

Regulatory Impact Statement

Immigration Fee and Levy Review 2015

Agency Disclosure Statement

This Regulatory Impact Statement (RIS) has been prepared by the Ministry of Business, Innovation and Employment (MBIE). The amount of third party funding for immigration services is proposed to increase by 8.3 per cent, following a review of immigration charges undertaken in 2015. The purpose of this RIS is to assess options relating to how best to recover the additional funding identified in the review, including the design of the new immigration levy, established under the Immigration Amendment Act 2015.

The increased immigration charges may impact on migrants' decisions to travel to New Zealand. However, there is limited information available on visa price elasticity of demand, making it difficult to identify the extent to which increased immigration charges will influence overall decisions to travel or stay in New Zealand. It is however assumed that moderate increases in immigration charges will not have a significant effect on demand. Previous increases to immigration fees, which in some cases have been significant (such as the 16.7 per cent increase in 2012), have not resulted in decreased demand for visas.

In addition to this, given the establishment of an effective online platform for visa processing, alongside the introduction of fee discounts for online applications, we do not consider that there will be a negative impact on demand for visitor, student or work visas. For example, visitors and students that apply online will only face a marginal increase from what they are currently paying on fees for paper-based applications (a 2.4 per cent (\$4) and 2.6 per cent (\$7) increase respectively). The proposed charges are generally lower than their Australian equivalents.

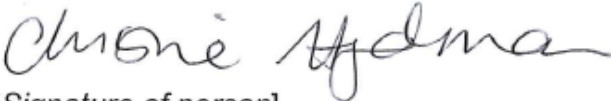
We are aware of proposed charges (or increased charges) by other government agencies that would add further costs to travellers, including visa applicants, who are subject to the proposed increases. This includes the introduction of a Border Clearance Levy. Time constraints meant that no separate analysis was undertaken to assess the potential combined impact of these charges on visa applicants.

Public consultation with those affected by the proposals was not undertaken. It was considered that public consultation would have been unlikely to reveal any significant insights over and above that which we had received from relevant government agencies.

The latest date that the immigration levy can come into force, through the Immigration Amendment Act 2015, is 6 May 2016. The changes to immigration charges are proposed to take effect by the end of January 2016. The only proposal that was not optional, as a direct result of the implementation date, is the exemption from the immigration levy proposed for visa waiver travellers (due to the lack of time to establish a practical charging point).

Other decisions being sought relating to relatively minor or technical matters, which do not have negative implications for third parties, have not been included in this RIS.

Christine Hyndman
Manager, Immigration Policy


[Signature of person]

2/9/15
[Date]

Executive summary

1. The overarching objective of the proposals in the Immigration Fee and Levy Review 2015 paper is to raise more third party revenue from users of the immigration system to cover the costs and expansion of immigration services. This RIS provides an analysis of options for the recovery of this funding, including proposals on the design of a new immigration levy and changes to immigration fees.
2. The analysis covers:
 - a. the immigration functions that should be funded by the immigration levy
 - b. who should pay and who should be exempt from paying the levy
 - c. the basis for how the levy should be charged
 - d. how the costs should be allocated across different visa applicants and levy rates
 - e. options for recovering the costs of some fee changes
3. The key recommendations are that:
 - a. more immigration functions should be levy rather than fee-funded, in line with charging principles around who should pay a levy
 - b. visa applicants should pay the levy, with some exemptions which generally reflect existing exemptions and waivers which are still considered to be appropriate
 - c. the current charge per person (up to four people) should be replaced by a single charge to the principal applicant only
 - d. levy rates should reflect the different types of services that visa applicants generate the need for, or benefit from
 - e. the costs to be recovered through fees should be spread evenly across different visa applicants, with the exception of some specific fees which should be adjusted to reflect the increased cost of processing these application types.
4. The RIS notes that there is limited information available on visa price elasticity of demand, making it difficult to identify the extent to which increased immigration charges will influence overall decisions to travel or stay in New Zealand. In some cases, the impact of increased charges is mitigated to some extent through discounts for visa applications made online (visitors, students and workers)
5. As per the Agency Disclosure Statement, the RIS has not taken into account the additional impact of the Border Clearance Levy, but in many cases individuals applying for visas will not also have to pay the Border Clearance Levy because they will be applying for a visa when already in New Zealand.
6. The changes are proposed to be introduced by the end of January 2016.

Status quo and problem definition

Funding of the immigration system

7. Immigration services are funded by a mixture of Crown and third party funding. Immigration New Zealand (INZ) charges fees for various immigration applications it processes and a migrant levy is charged to most successful residence applicants.
8. Immigration fees recover the direct and indirect costs of visa processing, and some of the costs associated with compliance activities, border security, and marketing and attraction. Section 393 of the Immigration Act 2009 specifies how fees may be prescribed. Fees are prescribed in the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010.

9. The migrant levy helps to fund migration research and some settlement services (including some outside Vote Immigration, such as English language services and migrant employment assistance). Section 399 of the Immigration Act 2009 specifies what the migrant levy funding can be used for and regulations specify details such as who should pay, how much and when. Migrant levy rates are prescribed in the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010.
10. In 2013, Cabinet agreed to replace the migrant levy with an immigration levy [EGI Min (13) 16/15], which expands the immigration services it can fund. The change will be implemented via the Immigration Amendment Act 2015, which was passed in April 2015. A key driver for this change was to provide additional funding options to consider when making decisions relating to funding pressures on immigration services. Cabinet decisions are required on the design of the immigration levy, including any additional functions the immigration levy should fund, which visa applicants should pay and how much they should pay.

Cost pressures and opportunities for enhanced immigration functions

11. Growth in international passenger flows, including tourists and international students, has placed system pressures on INZ. Other pressures arise from the changing mix of visitors (more arrivals from higher risk markets) and the need to improve service delivery to attract high value travellers.
12. To address some of these pressures, INZ has agreement through Budget 2015 to implement:
 - a. Vision 2015, resulting in an increase in operating expenditure of \$74 million over four years (from 2015/16) to be recovered through fees; and
 - b. Managing Our Borders, resulting in an increase in operating expenditure of \$33 million over four years (from 2015/16) to build border security capability (with costs funded by the Crown (76 per cent) and fees (24 per cent)).
13. Although appropriation changes have been made in relation to these initiatives, Cabinet still needs to agree to proposed increases in immigration charges to give effect to the Budget decisions.
14. INZ is also seeking Cabinet agreement for the following appropriation changes (which would be recovered through increased immigration charges) to support government objectives in the following areas:
 - a. Immigration compliance: increasing compliance resources to enable more compliance activity, fraud investigations and prosecutions, to be undertaken (targeted to students, education providers, workers and employers). This would require a proposed baseline increase of \$750,000 for 2015/16 and \$1 million in 2016/17 and outyears
 - b. Marketing and attraction: increasing resources to better support the New Zealand Investment Attraction Strategy by enabling more proactive targeting of investment/skilled migrants. This would require a baseline increase of \$2.2 million for 2015/16 and \$3 million for 2016/17 and outyears.
15. Cabinet decisions will be sought for these appropriation changes which would be recovered through increased immigration charges.

A review of third party charging aims to enable these costs to be funded

16. Immigration fees are regularly reviewed every two to three years to ensure that fees accurately reflect the cost of the services being provided. In addition to this, changes to the migrant levy have provided an opportunity to expand the use of third party funding to help to recover the aforementioned immigration costs.

17. A review of immigration fees and levies was undertaken in 2015 to ensure that:
 - a. the costs of providing immigration services are being fully, but not over-recovered
 - b. users of the immigration system contribute to the funding of these services, and
 - c. the source of third-party funding (fees or levies) is appropriate given the nature of the immigration service being provided.

Findings from the review

18. The key findings from the review were that:
 - a. the costs of providing services were being under-recovered (if immigration charges are not revised the fees memorandum account would be driven further into deficit (\$16 million as at the end of the 2014/15 financial year)
 - b. some immigration functions should be levy-funded rather than fee-funded, in line with established charging principles, leading to some visa applicants not contributing to the costs of providing some immigration services even though they are likely to generate the need for, or benefit from, them.

Objectives

19. The overarching objective of the proposals is to raise more third party revenue from users of the immigration system to cover the costs and expansion of immigration services. To give effect to Cabinet decisions that have been taken, and decisions sought, an overall increase in third-party funding of 8.3 per cent is required.
20. The recovery of this money will be undertaken in line with well-established guidelines for setting government charges outlining cost recovery principles and objectives. This includes guidance produced by the Treasury,¹ the Office of the Auditor-General,² and the Legislative Advisory Committee.³

Criteria for assessing options

21. The established guidelines set out numerous principles and objectives relevant to the decisions required for changes to immigration fees and the design of the immigration levy. Some principles and objectives are more pertinent than others in terms of differentiating between the various options. The relevant ones include:
 - a. **Efficiency:** keeping transaction costs low. To what extent are we supporting the efficient delivery of services, minimising cost of system changes, minimising cost of collection, and minimising avoidance?
 - b. **Simplicity, transparency:** charges are transparent to those who must pay. To what extent can the approach be easily explained, and would it be readily understood and accepted by system users?
 - c. **Equity:** dealing equitably with the taxpayer, those who benefit from the output, and/or those whose actions give rise to it. To what extent are those who generate the need for or potentially benefiting from immigration services contributing towards the costs of providing the services?
 - d. **Government objectives:** charges are aligned with the government's policies and overall goals. To what extent do the proposed charges support, or mitigate any

¹ Guidelines for Setting Charges in the Public Sector (2002).

² Charging fees for public sector goods and services (2008).

³ LAC Guidelines: 2014 Edition, Chapter 15 Authorising the charging of fees and levies.

potential negative impact on, government objectives (e.g. tourism, export education, foreign affairs), and meeting our international and bilateral commitments?

- e. **Appropriate source of third-party funding:** the source of third-party funding (i.e. fee or levy) is appropriate given the nature of the function and any associated good or service produced. The question here is whether immigration services are more appropriately fee-funded or levy funded?
22. The principles will be used as criteria to assess options relating to the levy design and proposed fee changes, as appropriate.

Options and impact analysis

23. There are other options in terms of collecting revenue that would not require regulations. For example, a voluntary payment option could be introduced for users to contribute to immigration system costs e.g. a form of donation. However, this option would not be a viable option as it would be unlikely to recover the required level of revenue required to provide immigration services and effectively operate the immigration system more generally. For this reason, the proposed regulatory response ensures a contribution is made from users to give effect to the proposals in this paper.

What immigration functions should be funded by the immigration levy?

Status quo and problem definition

24. In addition to the current research and settlement services which are funded through the migrant levy, the Immigration Amendment Act 2015 enables the immigration levy to also cover some of the general costs of running the immigration system.
25. A fee is normally an appropriate charging mechanism where a service or function is provided to an individual, it provides the individual with a benefit, and service or function is provided on request. This includes, for example, the time spent by immigration officers processing visa applications.
26. A levy is more akin to a tax in that it is usually compulsory to pay it, is usually charged to members of a certain group or industry, and is usually used for a particular purpose rather than specific services provided to an individual. A particular member of the group may have little direct contact with the service provider and may not benefit directly from the service, but it is desirable that they contribute to the cost. This is because, as a group, they generate the need for or benefit from the services (e.g. some visa holders will not abide by their visa conditions and will generate compliance costs).
27. Decisions are required on whether any additional immigration services should be levy-funded and the level at which they will be levy-funded. The status quo is still an option.

Scope of this assessment

28. This assessment focuses on the balance between fee and levy funding. The relevant criterion considered was the “appropriate source of third-party funding”. This relates to the nature of the function and any associated good or service produced, and whether it would be more appropriately fee or levy funded. The other criteria are not considered relevant in terms of establishing whether a function or service should be levy or fee funded. They are however relevant in the other design aspects of the levy.

Option A: Immigration levy funds a broader range of immigration functions

29. Option A proposes to fund the fee-funded components of border, compliance, and marketing and attraction from the immigration levy, in addition to the existing levy allocations for research and settlement functions. Based on the principles and objectives of third party funding, costs relating to the wider operation of the immigration

system are arguably more appropriately levy-funded because not every visa applicant will be a direct user of these services. The following table identifies fee-funded immigration services and discusses whether it is more appropriate for them to be levy rather than fee-funded.

Table 1: Assessment of appropriateness of levy funding for immigration services

| Immigration service or function | Comment on the nature of the immigration service | Appropriateness of levy funding |
|---------------------------------|--|---------------------------------|
| Direct costs of processing | Costs relate to the service of processing a visa so fee funding is appropriate | x |
| Indirect costs of processing | Costs relate to the service of processing a visa so fee funding is appropriate | x |
| Border | Immigration border functions are not a direct or indirect cost relating to processing a visa application. Although travellers must cross the border, not all of them will engage border functions undertaken by INZ. This would indicate that border services should be levy-funded rather than fee-funded. Border functions undertaken by Customs and Ministry of Primary industries are separate from those undertaken by INZ and are separately funded. ⁴ | ✓ |
| Compliance | Immigration compliance functions are not a direct or indirect cost relating to processing a visa application. Some travellers do not comply with the conditions of their visa and may therefore require INZ to undertake compliance action. Travellers as a group however generate the need for compliance functions, even though each traveller may not. This would strongly indicate compliance functions being levy-funded rather than fee-funded. | ✓ |
| Marketing and attraction | Immigration marketing and attraction services are not a direct or indirect cost relating to processing a visa application. These services are undertaken to encourage certain types of people to come to New Zealand. Given that these services are undertaken prior to a visa application being made, it is difficult to identify specific visa applicants that benefit from marketing and attraction functions. These functions are generally targeted towards particular types of migrants (e.g. skilled migrants, investors), who as a group it could be argued are the beneficiaries of these services. This would strongly support the position that that levy funding would be more appropriate than fee funding. | ✓ |

30. The total annual amount of funding to be recovered would be \$25.919 million.⁵

Option B: Status quo

31. An alternative option would be to continue to only provide levy funding to settlement and research. Border, compliance, and marketing and attraction could therefore remain fee-funded as current regulations allow these costs to be recovered through immigration fees. The amount to be recovered through the immigration levy would be \$9.2 million (the current migrant levy allocation for both settlement and research).

Assessment of options

32. We consider that Option A best reflects the public sector guidance on the third party charges given the nature of the services provided. Not every visa applicant will

⁴ The costs of their functions are proposed to be recovered through a Border Clearance Levy which is discussed later in the RIS.

⁵ This would allocate the following amounts: research (\$2.2 million), settlement (\$6.99 million), border (\$4.816 million), compliance (\$5.187 million), marketing and attraction (\$6.726 million).

generate the need for, or be a direct user of, border, compliance, and marketing and attraction services, therefore, these functions should be levy rather than fee funded.

Who should pay the immigration levy?

Status quo and problem definition

33. The Immigration Act 2009 currently enables the migrant levy to be charged to persons who are granted a visa. The migrant levy is currently charged to successful residence applicants, subject to a small number of specific exemptions. Temporary visa applicants are not currently charged the migrant levy.
34. The Immigration Amendment Act 2015 changes who the levy can be charged to by requiring it to be charged to “applicants for visas”, including both temporary and residence visa applicants. The status quo is therefore not an option.

Which visa applicants generate the need for or benefit from proposed levy-funded services?

35. There are three classes of visa applicants (temporary entry, transit and residence), and categories of visa types can be within these classes. We have considered which classes of visa applicants generate the need for, or benefit from the services proposed to be levy-funded. Table 2 indicates, at a high level, which visa classes generate the need for, or benefit from, services proposed to be levy-funded.

Table 2: Levy-funded services and class of visa applicant

| Visa Type | Border | Compliance | Settlement | Research | Marketing/Attraction |
|------------------------------|--------|------------|------------|----------|----------------------|
| Temporary entry class | | | | | |
| • Visitor visa | ✓ | ✓ | x | x | x |
| • Student visa | ✓ | ✓ | ✓ | ✓ | x |
| • Work visa | ✓ | ✓ | ✓ | ✓ | ✓ |
| • Limited visa | ✓ | ✓ | x | x | x |
| Transit visa | x | x | x | x | x |
| Residence class | ✓ | ✓ | ✓ | ✓ | ✓ |

36. There are two options for deciding which visa applicants should pay the immigration levy, discussed below. Neither option precludes visa applicants from paying differentiated rates based on the extent to which they generate the need for or benefit from the immigration services.
37. The criterion used to assess the options is the equity objective. Other criteria have not been considered relevant to this assessment, but are more appropriate for consideration in terms of whether certain groups should be exempt from the immigration levy (e.g. government objectives, efficiency, and simplicity/transparency).

Option A

38. Option A would charge the immigration levy to visa applicants that generate the need for or benefit from immigration services, as indicated in Table 2. This option would charge all applicants in the table except for transit visa class applicants (estimated to be around 1,165 per year), who do not officially enter New Zealand and therefore are unlikely to be contributing to the costs.

Option B

39. An alternative option would be to charge the immigration levy to all visa applicants, including transit visa applicants.

Assessment of options

40. Option A strongly supports the equity objective, in that those who generate the need for or benefit from immigration services are contributing to the funding of those services. Charging the immigration levy to transit visa applicants would work against the equity criterion as they do not generate the need for or benefit from the immigration services proposed to be levy-funded. Therefore, Option A is the preferred option.

Visa applicants that should be exempt from the immigration levy

Status quo and problem definition

41. As noted earlier in the RIS, the overall objective is to raise more money from users of the immigration system. Granting exemptions from paying the levy could seem contrary to this objective, but having no exemptions is not an option. Not exempting certain visa applicants would negatively impact on government objectives, notably international and humanitarian obligations and bilateral agreements with other countries⁶. In some cases, it would also simply not be practical to charge the levy.
42. The following approved residents are currently exempt from paying the migrant levy:
- citizens of Samoa granted residence under the Family Category, the Samoan Quota Scheme, or the Special Samoan Quota Places Category
 - refugee or protected persons and their families
 - victims of domestic violence, and
 - victims of people trafficking.
43. As the immigration levy is proposed to be charged to a much broader range of visa applicants (e.g. temporary migrants), the scope of visa applicants that should be exempted from paying the immigration levy needs to be reconsidered.
44. Given that some immigration services that are currently fee-funded are proposed to be moved to levy funding, it is appropriate to take account of existing fee waivers and exemptions when considering the potential scope of immigration levy exemptions.
45. The criteria used to assess the options include government objectives, efficiency, simplicity/ transparency, and equity. Within this context, government objectives include international commitments as described in paragraph 21.d.

Option A: Maintaining status quo for exemptions/waivers in relation to immigration charges

46. Option A would maintain current exemptions for resident visa applicants that apply under the migrant levy, and would extend the exemptions to other visa applicants (including those who have fee waivers) that meet the following criteria:
- there is no practical charging point at the present time
 - it would not be efficient to charge the visa applicant
 - charging the levy would not be consistent with government objectives, which includes international or humanitarian grounds; or
 - the Crown contributes on behalf of the visa applicants.
47. Table 3 specifies who would be exempt from paying the immigration levy⁷.

Table 3: Exemptions from immigration levy

⁶ For example, this would involve amending existing bilateral agreements for bilateral fee waivers.

⁷ The proposed exemption for all Samoan citizens from the immigration levy on residence visa application is slightly broader than the current exemption from the migrant levy. This is partly due to the removal of a discount which Samoan citizens benefit from, which is discussed further in paragraph 60, and also to promote simplicity and transparency reasons in relation to the exemptions.

| Proposed exemptions | Reason/volumes |
|---|--|
| People to whom a visa waiver for travel to New Zealand applies (e.g. citizens of 58 countries do not require a visa to travel to New Zealand for a visit of up to three months within a 12 month period) | <ul style="list-style-type: none"> • it would not be possible to create a practical charging point in time for implementation • the Crown makes a contribution on their behalf • 1,837,000 travellers per year. |
| Nationals of countries applying under visa categories for which New Zealand has bilateral fee waivers (12 agreements) | <ul style="list-style-type: none"> • there are international grounds for not charging • the Crown makes a contribution on their behalf • New Zealanders benefit from reduced costs provided by other countries • 4,7837 applications per year. |
| Diplomats, officials and certain accompanying family members (on official business) | <ul style="list-style-type: none"> • there are international grounds for not charging • 560 applications per year. |
| Applicants for a subsequent resident or permanent resident visa | <ul style="list-style-type: none"> • the amount of levy funding to be recovered from residence applicants could be fully collected at the point at which they make an application for the residence visa. This would be a more efficient process for collection. • 25,968 applications per year. |
| Samoa citizens applying for a resident visa (they are currently exempt from paying the migrant levy under the Samoan Quota or family category). The exemptions are in relation to the 1982 Protocol to the Treaty of Friendship. | <ul style="list-style-type: none"> • there are international grounds for not charging • 1,398 applications per year. |
| Visa applicants under humanitarian grounds (asylum seekers, protected persons - victims of domestic violence or people trafficking, and refugees,). Also people applying for a resident visa on the basis of their relationship with a refugee or protected person. | <ul style="list-style-type: none"> • there are humanitarian grounds for not charging • 1,666 applications per year. |

Option B: Additional exemptions to support other government objectives

48. An alternative option could be to maintain current exemptions and exempt more visa applicants from the immigration levy. We consider that a case could be made for further exemptions if the imposition of the levy would be likely to negatively impact on other government objectives, such as those relating to export markets articulated in the Business Growth Agenda. Option B therefore proposes exemptions to groups in relation to export sectors, for tourism (visitors) and export education (students).

Assessment of options

49. Option A maintains the status quo in terms of existing exemptions and waivers relating to the migrant levy and immigration fees. This would mean that no one would be worse off under the proposed changes. Maintaining the existing exemptions and waivers reflects equity, efficiency and government objectives/international commitments. It also supports simplicity/transparency criteria.
50. Exempting students and tourists from the levy under Option B would clearly support the government BGA objectives. However, there is no available evidence to suggest that charging the levy to these visa applicants would adversely affect the government's objectives in these export market areas. It would also unfairly impact on other levy payers whose levy rates would need to rise to recover their costs. More discussion of impact on certain types of visa applications is provided later in the RIS.

Charging basis

Status quo and problem definition

51. The current migrant levy is paid once by most successful residents and is paid per applicant (principal applicant and secondary applicants, such as family members). Those approved under the Pacific Access Category and those under the age of five pay a discounted rate. The levy is charged to the oldest four people in an application.
52. Two options were assessed. It should be noted that the status quo is still an option, i.e. charging once per applicant up to a cap of four people, with discounts for certain applicants. However, a pay once option would be difficult to implement and is not considered appropriate given that the levy is proposed to be paid by temporary visa applicants. Many temporary visa applicants apply for subsequent visas or transition through various visa types e.g. come to New Zealand on a visitor visa, decide to study, then transition through to a work visa. It would therefore be difficult to calculate an appropriate levy rate on the basis that a visa applicant would only pay once.
53. The options were assessed against equity, efficiency, and simplicity/transparency objectives. The government objective criterion has not been considered as it is not relevant in the assessment of charging options i.e. charging each applicant in an application or only the principal applicant does not help to support government objectives.

Option A: Levy charged to principal applicant

54. The immigration levy could be charged on the same basis as immigration fees: a levy would be charged to the principal applicant upon application for a visa. This would in effect establish a per application charge i.e. a set amount charged to a principal applicant, irrespective of the number of secondary applicants in the application.
55. Given that only the principal applicant would pay, Option A would not require consideration of a discount for children or set a limit as to how many secondary applicants would need to pay the immigration levy. Option A would not offer a discount for Pacific Access Category applicants.

Option B: Levy charged to principal and secondary applicants

56. The immigration levy could be charged per applicant (i.e. principal and secondary applicants). Consideration would need to be given to other aspects of this option, e.g. discounts for children and whether the total amount payable should be capped.

Assessment of options

57. Table 4 assesses the charging basis options against simplicity/transparency, equity and efficiency criteria.

Table 4: Assessment of charging basis options for immigration levy

| | Simplicity, transparency | Equity | Efficiency |
|---|---------------------------------|---------------|-------------------|
| Option A: Levy amount based on application | ✓✓✓ | ✓✓ | ✓✓✓ |
| Option B: Levy amount based on number of applicants | ✓ | ✓✓✓ | ✓ |

58. Option A would be more transparent in terms of applicants understanding the charges (i.e. charged on the same basis as fees). It would also be far simpler and cost-effective to implement as it would be able to work within existing IT systems given that immigration fees are charged on this basis. While it could be argued a levy charged to principal and secondary applicants may be more equitable in relation to some services

proposed to be levy-funded, the levy rate could factor in the average number of applicants included in an application when calculating the levy charge for those visas that allow secondary applicants (visitor visas and residence visas).

59. Option B potentially scores higher on the equity criterion, based on the assumption that the cost or benefit of immigration services apply to both principal and secondary applicants. However, Option B would require additional rules (e.g. cap on the total amount payable, discounts for children) which would add complexity to the charges. Significant changes to system functionality would also be required e.g. the billing system would need to be adapted to calculate the number of secondary applicants included in the application and charge accordingly. Option A is the preferred option.

Allocation of costs and levy rates

Status quo and problem definition

60. The current migrant levy rate is \$310 and is charged to most successful residents. Those approved under the Pacific Access Category and those under the age of five pay \$155. As the immigration levy is proposed to fund a broader range of immigration functions and will be paid by visa applicants, the status quo is not an option. As discussed earlier, the increased costs have resulted in the need to recover the funding from third parties, as agreed by Cabinet.

Levy options

61. Broadly there are three main options as set out in Table 5.

Table 5: Levy rate options

| Option | Levy rate | Description and cost allocation |
|----------|--|--|
| Option A | \$42 | <ul style="list-style-type: none"> A single levy based on the total costs divided by the total number of applications. |
| Option B | Temporary application \$24 Residence application \$440 | <ul style="list-style-type: none"> A differentiated levy for temporary and residence. Costs are split between temporary and residence based on relative differences in terms of generating the need for or benefit from the proposed services. For example, marketing and attraction costs are allocated 40/60 to temporary and residence. There is an element of judgment exercised in this allocation, but this split is a reasonable reflection of the resources used to attract workers (temporary) and skilled/ business (residence). |
| Option C | Temporary* Visitor visa \$14 Group visitor visa \$10 Student visa \$17 Work \$38 Recognised Seasonal Employer \$10 Residence Family \$280 International/Humanitarian \$280 Skilled/Business \$580 | <ul style="list-style-type: none"> A differentiated levy for various temporary and resident visa types. Costs are split within temporary and residence application types based on relative differences in terms of generating the need for or benefit from the proposed services. Factors in costs for some immigration services where it may be appropriate for a per person cost. For example, border and compliance is allocated on a per person basis, with average number of applicants in visitor and residence applications built into the levy rate e.g. visitor visa can have secondary applicants, whereas group visitor visa cannot have secondary applicants. Further to Option B, the marketing and attraction for temporary is solely recovered through work applications and the levy allocation for residence is solely recovered through skilled/ business. Marketing and attraction does not extend to other visa types. |

* Limited purpose visitor and student visa applicants will pay the visitor visa levy rate of \$14 and student visa levy rate of \$17 respectively.

Assessment of options

62. Table 6 assesses the levy allocation options against the following criteria: simplicity/transparency, equity and government objectives. The efficiency criterion has not been considered relevant for this assessment because all options would recover the amount of funding required and would be charged at the same point i.e. upon application. All options would require system changes, but the difference between the options is not considered to be significant in terms of cost.

Table 6: Assessment of levy rate options

| | Simplicity, transparency | Equity | Government objectives |
|----------|--------------------------|--------|-----------------------|
| Option A | ✓✓✓ | | ✓ |
| Option B | ✓✓ | ✓ | ✓✓ |
| Option C | ✓ | ✓✓✓ | ✓✓✓ |

- 63. Options A and B score better in respect of the simplicity, transparency criterion, but scores poorly against the equity and impact on government objectives criteria. This is because costs are not attributed to those who use or benefit from the funded services, and a flat rate would impose higher costs on students and tourists.
- 64. Option C scores more strongly in respect of the equity criterion and the impact on government objectives criteria. In relation to the impact on government objectives criterion, the scoring was determined on the basis of which of the options would be least likely to have a negative impact on the government’s objectives.
- 65. Although Option C scores lower in respect of the simplicity, transparency criteria, we consider that potential negative impacts can be mitigated to a certain extent by providing clear information and tools to visa applicants to enable them to estimate the total charges for visa applications.
- 66. All options are efficient in that they will all recover the amount of levy required. All options will involve IT system changes, and even though option C is slightly more complex, the cost of system changes is not considered to be significantly more than the other options. Based on the above assessment, Option C is the preferred option.

IMMIGRATION FEES

Status quo and problem definition

- 67. The following matters in the review would require changes to immigration fees:
 - a. Changes to fees to give effect to the approved Vision 2015 Budget initiative.
 - b. The costs to process certain types of applications have increased relative to the fee levels charged, e.g. the Approval in Principle fee is proposed to increase from \$250 to \$400 and the Silver Fern Job Search Visa from \$230 to \$260.
 - c. INZ is progressively rolling out e-Visas (passport-free applications and label-less visas), beginning with an initial cohort of temporary visa applicants from 15 June 2015. A fee is proposed to recover the costs where an offshore applicant seeks to have physical evidence of their visa. The fee for offshore applications for a confirmation of immigration status would be set at the same rate as onshore applications (\$110).
 - d. Introducing new fees for more online applications (online visitor visa applications would receive a \$15 discount from the paper-based fee and online student and work visa applications would receive a \$20 discount from the paper-based fee).

- e. Removal of the \$92 settlement information fee discount would bring the policy up-to-date (printed material is no longer provided) and remove complexity in the processing of visa applications where the discount is applied (discount applicable if visa applicant has previously applied for certain types of visas).
 - f. Removal of existing fee-funded amounts for border, compliance, marketing and attraction as these would instead be funded through the immigration levy.
68. There are two options for recovering the costs from fees. We have assessed the options against the equity and simplicity/transparency criteria. Efficiency is not relevant in that the overall amount to be recovered will be achieved through both options and will be charged at the same point i.e. upon application. The government objectives criterion has not been considered for this assessment as the amount proposed to be recovered is not significant (3.7 per cent), however the total impact of the charges (fee and levy) on government objectives has been considered later in the RIS.

Option A: Increase fees by 3.7 per cent overall, with some exceptions

69. This would result in an across the board increase in immigration fees (all fee types) with the exception of specific application fees where the cost of providing services differs as described in paragraph 61.

Option B: Spread increases across different visa types at different rates

70. This option would result in targeted increases for different visa types, and has been considered appropriate in previous reviews of immigration fees where costs increases are clearly attributable to particular visa types.

Assessment of options

71. Option A would enable INZ to recover the costs equitably across the system. This is more appropriate than Option B as the reason for fee changes is the Vision 2015 Budget initiative, which is of a general nature and cannot be specifically attributed to individual types of visas. We consider that the fairest allocation of costs would be an average increase across the board. It would also be the most simple and transparent way of increasing fees. Option A is therefore the preferred option for the fee increase.

Impact Assessment

Impact of the preferred option on specific categories of migrants

72. It is important to consider the fee and levy changes together to assess the impact on migrants, particularly categories which have not previously paid the levy. Table 7 compares the current costs and proposed costs for some of the main visa categories.

Table 7: Current vs proposed costs for migrants

| | Current | | | Proposed | | | Impact | |
|-----------------------------|---------|-------|--------------|----------|------|--------------|----------|-------|
| | Fee*** | Levy* | Total | Fee*** | Levy | Total | Increase | % |
| Temporary | | | | | | | | |
| Visitor (paper) | \$165 | \$0 | \$165 | \$170 | \$14 | \$184 | \$19 | 11.5% |
| Visitor (online) | - | - | \$165 | \$155 | \$14 | \$169 | \$4 | 2.4% |
| Group visa | \$80 | \$0 | \$80 | \$85 | \$10 | \$95 | \$15 | 18.8% |
| Approved Destination Status | \$50 | \$0 | \$50 | \$50 | \$10 | \$60 | \$10 | 20.0% |
| Student (paper) | \$270 | \$0 | \$270 | \$280 | \$17 | \$297 | \$27 | 10.0% |
| Student (online) | - | - | \$270 | \$260 | \$17 | \$277 | \$7 | 2.6% |
| Work (paper) | \$270 | \$0 | \$270 | \$280 | \$38 | \$318 | \$48 | 17.8% |
| Work (online) | - | - | \$270 | \$260 | \$38 | \$298 | \$28 | 10.4% |

| | Current | | | Proposed | | | Impact | |
|-------------------|---------|-------|----------------|----------|-------|----------------|----------|-------|
| | Fee*** | Levy* | Total | Fee*** | Levy | Total | Increase | % |
| Working holiday | \$165 | \$0 | \$165 | \$170 | \$38 | \$208 | \$43 | 26.1% |
| Residence | | | | | | | | |
| Skilled migrant** | \$2,910 | \$651 | \$3,561 | \$3,165 | \$580 | \$3,745 | \$184 | 5.2% |
| Family | \$1,600 | \$372 | \$1,972 | \$1660 | \$280 | \$1,940 | -\$32 | -1.6% |

* Migrant levy amounts based on average number of applicants per residence application.

** Fees include the cost of an Expression of Interest and also for the residence application.

*** Fees shown are the highest fee possible for each category (e.g. applications are cheaper if made in New Zealand)

73. The biggest cost increases apply to working holiday visas (25.4 per cent) and group visas (18.8 per cent). The next highest increases apply to paper-based applications. However, working holiday visas will still be relatively cheap, while the rollout in June 2015 of enhanced online application functionality (including the ability for agents to apply on behalf of applicants) means that more visa applications can be made online. This will contain the impacts of the cost increases for a large and growing proportion of applicants. The lower costs for online applications will also create an incentive to apply online.
74. The “Current” columns in Table 7 factor in the current average number of applicants for residence visa applications. For applications with a higher than average number of applicants, the cost impact of the proposals would therefore be lower or net positive. For applications which have only a principal applicant, the impact of the proposals would be higher than indicated in the table. A skilled migrant applicant, with no secondary applicants, would face a cost increase of \$525 (a 16 per cent increase) compared to what they currently pay. It should be noted that this increase is also related to the allocation of costs, which places most of the cost of marketing and attraction on this group of visa applicants as they benefit from the particular services. A principal applicant under the family stream, with no secondary applicants, would face a cost increase of \$30 (a two per cent increase) compared to what they currently pay.

Sensitivity of immigration cost increases

75. Previous increases to visa fees have not had any measurable impact on volumes, although it is difficult to isolate the impact of fee increases from other relevant factors, such as economic conditions in source markets, consumer confidence and exchange rates. For example, New Zealand’s currency has dropped to under 70 US cents, from over 90 US cents at the end of 2014. This section provides an international comparison of costs and outlines some of the available evidence for tourists, students and workers.

International comparisons

76. One way of assessing the impact of the new fee and levy rates is by comparison with New Zealand’s competitor countries. However, the rates are only indicative, as differences in visa systems⁸ make it difficult to provide direct comparisons. Table 8 below compares rates in Australia, Canada and the United Kingdom against the most expensive New Zealand rates possible for each category (offshore paper applications).

⁸ For example, the proposed immigration levy will be paid once per application irrespective of the number of people. In contrast, an additional charge is made for each secondary applicant in Australia, Canada and the UK for most residence applications. Further, the comparison includes the proposed immigration levy, but does not factor in any third-party fees or other compulsory charges as part of making an application (e.g. most UK temporary visa applicants pay a health surcharge of £200 per year).

Table 8: Comparison of proposed costs vs international costs (NZD*)

| | NZ (proposed) | Australia | Canada | UK |
|-----------------------------|------------------|-----------|---------|---------|
| Temporary | | | | |
| Visitor | \$184 | \$144 | \$117 | \$191 |
| Group Visitor Visa | \$95 | - | - | - |
| Approved Destination Status | \$60 | \$144 | - | \$191 |
| Student | \$297 | \$593 | \$175 | \$722 |
| Work (skilled) | \$318 | \$1,147 | \$181 | \$1,265 |
| Working holiday | \$208 | \$465 | \$175 | \$505 |
| Residence | | | | |
| Skilled migrant | \$3,745 | \$3,900 | \$1,213 | \$3,408 |
| Family | \$1,940 | \$5,129 | \$1,125 | \$2,144 |

* Exchange rates as at 17 June 2015.

Tourists may be deterred from travelling to New Zealand if the costs exceed a threshold of what they are willing to pay

77. Around 20 per cent of visitors to New Zealand require a visitor visa and would therefore be affected by the proposals. This includes New Zealand's second-biggest market, China, as well as two priority growth markets – India and Indonesia.
78. International literature suggests that the cost and effort required to obtain a visa can influence tourists' travel decisions. However, there is very little domestic evidence to suggest that tourists would be deterred from visiting New Zealand as a result of a relatively small increase in charges⁹. In particular, this is because visa costs form a small proportion of overall travel costs (e.g. airfares, accommodation and domestic transport).
79. For a Chinese visitor to New Zealand, the \$19 in additional cost from the increase in the visitor visa fee and the immigration levy represents roughly a 0.3 percent increase in the cost of visiting New Zealand. This figure is based on the average individual visitor expenditure by a Chinese national of \$4,500 (year ended March 2015) the current cost of a visitor visa, and the approximate average economy return airfare from Beijing to Auckland of \$1,200 (airfares vary considerably depending on time of year and how far in advance the fares are booked, but generally range between \$850 and \$2000). This analysis excludes other costs of visiting New Zealand, such as travel insurance or transport within China – e.g. a domestic flight to Beijing airport.
80. As New Zealand is targeting high value (high spend) visitors across markets, we do not anticipate that the increased immigration charges will have a significant impact on tourism numbers, given the relatively small percentage increase in cost.

Increased visa costs are unlikely to have a significant impact on export education

81. There is very limited evidence on the impact of visa costs for international students wishing to study in New Zealand. The available evidence does suggest, however, that it is not a major influence. In addition, this charge is a very small proportion of the cost of paying international student fees and travelling to New Zealand. A recent international survey across 195 countries identified ease of getting a visa as the fifth

⁹ A report commissioned as part of the work on the Border Clearance Levy suggested that an increase in ticket prices by \$20 is estimated to reduce visitors by 31,892 or 1.4%. The majority of these are Australian visitors (78%). However, as Australians are not required to apply for visas, this finding is not directly applicable.

most important factor when considering study abroad¹⁰, although the 'ease' and cost of a visa are not synonymous.

82. In 2014, total gross spend in New Zealand (living costs and tuition fees) per international student was around \$25,536.¹¹ This figure does not include visa costs or the cost of travel to New Zealand. Assuming international airfares of \$1,200 return and the current student visa cost of \$170, then the proposed increase in third-party charges of \$27 represents around 0.1 per cent increase in the total cost of studying in New Zealand for a year.
83. Under the proposed changes, the cost of a paper-based student visa application will increase by 10 per cent. However, this relatively high increase is mitigated by the smaller cost increase for online applications (2.6 per cent) as well as the currency drops referred to above. While the proportion of students applying online currently is relatively low, it is expected to grow significantly in future, particularly now that the "apply on behalf" online functionality has been rolled out.
84. The Ministry of Education advised that a large number of English language students come to New Zealand on visitor visas. It is unclear how many English language students come to New Zealand on visitor visas, but better information on the numbers is expected given upcoming changes to reporting of information. Due to their limited English language skills, it was suggested that they would be less likely to apply online and take advantage of the cheaper online application fee. We consider this is mitigated to some extent by the ability for agents to apply for visas on applicants' behalf. In addition, the current Chinese language visitor visa application will help to address language issues (China is the largest source country for visa-required visitors).
85. The international comparison in Table 8 does not include the United States (US), however it is one of New Zealand's key competitor countries in respect of export education. Education New Zealand research suggests that the US costs for students would be around NZ\$228, which is cheaper than New Zealand's total proposed charge of NZ\$297 for a paper based application and online student application fee of NZ\$277. While there is a cost difference, it is difficult to assess to what extent the differential would be factored into student decisions, or what impact the level of American tuition fees or scholarships would have on the overall decision where to study.
86. Direct comparisons with Australia are also difficult because Australia offers multiple course visas and INZ generally grants a one-year student visa. The proposed total charge for a New Zealand student visa (NZ\$297 for a paper based application) is around half the cost of an Australian student visa (NZ\$593), but some students in Australia will be able to package a number of courses together, reducing the number of visas (and in turn costs) they would need to apply for over the duration of the courses. INZ is currently designing a student pathway visa which would incorporate similar benefits to those provided in Australia.

The impact on skilled workers is unknown

87. There is a dearth of research on whether increased costs would influence skilled migrants' decisions to work in New Zealand. Industry responses to fee increases in other countries, such as Australia, have suggested fee increases could impact on the ability to fill skill shortages. However, there is an open question as to the relative impact of visa changes versus other costs associated with relocating between or within countries and the relative attractiveness of job offers and living conditions. An equivalent temporary Australian visa (the 457 visa) costs more than \$1,100, compared

¹⁰ Beyond the data: Influencing international student decision-making <http://monitor.icef.com/2014/05/new-survey-highlights-international-students-top-priorities-when-considering-where-to-study-abroad/>

¹¹ http://www.enz.govt.nz/sites/public_files/ExportEd2014.pdf

with the New Zealand proposed charge of \$317, while the permanent skilled migrant charges are similar, at \$3,585 for New Zealand and around \$3,900 for Australia.

Other considerations

88. In May 2015, Cabinet agreed to introduce a new Border Clearance Levy to recover the costs of providing customs and biosecurity services at the border. This levy does not recover border costs incurred by INZ. The levy will come into effect on 1 January 2016 and initial modelling indicates that the Border Clearance Levy is likely to add around \$22 to the cost of a return ticket to New Zealand.
89. The impact analysis relating to increases to immigration charges has not taken into account the additional impact of the Border Clearance Levy. But as noted above, even if the Border Clearance Levy is reflected in the cost impact analysis in tables 7 and 8, we would still not be in a position of knowing whether that cost increase would reach the tipping point where travellers decide not to come to New Zealand.
90. In many cases, individuals applying for visas will not also have to pay the Border Clearance Levy, because they will be applying for a visa when already in New Zealand. As shown in Table 9, around three-quarters of applicants for a work or resident visa were already in New Zealand at the time of application (for example, because they held a work visa and were applying for a subsequent visa). These people would not be paying the Border Clearance Levy and immigration levy at around the same time. Therefore, the combined impact of both levies would be unlikely to affect their decision to stay in New Zealand.
91. A smaller proportion of student visa holders (around half) and visitor visa applicants (13 per cent) were already onshore on another visa at the time of application. These applicants would therefore be more likely to be charged the two levies at around the same time. However, these categories would pay a lower immigration levy rate than work and resident visa applicants. In addition, as noted in paragraph 71, only around 20 per cent of visitors to New Zealand require a visitor visa and so the remaining 80 per cent would only pay the Border Clearance Levy and not both levies.

Table 9: Location of applicants by visa type

| Visa type | Already in NZ | Offshore |
|-----------|---------------|----------|
| Visitor | 13% | 87% |
| Student | 48% | 52% |
| Work | 75% | 25% |
| Residence | 72% | 28% |

Improved service delivery considerations

92. The fee and levy decisions will increase the cost to users of the immigration system. However, INZ is also implementing Vision 2015 which is increasing the quality of service provided to users. The investment made in Vision 2015 will help produce benefits to the customer experience (80 per cent of visa volumes will be able to be done online, online visas will be obtained quicker, most applicants will not need to send their passport to INZ for scanning or visa endorsement, and authorised third parties will be able to make online applications on behalf of their clients). Although an online application for a work visa might cost 10 per cent more than it currently does, the ability to apply and have a visa granted online would save time and effort.

Consultation

93. The following agencies have been consulted on this RIS and Cabinet paper: The Treasury; the Ministries of Education, Foreign Affairs and Trade, Primary Industries, Social Development, and Pacific Island Affairs; Department of Internal Affairs; New

Zealand Customs Service; Tertiary Education Commission; Careers New Zealand; New Zealand Police; and Education New Zealand. Tourism New Zealand was not consulted. The Department of the Prime Minister and Cabinet was informed. The Samoan Government was consulted on proposals that affect Samoan citizens.

94. No public consultation has been undertaken. We considered that any consultation with those affected by the proposals would have been unlikely to reveal any significant insights over and above that which we had received from relevant government agencies. In addition, previous consultation on the immigration levy, as part of the Immigration Amendment Bill (No 2), generated very little response.

Key feedback and significant concerns

95. Key feedback and significant concerns raised by agencies, which has not already been discussed in the RIS, is outlined below. This includes a description of whether any changes have been made to the proposals in response.
- a. An early version of the levy proposal allocated a small amount of costs to students for marketing and attraction, which impacted on the levy rates for applicants for student visas. Education New Zealand advised that marketing and attraction functions for export education are the mandate of Education New Zealand. Although some information or marketing and attraction services undertaken by INZ relates to international students, the proposal to recover these costs from student visa applicants was removed from the paper.
 - b. An early version of the levy proposal proposed that citizens of countries that have bilateral fee waiver agreements with New Zealand would be subject to the immigration levy, subject to further consultation with MFAT. MFAT advised that, based on the language used in the majority of bilateral fee waiver agreements, it would not be possible to charge the immigration levy under the agreements. The proposal was changed and citizens of countries that have bilateral fee waiver agreements with New Zealand are now proposed to be exempt from the immigration levy in respect of the applicable visa application types.
 - c. We consulted with the Samoan government on the fee and levy proposals. MFAT raised some issues with the costs on Samoan citizens and Pacific citizens more generally. Further, MFAT has particular concerns with the costs for Recognised Seasonal Employer scheme workers increasing from \$270 to \$317 which it consider would adversely impact on the development objectives of the policy. In response to feedback from MFAT and preliminary feedback from the Samoan Government regarding RSE levy rates, the levy rate has been reduced.

Conclusions and recommendations

96. The proposals would result in an overall increase in third party funding of 8.3 per cent, to be recovered through a mix of increased immigration fees and the immigration levy. Table 10 summarises the design of the immigration levy.

Table 10: Overview of proposed design of immigration levy

| Levy design feature | Recommendations |
|---|--|
| Immigration services to be funded | In addition to settlement and research; border, compliance, marketing and attraction are all moved from fee funding to levy funding. |
| Charging basis | The levy charging basis is aligned with how immigration fees are charged: charging the levy to principal applicants upon application for a visa. |
| Visa applicants subject to levy and proposed exemptions | The levy is payable by principal applicants for visitor visas, student visas, work visas and resident visas. Some visa applicants will be exempt from the immigration levy to reflect international obligations, practical limitations associated with charging some travellers, and that some visa applicants do not generate the need for or benefit from the immigration services proposed to be levy funded. |
| Allocation of costs and levy rates | The levy rates are differentiated according to the types of immigration services that visa applicants generate the need for or benefit from. |

Immigration fees

97. It is proposed that immigration fees are increased by 3.7 per cent, with the exception of two specific fees which would increase to better reflect the direct costs of processing these particular applications. It is also proposed that fees are introduced for new online applications and for an offshore request for confirmation of immigration status.

Implementation plan

98. Changes to the Immigration (Visa, Entry Permission, and Related Matters) Regulations 2010 will be required to revise the fee schedule and design the immigration levy.
99. The revised fees and new immigration levy are proposed to be in place by the end of January 2016. The Immigration Amendment Act 2015 includes a transitional provision in that residence applications that have been lodged before the date the immigration levy takes effect will still be required to pay the migrant levy. The immigration levy will not be payable by these applicants.
100. The change to a broader immigration levy will be supported by a communications plan that will highlight the introduction of the increased fees and the new immigration levy. It is anticipated that the communications plan will include some joint messaging around these changes and the Border Clearance Levy.
101. The implementation of the proposals will require administrative and IT system changes for INZ in the way in which it will collect the immigration levy relative to the current migrant levy. The cost of these changes is not estimated to be significant and can be absorbed within operating baselines.
102. Compliance costs are minimised as levy payments are collected at the same time as fees for visa applications are paid. This requires a change to existing systems. There is no risk of avoidance of payment of the levy in this respect.

Monitoring, evaluation and review

Monitoring and evaluation

103. A number of assumptions have been factored into the fee and levy models, including forecast volume of visa applications and estimated levels of those which are expected to be made through the online channel for visitor, student and work visas. Volumes will be monitored alongside costs of processing visa applications to inform the next fee and levy review is scheduled in 2017/18. An assessment of the impacts and level of cost recovery from the fee changes and new levy charges can be undertaken to inform any recommendations about further recalibration of fees and levies.

What does success look like?

104. An indicator of success of the proposals would be the memorandum accounts for immigration fees and immigration levy trending towards or reaching zero. The memorandum accounts for immigration fees and the immigration levy are expected to clear deficits by 2019/20 and 2017/18 respectively. This would trigger a further review of prices.