

2026/2027 Pre-Budget Submission

Australian Restaurant & Cafe Association (ARCA)

1. Introduction

The Australian Restaurant & Cafe Association (ARCA) represents over 56,000 restaurants and cafés¹ employing over 700,000 workers across the Accommodation & Foodservice sector². As one of Australia’s largest small-business industries and the 6th largest employing industry, hospitality contributes more than \$72 billion annually to GDP, supports regional tourism, and is the #1 employer of young people, migrants, and students.

Despite its economic importance, the sector continues to operate on some of the lowest margins in the economy—now under 3%³ which is down 40% from 2024—and remains highly exposed to rising labour costs, input price pressures, reduced domestic consumer spending, and workforce shortages. Plus, according to Creditor Watch, almost 1 in 9 hospitality businesses went insolvent in the last 12 months⁴ based on those pressures.

The 2026/27 Federal Budget presents an opportunity to help the segment to “turn the ship around” to unlock productivity, investment, and jobs in hospitality through targeted, practical reforms within Treasury’s remit and help to transition hospitality from a **high-employment, low-productivity sector** to a **modern, technology-enabled engine of economic growth and job creation**.

2. Summary of Key Requests

- A. **Reform the Skilling Australia Fund (SAF) Levy** to support hospitality businesses who sponsored and employed 14.07% of the Temporary Skills Shortage and Skills in Demand visa recipients in 24/25 to 30 June 2025⁵, including a mechanism to reimburse or credit SAF fees for unsuccessful visa applications.
- B. **Introduce a Hospitality AI Productivity Fund** to support education, adoption, and implementation of artificial intelligence in Accommodation & Foodservice to lift productivity and reduce operating costs and provide the funding that small hospitality businesses need to participate in the AI productivity revolution and build capability for the future⁶.
- C. **Create a transparent taxation framework for Working Holiday Makers (WHMs) and international students including reviewing tax settings on superannuation contributions and “exit tax” arrangements** to create more fairness and transparency, while reducing the disproportionate burdens on low-margin small businesses and short-tenure migrant, student and tourist workers.
- D. **Reverse the Disincentive environment created by reducing the Apprentice Subsidies under the KAP** where the outcome of increasing incentives on certain Apprenticeships & Traineeships by reducing those in Hospitality will certainly lead to massive reductions in Commencements, In-Training and Completions in the Food Trades in 2026⁷. The announcement has led to “winners and losers” in the TAFE system, and lead to even more pressure on the industry and further Visa Worker requirements^{8,9}.
- E. **Reduce utility cost pressures on hospitality businesses through a targeted Energy Productivity Incentive**, delivered across owner-occupier, tenant and landlord pathways to enable permanent electricity cost reductions and improved demand management outcomes.

¹ Counts of Australian Businesses, including Entries and Exits, July 2021 - June 2025 | Australian Bureau of Statistics

² Accommodation and Food Services | Jobs and Skills Australia

³ <https://arca.org.au/wp-content/uploads/2025/12/IBISWorld2025.pdf>

⁴ Business closures ease as consumers begin to open their wallets: 10.6% of cafes and restaurants close in past year | CreditorWatch

⁵ Dept of Home Affairs The Administration of the Immigration and Citizenship Programs 15th Edition (October 2025)

⁶ National AI Plan launched but Xero warns it misses what small businesses actually need

⁷ Apprentice support in key sectors extended | Ministers' Media Centre

⁸ <https://www.restaurantbusiness.com.au/government-slashes-apprenticeship-incentives-in-half-leaving-hospo-behind/>

⁹ Support for apprentices is welcome, but some sectors will be left without | Australian Industry Group

3. The Economic Context

- Hospitality employment remains below pre-COVID participation levels in some states, with ongoing major shortages in chefs, cooks, and managers, as evidenced by each of those positions remaining in the top 10 of Skilled Visa approvals in the first 4 months of FY26¹⁰
- High inflation in costs of employment, food inputs, insurance, energy, and rent continues to erode margins.
- Business confidence in hospitality has lagged other industries, slowing investment and digital transformation.
- Productivity growth in Accommodation & Foodservice has been flat for more than a decade—signalling the need for targeted modernisation rather than further cost imposition.

Treasury policy settings in 2026/27 can directly shift this outlook.

4. Key Issues & Recommendations

A. Reform of the Skilling Australia Fund (SAF) Levy

Issue—The Skilling Australia Fund (SAF) levy—applied to employer-sponsored skilled visa programs creates a substantial **upfront financial barrier** for small and medium hospitality businesses. The levy is set at **\$1,200 per visa year for businesses with turnover under \$10 million**, and **\$1,800 per visa year for larger businesses**, resulting in an upfront charge of **\$4,800–\$7,200 for a standard four-year nomination**. The SAF must be paid **before** the visa is decided, and critically, is **not refundable** in most circumstances where a nomination is refused.¹¹

For small restaurants and cafés—businesses typically operating on margins below 3% and with limited cash reserves—this non-recoverable cost represents a significant sunk risk. A single failed nomination can erase weekly or monthly profit entirely. The levy therefore discourages employers from using **skilled migration pathways**, even in occupations with well-documented structural shortages.

Chefs & cooks remain on the **Core Skills Priority List**¹² with persistent shortages across every state and territory with additional shortages of café/restaurant managers in key areas.¹³ Jobs & Skills Australia projects that the number of food service workforce will need to increase by **10% by 2035**¹⁴, reflecting long-term domestic supply constraints. With apprenticeship completion rates in Food Service continuing to fall, migration remains essential to meeting workforce demand.

Despite this, the current SAF design:

- Imposes a **high upfront cost**, provides **no financial protection** against refusals, and offers **limited transparency** on the use of SAF revenue in the training system.

This approach is increasingly inconsistent with the Government’s **Migration Strategy**, which highlights the need to reduce complexity and lower upfront costs—particularly for small business.¹⁵

Recommendations

1. Introduce SAF reimbursement or transferable credits for refused nominations

¹⁰ Dept of Home Affairs The Administration of the Immigration and Citizenship Programs 15th Edition (October 2025)

¹¹ [Cost of sponsoring](#)

¹² [The Core Skills Occupation List](#)

¹³ [Occupation Shortage List | Jobs and Skills Australia](#)

¹⁴ [Employment Projections - Industry outlook | Jobs and Skills Australia](#)

¹⁵ [Migration Strategy](#)

The Government should implement a **refund** or 12/24-month **credit transfer** mechanism for employers whose nomination is refused and where no migrant worker enters employment AND introduce a trailing payments mechanism for small businesses.

This approach would; **Reduce financial risk for small and medium businesses; Improve fairness, ensuring SAF funds are only retained where a worker actually commences**; and/or align with policy directions to explore **trailing or staged SAF payments** to reduce upfront barriers.

2. Adopt a more granular, size-based SAF tiering model

The current two-tier turnover threshold (<\$10m and ≥\$10m) does not reflect the structure of the hospitality sector, where **93% of businesses** are micro or small operators. The Government should adopt a more refined tiering model—for example:

- **Micro businesses (<\$2m turnover):** 50–70% reduction in SAF levy
- **Small businesses (\$2–10m):** Current rate maintained
- **Medium businesses (\$10–50m):** Moderated SAF rate
- **Large businesses (> \$50m):** Current rate or modest adjustment

Additionally, occupations on the **Core Skills Priority List** should attract reduced or capped SAF charges, recognising their systemic shortage and essential role in Australia’s tourism and hospitality economy.

3. Publish annual SAF utilisation and outcomes reporting

To increase transparency and industry confidence, Government should publish detailed annual reporting on Total SAF revenue collected, Distribution of SAF funding by sector and region, Training programs supported, including in hospitality pathways (e.g., cookery, patisserie, hospitality management); and Measured outcomes for domestic skill development.

Enhanced transparency would support evidence-based refinement of the levy and illustrate its role as a **skills reinvestment mechanism**, not merely a tax on migration.

B. Accelerating AI Adoption to Lift Productivity

Issue

Hospitality remains one of the **least digitised and lowest-productivity sectors** in the Australian economy¹⁶. Manual processes—including rostering, scheduling, ordering, reporting, HR, onboarding and training—consume **up to 18 hours per manager per week** even when SaaS assisted, suppressing productivity, profitability and growth.

Unlike other industries, restaurants and cafés often lack the **capital, skills and training pathways** required to adopt emerging technologies, including AI-enabled workforce management, inventory optimisation, and customer-service systems. These barriers limit the sector’s ability to achieve genuine productivity gains and reduce its reliance on rising menu prices to offset labour and input-cost pressures.

Proposal

The Government should establish a **\$120 million, four-year Hospitality Productivity & AI Modernisation Fund** to accelerate technology adoption and lift productivity across the industry. The fund would provide:

¹⁶ [The Great Slowdown: Inside Australia's Productivity Crisis - Your Future Strategy](#)

1. Adoption Grants for AI and Digital Systems

- Up to **\$10,000 per venue** to support implementation of AI-enabled tools (e.g., workforce management, scheduling, automated reporting, inventory optimisation) with streamlined vouchers for small businesses to access approved digital solutions.

2. 120% Tax Deductibility for AI Training and Technology Investments

- A targeted uplift deduction for small hospitality businesses investing in AI tools, system upgrades, and technology-enabled training.

3. National AI Pilot Programs

- Government-backed pilots in **workforce management, inventory optimisation, training automation, and customer service AI applications**, delivered in partnership with industry and technology providers.

4. Accredited AI Training Vouchers

- Subsidised, nationally accredited training delivered through **RTOs and industry bodies**, enabling owners, managers and staff to adopt and maintain new systems.

Expected Outcomes

Productivity uplift across administrative and back-of-house operations, **Reduced administrative burden**, enabling managers to redirect time toward revenue-generating activities. **Improved business viability**, particularly for small venues facing persistent cost pressures. **Higher wages supported by real productivity gains and capability improvements**, not increased menu prices. **Job retention** through improved workforce stability, capability uplifts in AI skills and reduced business closures.

C. Taxation Reform for Working Holiday Makers, International Students & Temporary Migrants- Reducing Hidden Payroll Taxation on Small Restaurants and Cafés

Issue-Working Holiday Makers (WHMs), international students and temporary migrants are an essential and longstanding labour source for Australia's restaurant and café sector. Yet Australia's current **income tax** and **superannuation tax** settings for temporary visa holders create **additional labour costs, workforce uncertainty and administrative burden** for small hospitality businesses already operating on thin margins under 3%.

1. Income Tax Complexity for WHMs & International Students

Under the "Backpacker Tax," WHMs are taxed at a flat **15%** up to \$45,000¹⁷, while international students can face different and inconsistently understood residency rules. This complexity reduces take-home pay for workers, can encourage illegal cash-in-hand arrangements, and creates compliance risks for small employers.

2. Superannuation Contributions Tax (the hidden payroll tax)

Employers pay **12% superannuation** for WHMs, international students and temporary migrants—but contributions are immediately taxed at **15%**. This means that small hospitality businesses pay thousands of dollars each year in superannuation that the worker may never meaningfully benefit from.

3. Combined with a Departing Australia Superannuation Payment (DASP) Exit Tax¹⁸

¹⁷ [Schedule 15 – Tax table for working holiday makers | Australian Taxation Office](#)

¹⁸ [Departing Australia superannuation payment \(DASP\) | Australian Taxation Office](#)

When temporary visa holders leave Australia, WHMs face a **65% exit tax** and most other temporary visa holders face a **35% exit tax**.

The combined effect is a **double taxation system** consisting of a 15% contributions tax at entry, and up to 65% tax at withdrawal—an up to **80% tax** in many cases in a 6-to-24-month period.

For many visa holders, the majority of their superannuation is lost—while small restaurants and cafés bear the full cost of the superannuation contributions. This is effectively a **payroll tax imposed on small hospitality businesses**, with no productivity return, no labour-market benefit, and no retention impact.

Recommendations

1. Introduce a single, simplified income tax rate for WHMs and international students working in shortage sectors

A simplified income tax rate for hospitality workers would increase take-home pay, reduce payroll confusion, and improve compliance and reduce FWO disputes.

2. Reform superannuation entry and exit taxation for temporary visa holders

Reforms should address both sides of the tax burden:

- Reduce or remove the **15% contributions tax** for short-term visa holders in shortage occupations.
- Lower punitive **DASP exit tax rates** that disproportionately affect WHMs and students.
- Create an **opt-in low-balance withdrawal pathway** to simplify administration and reduce excessive taxation on balances under a defined threshold.

This would reduce effective labour costs for small businesses while ensuring workers receive more equitable treatment.

3. And if the Tax Act and ATO Policy cannot be altered, introduce an 80% Superannuation Tax Reinvestment Rebate for Small Hospitality Businesses

The Government should recycle **80% of the tax collected on superannuation for temporary visa holders** (contributions tax + DASP exit tax) back into eligible small hospitality businesses as a **refundable annual offset or PAYG credit, especially to those businesses in regional and rural areas**.

Design features:

- **Applies** to small hospitality employers (<\$10m turnover) and medium/large businesses **equally**. **Eligibility** tied to employment of WHMs, students and temporary migrants in recognised shortage occupations. **Rebate capped per worker/per business to support fairness and integrity** and can be used to offset wage pressures or finance training, technology adoption or productivity investments.

Rationale:

- **Recognises** that temporary visa superannuation operates as a **hidden payroll tax** for hospitality. **Returns** the majority (80%) of the super-related tax collected from this cohort back to the businesses that generated it. **Supports** hiring confidence, workforce stability and reinvestment in upskilling and productivity. **The current system unfairly places financial burden on small hospitality businesses that employ a large % of the temporary migrants to Australia.**¹⁹

¹⁹ <https://www.homeaffairs.gov.au/research-and-stats/files/working-holiday-report-June-24.pdf>

D. Reverse the Disincentive Environment Created by Reduced Apprenticeship Subsidies Under the KAP

Issue

The recent decision to **reduce apprenticeship and traineeship incentives for hospitality occupations under the Key Apprenticeship Program (KAP)** has created a **clear disincentive environment** for employers across the restaurant, café, and broader foodservice sector.

While the Government has increased incentives for selected priority occupations, the **corresponding reduction in support for hospitality apprenticeships** has created unintended but predictable consequences:

- **Hospitality food trades have been explicitly deprioritised**, despite being one of Australia's largest employing industries and a critical entry pathway for young Australians.
- The reallocation of incentives has created **“winners and losers” within the TAFE and training system**, skewing provider focus and enrolment pipelines away from food trades.
- For small and medium hospitality businesses already facing elevated wage costs, energy and input inflation and workforce shortages the reduced subsidy materially weakens the business case for employing and training apprentices.

ARCA modelling and industry feedback indicate that this policy change will **directly reduce commencements, in-training numbers, and completions across the food trades in 2026**, reversing fragile post-pandemic recovery gains.

Critically, the reduction in domestic training incentives will **exacerbate reliance on temporary and permanent skilled migration**, increasing pressure on housing, visa processing systems, labour agreements, and long-term workforce sustainability.

This outcome runs counter to the Government's stated objectives of **boosting domestic skills, productivity, and workforce resilience**, and risks embedding structural shortages in chef and cook occupations for years to come.

Recommendations

ARCA recommends that the Government:

1. **Immediately reinstate hospitality food trades as fully supported occupations under the Key Apprenticeship Program**, restoring incentive parity with other priority sectors.
2. **Reverse the reduction in employer apprenticeship incentives for hospitality**, recognising the high supervision and compliance burden, the extended training duration of food trades, and the predominance of small businesses as employers.
3. **Introduce a hospitality-specific apprenticeship retention and completion loading**, payable at key milestones (e.g. 12, 24, and completion stages), to address historically high attrition driven by cost pressures rather than capability.
4. **Ensure funding neutrality across the TAFE system**, preventing training providers from deprioritising hospitality qualifications due to reduced subsidy attractiveness.
5. **Align apprenticeship policy with migration settings**, explicitly recognising that reducing domestic training incentives will increase long-term reliance on skilled visas, contrary to broader workforce policy goals.

Expected Outcomes

If adopted, these measures are expected to: **Stabilise and increase apprenticeship commencements in hospitality food trades from 2026**, reversing the projected decline caused by the current incentive structure. **Improve in-training retention and completion rates**, supporting a sustainable domestic pipeline of chefs and cooks. **Reduce long-term reliance on skilled migration**, easing pressure on visa programs, labour agreements, and associated administrative systems. **Restore confidence among small hospitality businesses** to invest in training, supporting productivity growth and regional employment. **Deliver policy consistency**, ensuring that skills funding supports sectors that are labour-intensive, youth-employing, and economically significant.

Without intervention, the current settings will **entrench workforce shortages, increase migration dependency, and undermine the viability of hospitality apprenticeships as a career pathway**, directly conflicting with the Government's skills, productivity, and workforce participation objectives.

E. Utility Costs and Energy Productivity in Hospitality

Issue

Electricity and utility costs have become a significant and increasingly volatile pressure for restaurants and cafés across Australia. Hospitality businesses are inherently energy-intensive, with unavoidable demand from refrigeration, cooking, ventilation, air conditioning, lighting and digital systems. Unlike larger users, small operators have limited ability to negotiate contracts, invest in efficiency upgrades or absorb price volatility.

Rising energy costs are compounding pressures from labour, rent, insurance and food inputs, further eroding already thin margins and creating a material risk to business viability.

At the same time, hospitality venues present a strong opportunity for targeted energy efficiency and load-management measures due to predictable operating patterns. However, investment is constrained by limited access to capital and split incentives between tenants and landlords. Without targeted intervention, utility costs will continue to undermine resilience and investment capacity across the sector.

Proposal: Establish a Hospitality Energy Productivity Incentive

Given its scale, employment footprint and cumulative energy demand, hospitality should be recognised as a priority sector within national energy productivity and transition strategies.

Treasury should establish a **time-limited Hospitality Energy Productivity Incentive** focused on **permanent electricity cost reduction** through energy efficiency, load optimisation and electrification, rather than ongoing bill subsidies. Where possible, delivery should leverage existing energy efficiency schemes and tax settings to minimise administration and accelerate uptake.

The incentive should be **capped per venue** and delivered through **three complementary pathways**, ensuring participation regardless of ownership structure while addressing the tenant–landlord split incentive.

Pathway 1: Owner-occupier venues

One-off, capped grants of up to **\$15,000 per venue** to support high-impact energy efficiency, energy management, electrification and on-site generation upgrades aligned to venue load.

Pathway 2: Tenant venues

Low-administration support, typically capped at **\$5,000 per venue**, for tenant-deployable measures that reduce electricity use and improve energy management without requiring landlord capital works.

Pathway 3: Landlord enablement

Targeted incentives, delivered via **accelerated depreciation or a modest tax offset**, to encourage landlords to

undertake base-building upgrades that demonstrably reduce energy costs for hospitality tenants, particularly in multi-tenancy environments.

Hospitality tenants should not be required to contribute capital to landlord-installed assets beyond paying electricity at a reduced effective cost.

Expected Outcomes

Permanent reductions in electricity costs for restaurants and cafés, improving energy productivity and operating margins, **Reduced exposure to price volatility and peak demand charges**, strengthening business resilience and lowering the risk of venue closures, **Greater capacity for reinvestment** in technology, workforce capability and service quality, **Reduced reliance on ongoing government bill relief**, delivering a more sustainable cost-of-living response, and **Improved demand management outcomes**, easing peak system pressure and contributing to lower long-term network and system costs.

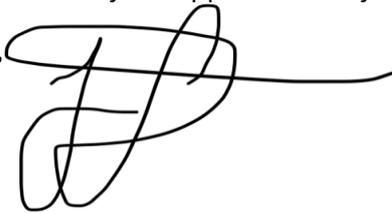
5. Conclusion

The hospitality sector is central to Australia’s economic, cultural, and tourism success—but its recovery and future competitiveness require targeted, Treasury-aligned reforms.

By improving migration cost fairness, simplifying taxation for key worker cohorts, reviewing superannuation tax impacts, and accelerating AI-led productivity, the 2026/27 Budget can deliver growth, jobs, and long-term economic resilience.

ARCA stands ready to support Treasury with data, case studies, and consultation as required.

Sincerely,

A handwritten signature in black ink, appearing to be 'Wes Lambert', with a long horizontal line extending to the right.

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