A DAMAGING INTERNATIONAL STUDENT TAX

INTRODUCTION

The Universities Accord Interim Report canvasses a levy on international student fee income but there is little discussion provided about whether this is a good policy, and moreover limited information on its design and purpose. Multiple purposes are canvassed, including to "provide insurance against future economic, policy or other shocks, or fund sector priorities such as infrastructure and research."[1]

An international student levy is a tax on exports. If implemented, it would cause adverse economic impacts to Australian education export volumes (our leading services export) and the Australian economy more generally. This damage would be at a time when we are trying to revive export markets and growth.

Implementing a levy would conflict with these international efforts, including in Asia, and damage Australia's reputation as a preferred destination for international students both for their immediate tertiary education and potentially their intentions to consider Australia as a destination for longer-term skilled migration.

Australia needs more long-term skilled migration to underpin a productivity revival, not less.

Because a levy would not grow the Australian higher education sector, but instead make it smaller, it is self-defeating and could even reduce resources available for equity and access goals that the Accord is canvassing.

An international student levy would attempt to some extent alleviate the funding burden on the Australian Government related to the Accord but puts even more reliance on fees from international students. In the case of funding infrastructure and research – international students are already doing this through their fees, so it is unclear how the levy decreases the overall reliance on international students or cross subsidies. The levy appears to be more about redistribution from the "haves" to "have nots" in the sector – at the expense of growing the size of the sector.

Without specific detail about the intended design of a levy, it is difficult to be precise about its economic impacts. Nonetheless an international student levy can be analysed under plausible scenarios using both tax principles and economic modelling. This attachment provides some indicative potential economic impacts on universities and the broader Australian economy under one scenario.

The indicative analysis in this attachment is consistent with the results of recent formal economic modelling by the Centre of Policy Studies at Victoria University that shows the economic damage to Australia from an international student levy.[2] The Centre of Policy Studies analysis is summarised in Box 1.

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1 Australian Government. (2023), *Australian Universities Accord Interim Report*, p. 139.

2 Liu, X.L., Giesecke, J., & Nassios, J. (2023). 'The economic effects of an international student levy', *Centre of Policy Studies Working Paper No. G-341*, August.

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Box 1: The Centre of Policy Studies analysis of the economic effects of an international student levy

The Centre of Policy Studies undertake a preliminary investigation of an international student levy (ISL) using a dynamic multi-regional multi-sectoral model of the Australian economy with tax detail.

The analysis evaluates the effects of an ISL on national and regional macroeconomic variables and evaluate and compare its economic efficiency. They find, an ISL, like most other taxes, has **adverse economic consequences for Australia**. A scenario of permanent 5 per cent ISL on fees paid by international students for tertiary, technical and vocational education results in:

- A reduction in international student demand for Australian education of approximately 6.6 per cent.
- Reduced activity in the tertiary and technical and vocational education sectors by 1.1 per cent and 0.7 per cent respectively.
- Long-run negative impacts on national labour supply, real wages, and gross domestic product (GDP).
- Depending on how ISL revenue is recycled, potentially larger negative impacts for regions that have relatively large education export sectors.

While the analysis suggests a student levy has a lesser marginal excess burden compared to existing taxes in Australia, this is because the scenario assumes the levy is at a relatively low rate, and the levy is spread across all of the tertiary, technical and vocational education sector.

The Centre of Policy Studies report is available from: https://www.copsmodels.com/elecpapr/g-341.htm

WHO ULTIMATELY PAYS THE LEVY AND HOW RESPONSIVE ARE THEY?

The economic impact of a levy depends on who ultimately pays the levy (distinction between who the levy is charged to and who ultimately bears the levy) and how responsive they are to the imposition of a levy which changes the effective price of higher education.

The levy could be borne entirely by the university through a cut to general university funds which in turn would mean those funds could not be used for other purposes such as research, infrastructure, staffing and education services. Or the levy could be entirely borne by international students in the form of higher tuition fees and/or reduced services, or a combination of both the university and the (international) students could ultimately pay.

HOW PRICE RESPONSIVE ARE INTERNATIONAL STUDENTS?

While evidence suggests **domestic** Australian students have a relatively inelastic demand for higher education (possibly close to zero) partly because of the operation of income contingent loans which breaks the nexus between current price and current demand for education, this is not necessarily the case for international students.

The market for **international** education is more competitive and internationally mobile students responsive to "prices" as well as a range of other factors. For example, the Centre of Policy Studies (CoPS) analysis discussed in Box 1 use an elasticity of demand in international markets for education exports of -3.5.

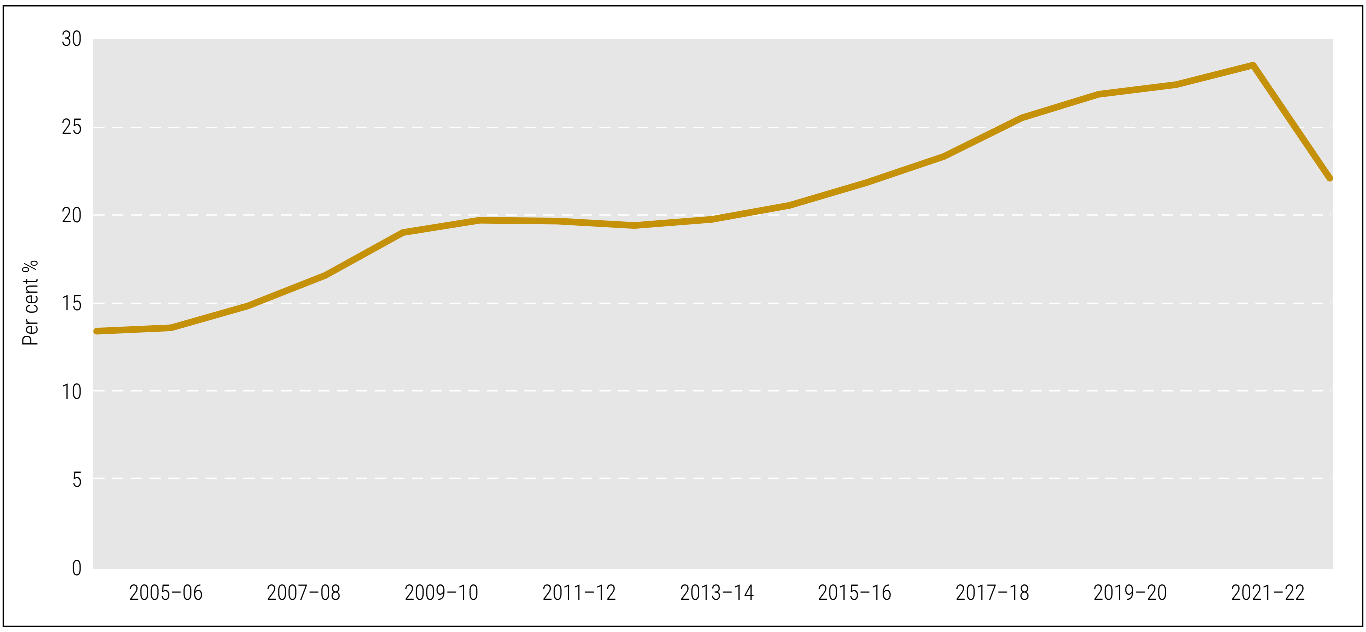
The scenario in this attachment uses an elasticity of -1.25 based on a study by Min and Falvey (2018) that investigates factors affecting international student flows to Australia for higher education. They find that cost competitiveness is an important factor – they construct an explanatory variable that encapsulates tuition fees and charges, living costs, and the role of the exchange rate. Their most robust model suggests a 1% increase in costs relative to those in the UK and USA (competitor destinations for international students) would result in a 1.25% decline in international student enrolments in Australia.[3]

3 Min, B.S., & Falvey, R. (2018). 'International student flows for university education and the bilateral market integration of Australia', *Higher Education*, 75, pp. 871–889.

AUSTRALIA'S INTERNATIONAL STUDENT HIGHER EDUCATION MARKET

Chart 1 from the ABS shows higher education export income is an increasing share of Australia's overall export income – in other words, an important component of Australia's economic activity and prosperity.

Chart 1: Share of the dollar value of higher education exports in all services exports (per cent)



Source: ABS 5368.0.55.004 – International Trade: Supplementary Information, Calendar Year, 2022.

POTENTIAL IMPACTS OF A LEVY – HYPOTHETICAL SCENARIO

International student fee revenue across Australian 38 public universities in 2020 (the choice of 2020 represents a somewhat "average" recent year that is neither the peak of pre-COVID 2019, or the trough of 2021) was $9.2 billion. As a scenario, suppose the Australian Government wanted to impose a $500 million annual levy, and this was borne entirely by the international students through the levy being passed on entirely via higher tuition fees at the Australian 38 universities.

Assume that international students are price elastic and have a price elasticity of -1.25 consistent with the exchange rate adjusted cost elasticity in the Min and Falvey (2018) study for Australia. What does this scenario imply for universities revenue and international student enrolments?

Using international student fee revenue and enrolment data for 2020 from the Australian Department of Education, a $500 million levy across 38 universities would result in a reduction in annual total revenue across these institutions of around $158.9 million using 2020 figures and a reduction in enrolments of around 27,800 (Table 1). Table 1 also shows the top twenty universities negatively impacted by the levy given their relatively high international student fee income and enrolments.

Note this is the impact before the levy is used (or "redistributed") so the net impact depends on how the levy is used and which institutions receive what portion of the levy amount raised. While this may mean the overall adverse impact is somewhat mitigated, two points are worth noting:

- The Centre of Policy Studies analysis discussed in Box 1 does factor in recycling of the revenue raised by a levy and the analysis finds that the levy still has adverse macroeconomic consequences for Australia.
- There are other potential negative impacts of the levy not modelled. For example, beyond the negative impact on the *quantity* of labour supply, there is potentially a negative impact on the *quality* of labour supply through, for example, damage to Australia's reputation as a destination for longer-term skilled migration. Any adverse impact on longer term skilled migration and, in turn, Australia's productivity, is not captured by the existing economic modelling.

BROADER IMPACTS ON EXPORT INCOME AND THE AUSTRALIAN ECONOMY

Under this scenario (before any redistribution of the levy collected), apart from the loss of international student fee revenue, there would be a loss of export revenue related to other goods and services purchased by international students.

Using data for 2020 from the ABS on expenditure on goods and services related to international trade in higher education, a $500 million levy resulting in a decline of around 27,800 international student enrolments would translate into a further $771.9 million annual loss in other export revenue for Australia from expenditure on goods and services by international students.

This lost export revenue in turn has multiplier effects through the Australian economy, including for economic activity in sectors of the economy reliant on international students and also employment. For example, using data for 2020 and extrapolating from previous work by London Economics on the export and employment impact of the Go8 Universities for Australia suggests the loss in short-run employment from the $500 million levy scenario could be around 2,800 jobs.

Table 1: Impact of $500 million annual levy borne entirely by international student fees

	Indicative impact on international student fee revenue ($ million, using 2020 data)	**Indicative reduction in international student enrolments** (number, using 2020 data)
TOTAL for 38 universities	**−158.9**	**−27,800**
Top 20 most income impacted universities:		
University of Sydney	−19.0	−2,175
Monash University	−16.9	−2,740
University of Melbourne	−14.6	−1,849
University of New South Wales	−11.6	−1,566
University of Queensland	−11.2	−1,381
RMIT University	−7.8	−2,256
Deakin University	−6.8	−991
University of Technology, Sydney	−6.3	−952
Macquarie University	−5.2	−743
University of Adelaide	−4.4	−623
Australian National University	−4.3	−603
Queensland University of Technology	−3.8	−572
Griffith University	−3.3	−571
Curtin University of Technology	−2.8	−869
La Trobe University	−2.7	−589
Swinburne University of Technology	−2.6	−669
University of South Australia	−2.6	−465
Western Sydney University	−2.6	−536
University of Wollongong	−2.5	−939
University of Western Australia	−2.4	−364