receive due to the payment of income tax like any other Australian employee. Education benefits reflect any attendance at non-government schools (which are Commonwealth subsidised).

While only 42% of the cohort remain from Year 3, outlays increase as they begin to become eligible for more payments, in line with permanent migrants. Even so, the fact these migrants are skilled and young keeps Commonwealth outlays relatively low over the 20 year horizon.

TABLE 19: OUTLAYS PER 1,000 TEMPORARY BUSINESS MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Health	-	-	341.7	346.0	354.2	423.7	510.8	616.7
Education	145.4	156.9	230.6	231.8	250.3	321.9	294.8	179.2
Social security	395.5	399.4	193.8	217.7	458.2	645.8	1,054.2	1,211.6
Settlement services	-	-	153.8	153.7	153.5	1.4	-	-
Labour market services	-	-	0.7	1.2	10.9	22.1	34.6	41.9
Total	570.0	585.3	933.9	966.0	1,244.8	1,446.7	1,937.4	2,103.3

Table 20 summarises the impact on Commonwealth government revenues from Temporary Business migrants through their contribution to taxation and user charges. Contributions to direct tax revenue are driven by personal income tax payments. In comparison with the other visa categories, Temporary Business migrants are ranked second behind Employer Sponsored migrants in terms of the level of direct tax contributions per 1,000 migrants. This result is hardly surprising, given that the migrants need to be sponsored by employers to take

up positions which are in skill shortage and they are also subject to binding minimum salary levels.

Revenues drop in Year 3 as visas run out for many but then continue growing steadily over time.

TABLE 20: REVENUES PER 1,000 TEMPORARY BUSINESS MIGRANTS, CONSTANT 2007-08 PRICES ($'000)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Direct tax	12,104.9	12,547.2	5,493.2	5,735.5	5,845.2	6,390.1	7,075.7	7,929.7
Indirect tax, excluding GST	1,040.5	1,067.5	453.4	457.9	464.1	495.9	528.1	559.6
User charges	-	-	0.5	0.5	0.5	0.6	-	-
Total	13,145.3	13,614.7	5,947.1	6,194.0	6,309.9	6,886.6	7,603.8	8,489.3

Table 21 summarises the net impact of Temporary Business migrants on the Commonwealth government budget. Overall, the net impact of these migrants is highly positive during the average term of their temporary visa, and remains strong for those who stay on as permanent migrants. With high skills, a young age cohort and either exclusion from or little call on government outlays, the result is consistent with prior expectations.

TABLE 21: NET OPERATING SURPLUS (DEFICIT) PER 1,000 TEMPORARY BUSINESS MIGRANTS, CONSTANT 2007-08 PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Net operating surplus (deficit)	12.6	13.0	5.0	5.2	5.1	5.4	5.7	6.4

That result is also reflected in Table 22 which summarises the net impact of Temporary Business migrants from the whole 2006-07 intake of some 87,000 migrants. Their contribution is strongly positive in Year 1 at $1.097 billion. In Year 3 the net fiscal contribution of those remaining is still very strong at $437 million.

TABLE 22: NET OPERATING SURPLUS (DEFICIT) FOR 2006-07 TEMPORARY BUSINESS MIGRANT INTAKE, CONSTANT 2007-08 PRICES, $M

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year 15	Year 20
Net operating surplus (deficit)	1,097.2	1,136.8	437.3	456.1	441.8	474.5	494.2	557.0

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