

# TSRG TOURISM SHOPPING REFORM GROUP

## Federal Government Pre-Budget Submission 2014-15

*Led by:*



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## Table of Contents

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Table of Contents	2
Members of the Tourism Shopping Reform Group	3
Executive summary and Recommendation	4
1. Tourism shopping: enhancing the economic return from international visitors	6
1.1 Key components of the 'tourism shopping' industry	6
2. The policy rationale for the Tourist Refund Scheme (TRS)	9
2.1 Tax policy design rationale	9
2.2 Tourism policy rationale	9
2.3 The importance of tourism shopping to visitors from 'emerging markets'	10
3. International best-practice	13
4. Reform in Australia	14
4.1 2007/08 Budget decision to introduce private refund operators	14
4.2 Why Australia is well-placed to reap the benefits of tourism shopping	14
5. Components of tourism shopping reform	16
5.1 Overview	16
5.2 Industry Support	16
6. Private Refund Operators	17
6.1 The existing TRS in Australia: a paper-based system	17
6.2 The cost of the TRS to the Australian taxpayer	17
6.3 International practice: the shift to a digital platform for private providers	18
6.4 NSW Government call for reform	19
7. The economic benefit of reform to tourism shopping arrangements in Australia	20
7.1 Economic modelling of the benefits of TRS reform	20
7.2 Impact on tax revenues at a Federal and State Government level	20
7.3 Impact on tourism shopping spend and GDP	22
7.4 Economic benefits are simple to achieve	22
8. Conclusion	23
References	24
<b>Appendix 1: The NSW Government Response to the Final Report of the Visitor Economy Taskforce – Support for TRS Reform</b>	25
<b>Appendix 2: Tourism shopping enhancements, as outlined in the 2007-08 Federal Budget</b>	27
<b>Appendix 3: State and Territory Government Letters of Support</b>	31
<b>Appendix 4: Tourist Refund Schemes: International comparisons</b>	39
<b>Appendix 5: Electronic Tourist Refund Scheme (eTRS) technology</b>	41
<b>Appendix 6: Case study: Singapore and the Visitor Economy</b>	45
<b>Appendix 7: Inland Revenue Authority of Singapore – report on eTRS</b>	47
<b>Appendix 8: KPMG Economic Modelling – Economic Impact of a Private Provider Model for the Tourism Refund Scheme in Australia</b>	48

## Members of the Tourism Shopping Reform Group

The Tourism Shopping Reform Group is a coalition of Australian tourism and retail industry associations and businesses, who support reform to tourism shopping arrangements in Australia, in particular administrative enhancements to the Tourist Refund Scheme (TRS).

The TSRG includes the following associations and businesses:

### Lead supporters:



### Tourism and retail supporters:



P A S P A L E Y LOUIS VUITTON



## Executive summary and Recommendation

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The Tourism Shopping Reform Group (TSRG) welcomes the opportunity to make this submission to the Federal Governments 2014-15 Pre Budget process. The TSRG is a coalition of tourism and retail industry associations and businesses that support the implementation of changes to Australian tourism shopping arrangements, particularly administrative enhancements to the Tourist Refund Scheme (TRS). This change will reduce administrative costs to Federal and State taxpayers, and enhance the tourism shopping experience in Australia.

Reforming the TRS to allow competition by private refund providers is consistent with the Abbott Government's aim to 'identify areas or programs where Commonwealth involvement is inappropriate or no longer needed' and 'improve the overall efficiency and effectiveness with which government services are delivered.'

This reform is a strong example of how shifting administration of the TRS from government to the private sector will better place Australia to compete with other countries around the world, which have long realised the benefits of a privately operated system. Whilst government will retain responsibility for the export verification functions, industry is far better equipped to efficiently provide refunds to travellers.

The TSRG supports the recommendation of the NSW Government, in response to its Visitor Economy Taskforce (VET), which recommends that the Federal Government enable the entry of private sector TRS providers within an open market. Since the NSW Government's response to the VET report, the Tourism Ministers' of NSW, Western Australia and the ACT have written letters of support to the Federal Government. The Queensland Treasurer has also recognised the benefits of the TSRG proposal and has written to the Federal Treasurer to ask the Commonwealth to investigate the matter further (see Appendix 3).

Private providers are a fundamental aspect of the TRS in tourism destinations, such as Singapore, which promote shopping as a key aspect of the tourism experience for international travellers. Private providers within a competitive market have the incentive to develop sophisticated and innovative products which build the knowledge of, and access to, the TRS for international travellers.

Private refund providers in other markets also actively promote destinations such as Singapore as a tourism shopping destination to prospective travellers around the world. *Such innovation is currently not a feature of Australia's TRS:*

- The TSRG **IS** recommending that the Australian Government allow the entry of private refund providers into the Australian market;
- The TSRG **IS NOT** recommending structural changes to TRS claims, including the minimum claim amount of \$300, the maximum claim period prior to departure, or extending the coverage of the TRS to services within the visitor economy (such as accommodation or transport).
- The TSRG understands that the Federal Government has previously ruled out adjusting the TRS minimum claim threshold. Such structural adjustments to the TRS would likely trigger State/Territory Government involvement in the reform process, which is not required for allowing the entry of private TRS providers to the market.

*The TSRG proposes the following recommendation that will enhance the return of tourism shopping to the Australian economy:*

**That the Federal Government reform Australia's GST Tourist Refund Scheme (TRS) to allow competition by private refund operators that will drive tourist shopping and product development to international visitors and allow reimbursement whilst visitors are still in Australia.**

# 1. Tourism shopping: enhancing the economic return from international visitors

## 1.1 Key components of the 'tourism shopping' industry

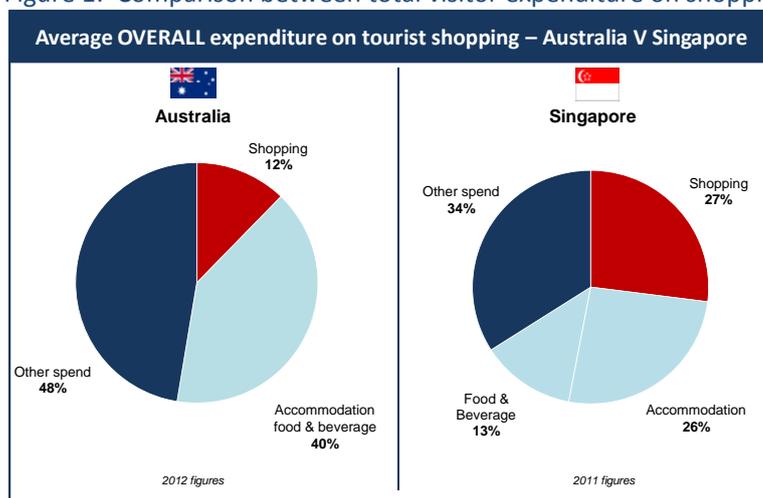
### 1.1.1 Importance of tourism shopping to the Australian economy

Retail shopping is an important component of the overall tourism experience in Australia. Whilst it may not be a primary motivator for travelling to Australia, international visitors see tourist shopping as an 'added value' to their overall travel experience in Australia. Not only does it add to the visitor's experience, it also generates significant direct and indirect economic benefits for the tourism industry in Australia.

In Australia, tourism shopping for international visitors generates over \$2.29 billion per annum comprising \$1.47 billion shopping to take home and \$820 million shopping for use in Australia. 'Shopping for pleasure' is the second most popular activity amongst international visitors.<sup>1</sup> As such, tourism shopping is vitally important to destination management for urban/city areas. After airfares, meals and accommodation, shopping is the largest discretionary spend component for international visitors.<sup>2</sup>

According to the International Visitor Survey (IVS) undertaken by Tourism Research Australia, retail shopping accounts for 12 per cent of total international visitor spend.<sup>3</sup> Whilst it is significant, it is low when compared to Australia's key competitor tourism destinations such as Singapore. Whilst essential travel expenses (such as the cost of airfares to Australia) need to be taken into consideration, the comparison between Australia and Singapore, which has a more sophisticated tourism shopping system, indicates that there is considerable growth potential for tourism shopping in Australia.

Figure 1: Comparison between total visitor expenditure on shopping: Australia v. Singapore



Source: Australian International Visitor Survey, September 2012 and Singapore Tourism Board Annual Report 2011/12

Figure 1 contrasts the proportion of total visitor spend dedicated to shopping in Australia in comparison to Singapore. This graphic provides a preliminary comparison of the

<sup>1</sup> International Visitor Survey, September 2012  
<sup>2</sup> International Visitor Survey, September 2012  
<sup>3</sup> International Visitor Survey, September 2012.

breakdown of total tourism spend by international visitors in both countries, according to official government visitor statistics<sup>4</sup>.

According to the Australian Bureau of Statistics (ABS), the tourism industry contributed \$92.8 million a day to the Australian economy in 2011, and is responsible for employing approximately 513,700 Australians.<sup>5</sup> However, policy makers globally are coming to realise that the traditional 'tourism' policy framework does not accurately account for the true contribution of visitors to the broader economy. In addition to traditional 'tourist' expenditure items, such as transport, tours, accommodation and meals, visitors contribute considerable expenditure within the traditional economy, side-by-side with Australian residents. Policy makers are now terming this the 'visitor economy', and retail shopping by international visitors is a tangible example of such expenditure in action.

Through informed policy enhancements, the government can easily unlock the potential of tourism shopping, which can drive an increase in overall visitor expenditure. This is in line with the shift in focus from measuring the value-add of the tourism industry from overall *visitor arrivals/nights*, to *overnight visitor expenditure*. Policy enhancements could help to 'grow the size of the overall pie', in terms of total overnight visitor expenditure. The breakdown of visitor expenditure in Singapore demonstrates that, with a more sophisticated policy setting, retail shopping could be a source of considerable additional visitor expenditure in a larger Australian visitor economy.

#### 1.1.2 The Tourist Refund Scheme (TRS)

Australia introduced the Tourist Refund Scheme (TRS) upon the introduction of the Goods and Services Tax (GST) in 2000. Under this mechanism, departing international travellers (both foreign nationals and departing Australian residents) can claim back the GST and Wine Equalisation Tax (WET) paid for purchases over \$300 prior to their departure.

Australia's TRS is administered by the Australian Customs and Border Protection Service (Customs), and applies to any GST-inclusive good or goods purchased in Australia provided that:

- the good/s are purchased from a single retail outlet and are consolidated onto one invoice/receipt;
- the good/s total a value of \$300 or above; and
- the goods are verified as exported by Customs within 30 days<sup>6</sup> of the purchase.

Unlike many other countries around the world, in Australia, Customs directly administers BOTH the export verification function, as well as the refund payment function (undertaken electronically later). These functions occur sequentially in the 'airside' departure area of Australia's international airports (i.e. once the travellers have cleared Customs and Immigration), as well as at international cruise terminals. As such, fully qualified Customs officers are required to administer TRS booths at airports/ports, fulfilling what is essentially a customer service and simple compliance function.

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<sup>4</sup> Note: Australia and Singapore visitor expenditure figures are from separate surveys, which can result in some inconsistencies and proportional differences in results.

<sup>5</sup> Australian Bureau of Statistics, 5249.0 - Australian National Accounts: Tourism Satellite Account, 2010-11, December 2011

<sup>6</sup> With the commencement of the *Customs Amendment Regulation 2013 (No. 1)*, the *Excise Amendment Regulation 2013 (No.1)* and *A New Tax System (Goods and Services Tax) Amendment Regulation 2013 (No.1)* the 30 day restriction has been extended to 60 days. This applies to acquisitions of goods made 60 days after the commencement of the regulations.

*The TSRG submits that the existing government-run TRS is not an effective use of scarce fully-qualified Customs officers, who could be better utilised in essential border protection or passenger facilitation roles.*

### 1.1.3 State taxpayers fund TRS administration

Many policy stakeholders are not aware that, State and Territory taxpayers are central to Australia's TRS. Whilst the Federal Government, via Customs on behalf of the Australian Taxation Office (ATO), administers the government-run scheme, States and Territory governments meet the cost of the scheme. Under the terms of the *GST Agreement*, the Federal Government deducts administrative costs relating to the GST from GST revenues that are allocated to State and Territory Governments.

### 1.1.4 Duty Free shopping

Duty Free shopping is arguably the retail shopping segment that is most associated with international travel. A Duty Free shopping purchase is essentially different to a 'tax free' purchase under a TRS system in that duty free goods purchases are **tax free at the point of sale**. By contrast, a TRS goods purchase is **inclusive of tax at the point of sale**, and gains effective tax free status once the refund has been issued by Customs. Unlike TRS purchases, which generally refund only GST and WET, Duty Free purchases are also exclusive of excise duties on excisable goods such as alcohol, tobacco and, in some cases, customs duties on cosmetics, fragrances and other goods deemed to be 'luxury' products in certain jurisdictions.

Duty Free sales can be categorised into two categories:

- *Inbound duty free*: which is purchased upon entering a particular destination country prior to crossing the border (commonly known as air-side arrivals in airports); and
- *Outbound duty free*: which is purchased in the country prior to departure. This purchase can occur at outlets in airport departure terminals or, in some cases, in 'downtown' or 'off-airport' locations, provided that the traveller can verify their intention to export the good.

Unlike a TRS, which is primarily a tax administration mechanism, Duty Free allowances are primarily designed to enhance the passenger facilitation process. By providing duty and tax exemptions up to a certain quantity of products (i.e. alcohol or tobacco) or up to a certain monetary value (i.e. non-excisable luxury goods), governments free customs officials from the task of collecting duties and taxes for the 'micro imports' contained within passenger's luggage.

Currently, Australia's outbound Duty Free shopping industry includes 'on-airport' retailers that are based landside and airside at international airports, ports and onboard aircraft and cruise liners, as well as 'off-airport' retailers that are based in 'downtown' locations amongst general tax-inclusive retailers.

*The TSRG submits that the current administrative arrangements do not enable a level playing field between 'on-airport' and 'off-airport' Duty Free retailers. The tourism shopping enhancements, through a 'private provider platform', proposed within this submission have the ability to unlock the potential for further retail spend in the Duty Free sector.*

## 2. The policy rationale for the Tourist Refund Scheme (TRS)

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Many countries around the world operate a TRS as a method of reimbursing travellers for internal taxes paid at the time of purchase, which were intended for goods consumed within the tax jurisdiction. Unlike Duty Free shopping arrangements, in which goods are physically sold to travellers in a tax /duty free state in specialist retailers, tourist refund schemes enable travellers to access tax concessions through a wider range of retailers and across a wider range of goods.

Governments are motivated to design and operate tourist refund schemes for a range of policy reasons. In particular, tourist refund schemes enable governments to achieve the following policy objectives:

- Ensuring that internal consumption taxes do not apply to exports (tax policy rationale); and
- Providing incentives for international travellers to increase their retail spend (tourism policy rationale).

### 2.1 Tax policy design rationale

As an internal taxation measure, consumption taxes such as a Goods and Services Tax (GST), Value Added Tax (VAT) or Sales Taxes are designed to be levied on the consumption or usage of a product within the jurisdiction in which the tax is levied.

In a general commercial sense, governments do not apply internal taxes on goods that are bound for export. From this perspective, goods destined for export markets are transported to the export destination, generally a port, in a tax-free or 'bonded' state, which is then verified through formal export verification and documentation processes. Goods purchased by international travellers in one country and then transported for usage or consumption in another country can essentially be treated as a 'micro-export'. Under a TRS, this policy rationale extends to shopping goods purchased to take home by international travellers, as explained by Frédéric Dimanche:

*"Typically, sales taxes and value-added taxes are applied with the restriction that governments do not charge those taxes on exports to other countries. This principle can be applied to international tourists who make purchases and take them back home."<sup>7</sup>*

The introduction of a TRS system generally accompanies the introduction of new consumption taxes, such as the introduction of the GST in Australia in 2000.

### 2.2 Tourism policy rationale

Whilst a tax refund scheme for international travellers is essentially a tax administration measure, its application has other specific policy benefits. Frédéric Dimanche continues from his tax policy rationale to add that:

*"This (a TRS) is normally done as an economic development strategy. Therefore, countries around the world offer tax-free shopping to international visitors. Tourists can*

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<sup>7</sup> F. Dimanche, 2003, The Louisiana Tax Free Shopping Program for International Visitors: A Case Study, *Journal of Travel Research*, Vol. 14, pp. 311 – 314, cited in *KPMG Report* (see Appendix 1).

*benefit from such programs and destinations can benefit financially if they can generate additional arrivals as a result of tax-free shopping.*<sup>8</sup>

By providing effective tax-free status for many purchases by way of a refund, a TRS system creates additional incentives for international travellers to either increase their total spend on retail shopping, or choose to visit a certain destination based on shopping as a key visitor activity. Whilst shopping may not be a primary motivator for international travellers to visit a specific country, international visitors perceive shopping as an added value to their overall travel experience.

A well-designed tourism shopping policy, with a sophisticated TRS as its centrepiece, is a key component of the overall tourism offering within Australia's key competitor visitor destinations across the Asia-Pacific. In particular, countries such as Singapore have integrated 'tax-free shopping' for tourists into the general retail experience for international visitors. The sophistication that exists within this system is primarily a result of expert private TRS providers working with the retail industry and Singapore Tourism to enhance and promote tax-free shopping options for travellers (see below).

A majority of countries around the world that provide a TRS for international travellers do so through private providers within an open market. These countries include most members of the European Union, Argentina, Switzerland, Turkey, the United Kingdom and Lebanon. Australia is one of the few countries globally, along with Taiwan, Thailand and Indonesia, which operate a fully government-run TRS.

*The TSRG submits that the TRS should be viewed primarily as a tourism/visitor economy policy instrument, rather than a tax administration feature. The Australian Government should calibrate its policy focus regarding the TRS and Duty Free, to ensure that the system is designed to maximise benefits for the tourism and retail industries, and ensure effective administration at the lowest possible cost to taxpayers.*

## 2.3 The importance of tourism shopping to visitors from 'emerging markets'

As outlined earlier, retail shopping is the second most popular activity amongst international visitors to Australia. This is particularly pronounced however when the fastest-growing source markets for international visitors are taken into consideration. Retail shopping is a vital component of the overall visitor experience for travellers from the 'emerging markets' of international visitors – especially from Asia.

### 2.3.1 The importance of retail shopping to the China market

Shopping is a major driver for Chinese visitors who set aside a far greater proportion of their discretionary spend for shopping purposes. Whilst this is currently the case in Australia, where Chinese visitors spend 13 per cent of their total spend on shopping compared to the overall average of 9 per cent, the proportion of spend on shopping is still greater in countries with a more sophisticated shopping experience for international tourists, including an open competitive market for private refund operators. Australia stands to benefit significantly from an enhanced focus on shopping as part of the broader Australian tourism experience. According to official International Visitor Survey (IVS) figures, Chinese visitor expenditure in the year ended September 2012 amounted to \$3 billion nationally.<sup>9</sup> In particular:

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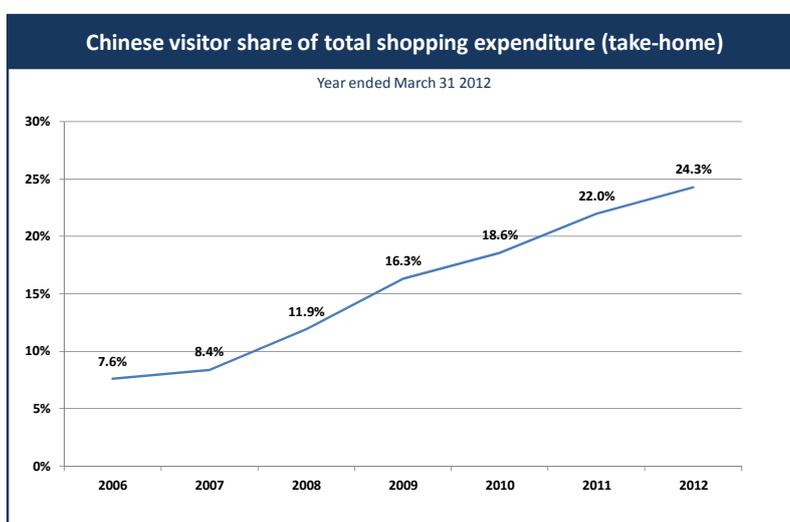
<sup>8</sup> F. Dimanche, 2003, *ibid*, cited in KPMG Report (see Appendix 1).

<sup>9</sup> International Visitor Survey, September 2012, page 45.

- Chinese visitors contributed 16.4 per cent of the total international expenditure in Australia;
- When contrasted with international visitors from other markets, Chinese tourists in Australia spend the greatest proportion of total average expenditure on retail shopping. The latest IVS shows that Chinese travellers account for approximately **28 per cent** of international shopping dollars spent in Australia by international travellers for goods to take home. This is despite Chinese travellers representing only approximately **11 per cent** of total international visitors to Australia.

Figure 2 shows the growth in retail shopping for goods to take home by Chinese travellers for the seven years up to March 2012. This graphic provides an outline of preliminary estimates of total Chinese take-home retail spend, as a proportion of total take-home retail spend by international visitors.<sup>10</sup>

Figure 2: The growing Chinese visitor share of total overall take-home shopping expenditure



Source: Analysis of International Visitor Survey – March 2012

Australia's tourism industry operates in a competitive global environment. Australian retail destinations such as Sydney and Melbourne must compete with international rivals like Singapore, Paris and London.

- Singapore, Paris and London are all international cities that have an innovative open market for the provision of the TRS, which represents a competitive advantage over key Australian capital cities.

Australia's current TRS is failing to perform and enhance Australia's competitiveness as a tourist shopping destination, with current take up of the scheme at less than 4 per cent of total departing international travellers, compared with the international average under an open market of between 10 per cent and 12 per cent.<sup>11</sup>

As increasing visitors from emerging markets seek value for money, Australian destinations need to ensure that they reduce competitive disadvantage wherever possible – particularly with the relative strength of the Australian Dollar.

Building on the analysis in Figure 1, Figure 3 below contrasts the proportion of Chinese visitor spend dedicated to shopping in Australia in comparison to Singapore. This graphic provides a preliminary comparison of the breakdown of total tourism spend by

<sup>10</sup> Note: this analysis applies average visitor expenditure on tourist shopping to total inbound tourist numbers, to determine total proportions, as a percentage, by country of origin.

<sup>11</sup> "Review of Tourist Refund Scheme Options", CRA International, 2006.

international visitors, including total retail shopping in both markets (including take-home and for consumption in-country)<sup>12</sup>

Figure 3: Comparison between CHINESE visitor expenditure on shopping: Australia v. Singapore



Source: Australian International Visitor Survey, September 2012 and Singapore Tourism Board Annual Report 2011/12

This analysis demonstrates the importance of tourism shopping to the key group of international visitors that is (a) growing at the fastest rate and (b) has the propensity to spend the greatest proportion of their overall spend on retail shopping. The examples in Australia and Singapore are corroborated by industry analysis of visitor spend internationally. Recent analysis shows that Chinese visitors are the top spenders on retail shopping in key global cities including London, Paris, Milan, Rome and Frankfurt.<sup>13</sup>

A common aspect of the tourism shopping system within Australia's international competitor destinations is a private provider platform for the TRS, within an open competitive market. Effective enhancements to tourism shopping arrangements in Australia can help to grow the overall visitor expenditure 'pie', and help ensure that Australian retailers benefit from a large proportion of this additional spend.

*The TSRG submits that the current government-run TRS in Australia results in a missed opportunity to adequately develop and market Australia as an international retail shopping destination.*

<sup>12</sup> Note: Australia and Singapore visitor expenditure figures are from separate surveys, which can result in some inconsistencies and proportional differences in results. A version of this analysis, was cited in Global Blue's submission to the NSW Visitor Economy Taskforce in March 2012.

<sup>13</sup> Global Blue, 2012, The Global Blue Briefing, Issue 5: Autumn 2012, pp. 9 – 13.

### 3. International best-practice

The provision of an innovative, privately operated TRS within an open market is a key tourism shopping feature in major international competitor destinations. Under the current government-run scheme in Australia, there is no incentive for the refund operator (Customs) to promote the TRS as a key feature for international visitors. As such, the majority of international visitors have little or no awareness that they are entitled to claim the GST or WET on eligible purchases.

Allowing private operators to process GST claims on behalf of travellers in a competitive 'open market' will introduce competition and innovation into tourism shopping in Australia. In other countries, private retail providers have an incentive to promote the TRS, in partnership with affiliate retail outlets. This competition also extends beyond individual tourism markets, as there is also an incentive for private providers to promote countries and individual cities as leading destinations for tourism shopping. *Unfortunately, the Australian system currently lacks such innovation.*

Having multiple, competing private providers increases awareness of the TRS, which results in increased shopping by international travellers. Many international travellers are aware of leading TRS providers and recognise their branding in retail outlets and at airports. Furthermore, private providers utilise marketing tools, in multiple languages, which are designed to educate travellers on the benefits of tax-free shopping, such as:

- Shopping Guides for different cities, which promote the wide range of retailers and shopping services available in the particular city;
- Printed and online materials to actively profile cities and countries as leading tourism shopping destinations; and
- Events, such as 'grand sales' to encourage high-yield travellers to make international shopping trips to an individual destination.

Figure 4 below provides examples of electronic and hard copy promotional materials, which have been developed by one private refund provider, Global Blue, to promote tourism shopping in Singapore

Figure 4: Example of international promotional material developed by private refund providers



## 4. Reform in Australia

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### 4.1 2007/08 Budget decision to introduce private refund operators

Australia introduced the TRS in 2000, with the introduction of the GST. As outlined in Chapter 1, a TRS is a key administrative function of good tax policy as GST is only intended for goods that are consumed within the taxing jurisdiction. Upon its introduction, and through to the present, Australia's TRS is administered by Customs.

In response to a review of tourism shopping arrangements in Australia, the Howard Government announced a series of proposed measures in the 2007-08 Federal Budget to enhance duty free shopping and tourist shopping through the TRS. These reforms included four measures:<sup>14</sup>

- 1 enabling private providers to provide tourist refunds — with approval for refunds and compliance to remain a government function;
- 2 extending the period during which travellers can purchase goods and be eligible to claim a refund of GST and wine equalisation tax through the Tourist Refund Scheme (TRS) from 30 days to 60 days;
- 3 allowing travellers using the TRS to aggregate multiple invoices from single retailers in order to meet the \$300 threshold for TRS claims; and
- 4 extending the period during which travellers can make tax-free purchases through the duty free sealed bag system from 30 days to 60 days.

Whilst the Federal Government, in the 2008-09 Budget, rescinded measure one regarding private sector providers for the TRS, the Treasury has consulted industry on draft regulations to enact measures two to four. The regulations were made in mid February 2013 and they will apply to acquisitions of goods made on and from 17 April 2013.

The TSRG submits that this reversal of measure one was a missed opportunity, and that more recent developments/enhancements of the TRS in other countries have the potential to realise greater savings for government and a better return for Australia's tourism and retail industries.

### 4.2 Why Australia is well-placed to reap the benefits of tourism shopping

Whilst Australia currently lags behind competitor destinations such as Singapore as a tourism shopping destination, it is well-placed to reap immediate benefits from an increase in retail shopping by travellers. This has been particularly recognised by the NSW Government, which commissioned the *Visitor Economy Taskforce (VET)* to develop a series of recommendations that can help the state meet its target of doubling overnight visitor expenditure by 2020. The VET Taskforce examined this issue in detail and recommended action. This recommendation acknowledges Australia's potential as an international hub for shopping, with an extensive range of well known brands, including many luxury brands, easily assessable and available to international shoppers. Furthermore, industry acknowledge that Australia is well regarded by travellers from emerging markets such as China for the integrity of high-value goods, where consumers

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<sup>14</sup> Note: Numbering has been used for the purposes of this submission, and the measures were not numbered in order of priority in the 2007-08 Budget Papers.

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**Pre-Budget Submission 2014-15**

are confident that luxury purchases are genuine brand-name goods. See further discussion at section 6.4.

## 5. Components of tourism shopping reform

### 5.1 Overview

The tourism shopping industry is comprised of several key components, which each have the potential to enhance the tourism shopping experience in Australia. The TSRG's recommended enhancements centre around the following key components:

- The Tourist Refund Scheme (TRS);
- Duty Free Shopping – in particular in off-airport / 'downtown' locations;
- Effective export verification through a digital private provider platform; and
- An integrated system that will enable enhancements that level the playing field between on-airport and off-airport Duty Free retailers.

These components are outlined in the concept map in Figure 5:

Figure 5: Concept map of tourism shopping in Australia



### 5.2 Industry Support

#### 5.2.1 Industry is united and strongly supportive of enhancements to tourism shopping arrangements.

The TSRG is comprised of key national industry associations across the tourism and retail industries, as well as key businesses within Australia's tourism and retail industries operations. The TSRG membership, outlined on page five, recognises that shopping by international travellers is essential to the ongoing strength and growth of the visitor economy in Australia.

**Industry is united** in its call that tourism shopping is vital to both tourism and retail, and government should view the TRS as an essential component of Australia's tourism policy framework.

## 6. Private Refund Operators

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### 6.1 The existing TRS in Australia: a paper-based system

#### 6.1.1 A time-consuming and inefficient scheme

Australia's existing government-run TRS is essentially a paper-based system, which relies on travellers manually submitting a valid tax receipt for processing and goods for manual export verification. Whilst this system is simple for retailers and for travellers who are aware of the scheme, it lacks an essential end-to-end process that can help drive up usage.

The manual refund process at airports and seaports is cumbersome and time-consuming, with passengers often experiencing long queues and prolonged claim times. Given the need to further streamline passenger facilitation times at airports and increase the productivity of non-aviation services, such delays are problematic.

#### 6.1.2 Lack of awareness of the TRS internationally

In addition to the antiquated manual paper-based refund claims system, there is limited awareness of the existing TRS amongst travellers departing from Australia. As such, the existence of the TRS is rarely a factor when international travellers choose to spend on retail shopping in Australia. Furthermore, the lack of sophistication in, and marketing associated with, the TRS means that existing international travellers are highly unlikely to take tourism shopping into consideration when weighing up making a visit to Australia.

### 6.2 The cost of the TRS to the Australian taxpayer

As one of only four known countries that administer a government-run TRS, Australia is one of the few countries in the world where the cost of administering the TRS is met by the taxpayer rather than the traveller.

#### 6.2.1 Open market: user-pays

In the majority of countries where the TRS is outsourced to private providers within a competitive market, travellers fund the TRS through the payment of a commission. This commission is deducted from the refund amount and travellers around the world are used to paying a commission when claiming the TRS.

#### 6.2.2 The cost of the government-run scheme is borne by the States/Territories

As outlined in Chapter Two, the cost of administration associated with a government-run and operated TRS is actually met by State and Territory Governments. Under the terms of the *Intergovernmental Agreement on Federal Financial Relations* (GST Agreement), the Federal Government deducts administrative costs relating to the GST from GST revenues that are allocated to State and Territory Governments. As such, the cost of the current TRS is a reduction from GST revenues for State and Territory Treasuries.

The KPMG modelling undertaken for the TSRG (see Section 7) makes a conservative assumption that the introduction of private providers for the TRS will result in a **savings to Customs of \$10 million per annum**. Given that private sector refund providers are widespread around the world, industry would be well placed to enable government realise these savings quickly. The \$10 million dollar savings figure is conservative, and is largely based on the savings arising from Customs removing itself from the manual issue of refunds.

The TSRG submits that the introduction of a private provider platform has the potential to realise even greater savings for government. Given recent developments in TRS technology globally, a private provider platform can dramatically reduce the cost burden within the system through:

- The use of a digital purchase and refund platform, which can enable Customs to introduce a *risk-management approach* to export verification, consistent with their use of risk management in cargo facilitation;
- The use of the digital platform to enable automatic refund to pre-registered credit cards, greatly cutting down on the need for physical presence at airports; and
- Where possible, the export verification of purchases requiring manual verification under the risk-management framework can be outsourced. *This is explored in greater detail in Chapter Four.*

### 6.2.3 The actual cost of the current TRS to the States/Territories via Customs

The full cost of the current TRS to Customs, as borne by the State/Territory taxpayer, is far greater than \$10 million. Previous analysis carried out by Access Economics in 2007 for the Department of Resources, Energy and Tourism (DRET), estimated the full cost of TRS administration at \$17 million per annum.<sup>15</sup> Given increases to overall visitor numbers over the last five years, this figure is now likely to be higher.

*The TSRG is currently seeking the exact cost of TRS administration to Customs, and will provide an update to the Treasury through a supplementary pre-budget submission. It is expected that this information will be available in the near future. This information will provide an accurate estimates of the **actual savings** available to Customs and State/Territory taxpayers through reform to a private provider platform.*

Like many Federal Government agencies, Customs is under pressure to realise greater operational savings. As at November 2011, Customs employed around 1400 officers in Australia's airports at a cost of over \$130 million in the 2010-11 financial year. The 2011-12 Federal Budget identified savings of \$34 million over four years through efficiencies in passenger facilitation at international airports. This involves a reduction in operational staff allocated to passenger facilitation activities, primarily at Australian airports.

The introduction of a private provider platform will enable Customs to find additional efficiencies, which can result in further Budget savings or enable reallocation to essential border clearance and passenger processing activities.

## 6.3 International practice: the shift to a digital platform for private providers

The digital era has revolutionised the way in which we do business and has set a new standard for the ease, efficiency and quality of service that businesses and consumers expect in their day-to-day activities. Technology has already benefited many parts of the tourism and shopping sector, with financial and travel solutions (e.g EMV chips on credit cards and ePassports) providing new levels of flexibility, reliability and low costs.

It is now time for the GST refund service to go fully electronic. This means that, in the long-term, the paper refund cheque will become superfluous, contributing to the

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<sup>15</sup> Access Economics Pty Limited, 2007, Op Cit.

paperless society. Electronic Tourism Refund Scheme Technology (eTRS) is what the market place demands. We also see Governments to a larger extent digitizing their services and administration. A shift to a digital platform for private providers can deliver greater efficiency, greater security and a more seamless experience for users.

eTRS is the first end-to-end electronic refund service. This comprises pre-registered traveller data being captured together with purchase data electronically at point of sale. When the goods are approved for export, Customs stamp them electronically at the airport. If the traveller has pre-registered his/her preferred refund option and it is a credit card or bank account, the refund will be automatically deposited to this account. There is no change in the refund process as such (the steps remain the same - shopping, export verification and refunding) but the process is now completed electronically.

The service has been designed to cater for all types and sizes of merchants. It also allows for the participation of multiple GST refund operators and self-operated merchants.

Furthermore, the security of the TRS process can be markedly improved by an electronic process. Features such as online capturing of issued refund transactions, advanced fraud prevention and digital signatures (replacing paper based security) provide greater peace-of-mind and protection against unintended use. An electronic service also allows for the automated generation of key statistical data (such as volume and value of transactions) that can be used for advanced analytics and future planning.

The rise of global travellers means that, increasingly, countries must vie for visitor spend in a highly competitive and globalised travel environment. There is a risk that Australia will fall behind nearby destinations such as Singapore that employ an eTRS system. Without an eTRS Australia will miss out on opportunities to capture additional shopping dollars from a growing outbound travel market in the region.

#### 6.4 NSW Government call for reform

Further to the discussion in Section 4.2, in late 2012 the NSW Government accepted the VET's recommendation for enhancing the administration of the TRS:

*Action 31D: Call upon the Commonwealth Government to reform Australia's GST Tourist Refund Scheme (TRS) to allow competition by private refund operators that will drive tourist shopping and product development to international visitors and allow reimbursement whilst visitors are still in Australia.*

*The TSRG welcomes the NSW Government's support for reform to a private provider model, and submits that a shift in thinking is required amongst Federal policy makers, to better link the benefits of a sophisticated TRS with effective tourism policy.*

#### **Recommendation**

- 1 That the Federal Government reform Australia's GST Tourist Refund Scheme (TRS) to allow competition by private refund operators that will drive tourist shopping and product development to international visitors and allow reimbursements whilst visitors are still in Australia.

## 7. The economic benefit of reform to tourism shopping arrangements in Australia

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### 7.1 Economic modelling of the benefits of TRS reform

The TSRG and its members engaged KPMG to model the economic impact of a private refund operator model for tourism shopping arrangements in Australia. KPMG developed a Computable General Equilibrium (CGE) model of the Australian economy, which provides a sophisticated assessment of the impact of greater TRS usage in Australia. The CGE model found that an increase in TRS usage from the current 3.6 per cent of departing international visitors (including Australians) to 7 per cent, could result in the following:<sup>16</sup>

- An extra **18,000** additional international visitors per annum;
- Additional visitor economy expenditure of **\$226 million** per annum;
- Additional Australian Government revenue of **\$21.2 million** per annum;
- Additional net revenue across Federal and State governments of **\$6.3 million** per annum.

*It should be noted that the CGE model assesses an **increase in the take-up rate only**, and does not consider other TRS changes, such as minimum claim thresholds, the maximum claim period or the extension of TRS coverage to service transactions.*

#### 7.1.1 Basis to the economic modelling

The KPMG CGE model based its assessment on a take-up rate of 7 per cent, as this was an estimate provided by the Treasury when the Howard Government considered TRS reform in 2006/07.<sup>17</sup> The modelling assessed the impact of TRS reform, based on simulations of the potential impact of the new take-up rate under different tourist shopping export demand elasticities (from -2 to -5). *The core analysis within KPMG's report is based on the generally accepted elasticity of -4, with the key results under this scenario outlined below.* Other economy-wide modelling of Australian tourism has used values such as -3 (used in the MONASH model<sup>18</sup>) and -4 (used in the MM900 model<sup>19</sup>) for these elasticities.

### 7.2 Impact on tax revenues at a Federal and State Government level

The overall impact on aggregate Federal Government and State Government budgets is net positive. The overall result outlined in Figure 3 takes the following impacts into consideration:

- Additional GST refunds issued to departing travellers, which results in reduced State GST revenues;
- Additional Federal Government revenues, through increased retail activity;

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<sup>16</sup> KPMG, 2013, *Economic Impact of the Private Provider model for the Tourist Refund Scheme in Australia*, report prepared for Global Blue Holdings AB (a key TRSG member), January 2013.

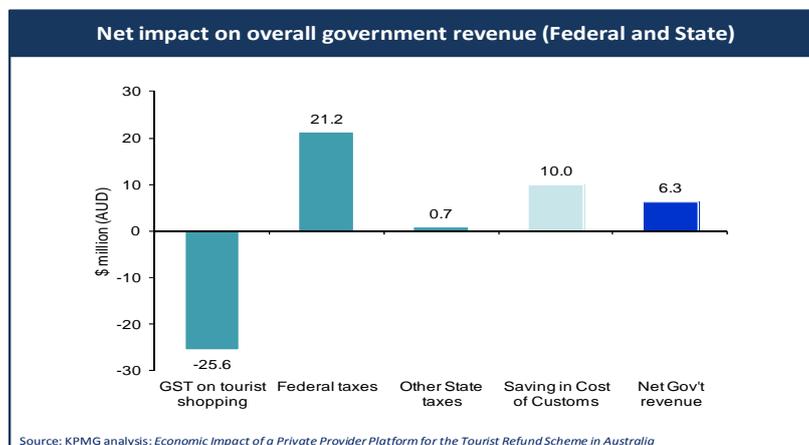
<sup>17</sup> Access Economics Pty Limited, 2007, *The economic impacts of outsourcing the Tourism Refund Scheme*, report prepared for the Department of Industry Tourism and Resources, June 2007.

<sup>18</sup> P. Dixon and T. Rimmer, 1999, *The Government's Tax Package: Further Analysis based on the MONASH Model*, CoPS/IMPACT Working Paper Number G-131

<sup>19</sup> KPMG Econtech, 2010, *CGE Analysis of part of the Government's AFTSR Response*, Treasury 2010

- Additional State Government revenues, through increased retail activity; and
- Immediate cost savings to State Governments, through the reduction in TRS administration as the cost shifts from the state taxpayer to the traveller (user pays).

Figure 3: Net impact on government tax revenues – Australia-wide



### 7.2.1 Additional revenues to the Federal Government

The Federal Government will be a net beneficiary as a result of an increase in the take-up rate of the TRS from 3.6 per cent to 7 per cent of all departing international visitors (including Australians). The **additional \$21.2 million** in Federal taxes includes:

- Additional labour income taxes of **\$12.4 million** per annum;
- Additional narrow-based indirect taxes (customs and excise duty) of **\$11.2 million** per annum;
- A loss of \$2.4 million in other Federal taxes, as resources are re-allocated through the economy.

Additional Federal Government revenues increase as a result of additional economic activity, resulting from increased visitor expenditure and a greater number of international arrivals as a direct result of the tourism shopping reforms.

### 7.2.2 Net revenue impact at a State and Territory government level

The CGE model takes into consideration a conservative industry estimate that reform to a private provider model will result in \$10 million in savings per annum.<sup>20</sup> As such, the modelling shows that a 7 per cent take-up rate will result in:

- A reduction in GST revenues to the states of **\$25.6 million per annum** as a result of increased refunds; and
- Additional other state tax collections (mostly payroll tax) of **\$0.7 million per annum**.

The total savings to Customs is likely to be higher than \$10 million per annum, given the conservative estimate and the potential for more comprehensive reforms that could remove the need for Customs to provide export verification services. These savings to the states and territories could partially offset the reduction in GST revenues arising from an increase in the TRS take-up rate.<sup>21</sup>

<sup>20</sup> Industry estimate, based on analysis in 2006 by CRA International, *Review of tourist refund scheme options*, report prepared for Global Refund Australia Pty. Ltd.. Note: this figure may be conservative, given the possibility for more comprehensive reform that could remove the need for Customs to provide export verification services.

<sup>21</sup> *ibid.*

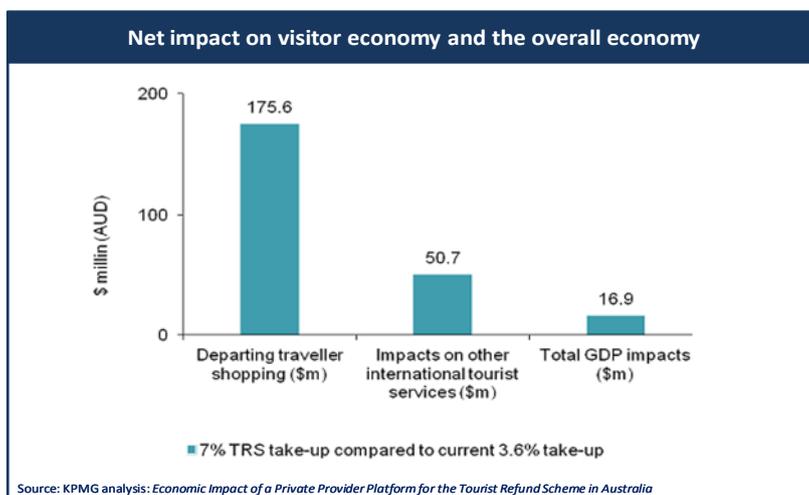
### 7.3 Impact on tourism shopping spend and GDP

In addition to the impact on tax revenues, the CGE model demonstrates that an increase in TRS take-up to 7 per cent will result in considerable additional expenditure in the visitor economy. Significantly, a majority of this expenditure will take place within the struggling Australian retail industry.

The overall result, outlined in Figure 4, demonstrates that increased take-up of the TRS results in:

- more traveller shopping exports;
- a modest enhancement to GDP; and importantly
- an additional 18,000 international visitor arrivals, as a direct result of the enhancements to tourism shopping.

Figure 4: Impact on tourism shopping spend and GDP



Enhancements to tourism shopping arrangements in Australia will come at no real cost to government revenue, will have a small yet positive impact on the economy, fix an anomaly in the tax system and support an important industry.

### 7.4 Economic benefits are simple to achieve

The benefits of enhancements to tourism shopping arrangements will be simple for the Federal Government to realise, given that:

- administrative changes to the TRS should not require legislative amendment;
- the introduction of private TRS refund providers should not require the prior approval of State and Territory Governments; and
- international experience demonstrates that private refund providers are able to quickly establish a private provider platform. Subject to the administrative change process, a private provider platform could roll out in Australia within one to two years.

## 8. Conclusion

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Reform of Australia's Tourist Refund Scheme (TRS) to allow competition by private refund providers is consistent with the Government's aim to 'identify areas or programs where Commonwealth involvement is inappropriate or no longer needed' and 'improve the overall efficiency and effectiveness with which government services are delivered.'

The Tourism Shopping Reform Group (TSRG) calls upon the Australian Government to implement this enhancement to the operational model for Australia's TRS, to reduce administrative costs to State taxpayers, and enhance the tourism shopping experience in Australia.

The TSRG and its members submit that the time is right for Australia to enhance the TRS, through the introduction of private sector providers within an open market, to ensure a more competitive tourism shopping industry in Australia. Furthermore, such reforms will enable greater efficiencies at airports, resulting in at least \$10 million in savings per annum. Through greater utilisation of the eTRS digital platform, Customs could potentially realise greater savings through the streamlining of the TRS export verification function, the use of risk management and possibly outsourcing.

The TSRG supports the recommendation of the NSW Government, in response to its Visitor Economy Taskforce, that the Federal Government enable the entry of private sector TRS providers within an open market. Private providers are a fundamental aspect of the TRS in tourism destinations, such as Singapore, which promote shopping as a key aspect of the tourism experience for international travellers.

Private providers within a competitive market, have the incentive to develop sophisticated and innovative products, which build the knowledge of, and access to, the TRS for international travellers. Private refund providers in other markets also actively promote destinations such as Singapore as a tourism shopping destination to prospective travellers around the world.

The tourism shopping industry has the ability to quickly implement proven technology, should the Australian Government pursue these reforms. As such, Customs could begin to realise savings quickly, which ultimately reduces the cost of TRS administration on the taxpayer, whilst enhancing Australia as a tourism shopping destination.

The TSRG strongly supports the proposals in this pre-budget submission, and would welcome the opportunity to discuss them in greater detail.

## References

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Australian Bureau of Statistics, 5249.0 - Australian National Accounts: Tourism Satellite Account, 2010-11, December 2011

F. Dimanche, 2003, The Louisiana Tax Free Shopping Program for International Visitors: A Case Study, *Journal of Travel Research*, Vol. 14, pp. 311 – 314, cited in KPMG Report (see Appendix 1)

Global Blue, 2012, The Global Blue Briefing, Issue 5: Autumn 2012, pp. 9 – 13

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KPMG, 2013, *Economic Impact of the Private Provider model for the Tourist Refund Scheme in Australia*, report prepared for Global Blue Holdings AB (a key TRSG member), January 2013.

P. Dixon and T. Rimmer, 1999, The Government's Tax Package: Further Analysis based on the MONASH Model, CoPS/IMPACT Working Paper Number G-131

Review of Tourist Refund Scheme Options", CRA International, 2006.

World Customs Organization (WCO), 'Tools and Instruments – The Revised Kyoto Convention'

## Appendix 1: The NSW Government Response to the Final Report of the Visitor Economy Taskforce – Support for TRS Reform

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**TOURISM SHOPPING REFORM GROUP**

**Pre-Budget Submission 2014-15**

VISITOR ECONOMY TASKFORCE FINAL REPORT RECOMMENDATIONS AND ACTIONS	LEAD	KEY PARTNERS	GOVERNMENT RESPONSE	Year 1	Year 2	Year 3 – 8
			<p>The current review into modern awards is a good opportunity for the parties to address how improvements can be made to promote flexibility for business and their employees.</p> <p>The NSW Government is monitoring the review to inform any future responses to these issues. The modern awards review is expected to conclude by the end of May 2013.</p>			
<p>Action 31D. Call upon the Commonwealth Government to reform Australia's GST Tourist Refund Scheme (TRS) to allow competition by private refund operators that will drive tourist shopping and product development to international visitors and allow reimbursement whilst visitors are still in Australia.</p>	NSW T&I	Industry, DNSW, Commonwealth Government	Supported.	✓		
<p>Action 31E. Work with the retail industry to encourage transit cruise passengers to access Sydney's retail precinct.</p>	DNSW	Cruise Industry, TfNSW, Sydney Ports Corporation, other relevant NSW and Commonwealth Government agencies	Supported.	✓		
<p>Action 31F. Fast-track wider acceptance of China Union Pay cards.</p>	DNSW, NSW T&I	Industry, destinations, relevant NSW Government agencies	Supported. DNSW and NSW T&I will engage with Industry and relevant Government agencies to promote acceptance of China Union Pay cards.		✓	
<p>Recommendation 32. Extend the marketing and brand messaging for Sydney and NSW destinations to promote more strongly the quality food and wine experiences that NSW offers for visitors.</p>	DNSW	Industry, destinations, Local Government, relevant NSW Government agencies	Supported.	✓		
<p>Action 32A. Work with Industry to call upon the Commonwealth Government to provide greater flexibility within the <i>Fair Work Act</i> 2009 to lessen the impact of higher penalty rates on the retail sector</p>	NSW IR	NSW T&I	Supported in principle. The NSW Government has legitimate concerns that the modern award system is not operating in a way that promotes		✓	

## **Appendix 2: Tourism shopping enhancements, as outlined in the 2007-08 Federal Budget**

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2007-08 BUDGET PAPER No. 2

### **BUDGET MEASURES 2007-08**

CIRCULATED BY  
THE HONOURABLE PETER COSTELLO MP  
TREASURER OF THE COMMONWEALTH OF AUSTRALIA AND  
SENATOR THE HONOURABLE NICK MINCHIN  
MINISTER FOR FINANCE AND ADMINISTRATION  
FOR THE INFORMATION OF HONOURABLE MEMBERS  
ON THE OCCASION OF THE BUDGET 2007-08  
8 MAY 2007

*Budget Measures 2007-08*

**Tobacco Growers Adjustment Assistance Package 2006 — tax-free grants**

Revenue (\$m)	2007-08	2008-09	2009-10	2010-11
Australian Taxation Office	-1.3	-1.3	-	-

The Government will change the taxation treatment of certain grants provided under the Tobacco Growers Adjustment Assistance Programme 2006, with effect from the commencement of the programme.

The Government is providing grants of up to \$150,000 to tobacco growers who undertake to exit the tobacco industry for five years.

This measure will make the grants tax-free where the recipient exits all agricultural enterprises for five years. If the grower leaves the tobacco industry but remains in agriculture, they will still be eligible for the grant, but it will be assessable for tax purposes.

Further information on the grants package can be found in the press release of 26 October 2006 issued by the Minister for Agriculture, Fisheries and Forestry.

**Tourist Refund Scheme — introducing private providers and enhancements to tax-free shopping**

Revenue (\$m)	2007-08	2008-09	2009-10	2010-11
Australian Customs Service	..	..	..	..
Australian Taxation Office	-1.0	-1.0	-1.0	-1.0
<b>Total</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.0</b>	<b>-1.0</b>

Proposed changes to the operation of tourist shopping arrangements will be made to enhance their effectiveness by:

- enabling private providers to provide tourist refunds — with approval for refunds and compliance to remain a government function — with effect from 1 February 2008;
- extending the period during which travellers can purchase goods and be eligible to claim a refund of GST and wine equalisation tax through the Tourist Refund Scheme (TRS) from 30 days to 60 days;
- allowing travellers using the TRS to aggregate multiple invoices from single retailers in order to meet the \$300 threshold for TRS claims; and
- extending the period during which travellers can make tax-free purchases through the sealed bag system from 30 days to 60 days.

*Budget Paper No. 3*

**Tourist Refund Scheme — introducing private providers and enhancements to tax-free shopping**

Revenue (\$m)	2007-08	2008-09	2009-10	2010-11
Australian Taxation Office	-61.0	-65.0	-67.0	-70.0

Proposed changes to the operation of tourist shopping arrangements will be made to enhance their effectiveness by:

- enabling private providers to provide tourist refunds — with approval for refunds and compliance to remain a government function — with effect from 1 February 2008;
- extending the period during which travellers can purchase goods and be eligible to claim a refund of GST and wine equalisation tax through the Tourist Refund Scheme (TRS) from 30 days to 60 days;
- allowing travellers using the TRS to aggregate multiple invoices from single retailers in order to meet the \$300 threshold for TRS claims; and
- extending the period during which travellers can make tax-free purchases through the sealed bag system from 30 days to 60 days.

The changes to the TRS (other than introducing private providers) and to the sealed bag system require the unanimous agreement of the States. These changes will be implemented as soon as practicable after that agreement is received.

See also the related revenue measure titled *Tourist Refund Scheme – introducing private providers and enhancements to tax-free shopping* in Budget Paper No. 2 in the Treasury portfolio.

*Part 1: Revenue Measures*

The changes to the TRS (other than introducing private providers) and to the sealed bag system require the unanimous agreement of the States and Territories. These changes will be implemented as soon as practicable after that agreement is received.

See also the related item titled *Tourist Refund Scheme – introducing private providers and enhancements to tax-free shopping* in Appendix C of Budget Paper No. 3.

**Venture capital — improved taxation treatment**

Revenue (\$m)	2007-08	2008-09	2009-10	2010-11
Australian Taxation Office	-	-2.0	-7.0	-16.0

The Government will further relax the eligibility requirements for concessional taxation treatment for foreign residents investing in venture capital limited partnerships and Australian venture capital funds of funds, with effect from the 2007-08 income year.

The concessional tax treatment for foreign resident investors will be extended:

- to allow up to 20 per cent of committed capital in venture capital limited partnerships and Australian venture capital funds of funds to be invested in companies and unit trusts that are not located in Australia; and
- to allow eligible partners in conditionally registered venture capital limited partnerships and Australian venture capital funds of funds that become fully registered to be entitled to a tax exemption on the profits and gains derived from investments made while the partnership was conditionally registered.

To ensure that investments made by an early stage venture capital limited partnership are directed at early stage venture capital activities, a partnership can acquire pre-owned investments in an entity only if:

- it already owns an investment in the entity, or it will also be making investments, that are not pre-owned investments in the entity at the same time; and
- the total value of the partnership's pre-owned investments does not exceed 20 per cent of its committed capital.

This measure enhances the changes to the venture capital arrangements announced in the 2006-07 Budget.

## Appendix 3: State and Territory Government Letters of Support

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MOC13/690

The Hon Jason Clare MP  
Minister for Home Affairs  
Minister for Justice  
PO Box 6022  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

**Hon. George Souris MP**  
Minister for Tourism, Major Events, Hospitality and Racing  
Minister for the Arts

26 APR 2013

COPY

Dear Minister

The NSW Government established the Visitor Economy Taskforce to develop strategies to grow the State's visitor economy. The Government response to the Taskforce's report was released in December 2012 in the form of the Visitor Economy Industry Action Plan. The Plan can be accessed on NSW Trade & Investment's website at <http://www.business.nsw.gov.au/doing-business-in-nsw/industry-action-plans>

The Taskforce recommended that the Commonwealth Government amends Australia's GST Tourist Refund Scheme (TRS) to allow competition by private refund operators and reimbursement to visitors whilst they are still in Australia.

The NSW Government supports the recommendation as important to growing Australia's share of international visitor expenditure. Shopping currently accounts for 9% of total international visitor spend in Australia (TRA 2011). This is relatively low in comparison to competitive shopping destinations. For example, in Singapore, shopping accounts for 27% of spend (Singapore Tourism Board 2011). The need to maximise international visitor expenditure is not a concern for NSW alone, and I will also be discussing this matter at the upcoming Tourism Ministers' Meeting in April 2013.

I would like to also acknowledge the positive reform already undertaken by the Commonwealth to include China's Union Pay credit card as a refund option in the TRS and I look forward to your consideration of further changes in relation to the operation of the TRS.

Yours sincerely



George Souris MP



**Deputy Premier of Western Australia  
Minister for Health; Tourism**

Our Ref 25-34433

Hon Jason Clare MP  
Minister for Home Affairs

Email: mha@ag.gov.au

Dear Minister

I write to seek your support for the Federal Government amending Australia's GST Tourist Refund Scheme (TRS) to allow competition by private refund operators and reimbursement to visitors while they are still in Australia.

This matter was raised with me during a recent meeting with peak industry body, Tourism Council Western Australia (TCWA), and representatives of the Tourism Shopping Reform Group (TSRG). As you may be aware, the TSRG is a coalition of Australian tourism and retail industry associations and businesses, which support reform to tourism shopping arrangements in Australia. Its members include the Queensland, Victorian, New South Wales and Western Australian tourism industry councils, Australian Retailers Association and National Retail Association.

The TSRG is seeking action from the Federal Government in the following three reforms to the TRS.

- allow competition by private refund operators that will drive tourist shopping and product development to international visitors while they are still in Australia,
- examine the potential cost savings to be derived from outsourcing the TRS export verification compliance function of Customs to an independent service; and
- enable off-airport collection of pre-purchased duty free goods at off-airport duty free stores within a short time after return to Australia. This reform should be included in any suite of reforms to off-airport tourist shopping arrangements in Australia.

I am advised that these reforms would have positive economic and social benefits, including an anticipated additional Australia-wide visitor economy expenditure of \$226 million per annum by 2017/18. The information provided to me by the TSRG also suggests that the use of a private operator will increase marketing and raise take up rates of the TRS from 3.6% to 7% of total departing travellers.

These figures represent a significant injection into the Australian economy and an almost doubling of the existing take up rate, suggesting the proposed reforms warrant further investigation and due consideration by the Federal Government.

Their implementation would also assist passenger facilitation through our airports and customs facilities, and enhance the competitiveness of Australia as a tourist shopping destination. This is vital in attracting visitors, particularly from Asia, and providing an appropriate tourism experience that encourages repeat visitation and spending to support tourism throughout Australia.

Importantly, the reforms would benefit the Western Australian economy and are supported by the Western Australian tourism industry, retail traders and the Chamber of Commerce & Industry WA. I am also supportive because of the positive impact they would have on tourism in the State.

I have raised this matter with the Minister for Tourism, the Hon Gary Gray MP, as well and look forward to your response and assistance in progressing these important reforms.

Yours sincerely



**Dr Kim Hames MLA  
DEPUTY PREMIER  
MINISTER FOR TOURISM**

**11 JUL 2013**



COPY

**Andrew Barr MLA**

DEPUTY CHIEF MINISTER

TREASURER

MINISTER FOR ECONOMIC DEVELOPMENT

MINISTER FOR COMMUNITY SERVICES

MINISTER FOR SPORT AND RECREATION

MINISTER FOR TOURISM AND EVENTS

---

MEMBER FOR MOLONGLO

The Hon Scott Morrison MP  
Minister for Immigration and Border Protection  
House of Representatives  
PO Box 6022  
Parliament House  
CANBERRA ACT 2600

Dear Minister

I am writing with reference to the recommendations proposed by the Tourist Shopping Reform Group and detailed in the NSW Visitor Economy Industry Action Plan, relating to reform to tourism shopping arrangements in Australia, in particular administrative enhancements to the Tourist Refund Scheme (TRS).

The ACT Government supports the recommendation that the Federal Government amend Australia's TRS to allow competition by private refund operators and reimbursement to visitors whilst they are still in Australia.

These enhancements can create significant gains for both the retail and tourism industries as well as establishing Australia as an internationally competitive tourism shopping destination.

The recent development of Canberra Airport, a \$480 million project, offers the opportunity to attract new international markets to ACT and realise the benefits of the growth in international visitor expenditure, especially in Asian markets.

ACT LEGISLATIVE ASSEMBLY

London Circuit, Canberra ACT 2601 GPO Box 1020, Canberra ACT 2601

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**100**  
CANBERRA

**TOURISM SHOPPING REFORM GROUP**

**Pre-Budget Submission 2014-15**

I thank you for consideration of this recommendation to enhance the operation of the TRS to stimulate an increase in Australia's share of international visitor expenditure, in line with the national commitment to double overnight expenditure by 2020.

Yours sincerely



Andrew Barr MLA  
Minister for Tourism and Events  
11 October 2013

cc: Mr Jayson Westbury, Chief Executive, Australian Federation of Travel Agents  
Mr Ken Morrison, Chief Executive, Tourism & Transport Forum  
The Hon Andrew Robb AO, MP, Minister for Trade and Investment



Hon Tim Nicholls MP  
Member for Clayfield  
Treasurer and Minister for Trade

TRY-05193

15 OCT 2013

The Honourable Joe Hockey MP  
Treasurer  
PO Box 6022  
Parliament House  
CANBERRA ACT 2600

Dear Treasurer ,

**Reform of the Tourist Refund Scheme**

I understand that the Tourism Shopping Reform Group (TSRG) has developed a proposal to reform the Tourist Refund Scheme (TRS) process for international tourists claiming GST on purchases made while in Australia. Currently, international tourists are reimbursed for GST on their purchases as part of the customs process, on leaving Australia. The TSRG proposal would allow tourists to be reimbursed at any point during their visit. This would be administered by private providers, reducing the burden on Australian Customs and Border Protection Services.

The TSRG estimates that by 2017-18 this reform would result in additional Australia-wide visitor expenditure of \$226 million per annum, and an extra 18,000 international arrivals to Australia per year. The proposal also points out the potential for private providers to develop innovative systems to administer refunds and to actively promote the refund scheme, and the country, as a tourist shopping destination.

Tourism is one of the four pillars of the Queensland economy, directly contributing over \$10 billion per year to gross state product and directly accounting for well over 100,000 jobs in the state. The Queensland Government is committed to growing tourism in Queensland in partnership with industry. If the proposal is found to have merit, the earlier reimbursement of GST would mean that international visitors could spend the reimbursed funds while still in Australia, providing a boost to visitor expenditure. The reform would also have potential to attract increased international visitors to Australia, which would benefit both the tourism industry and the broader economy.

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ABN 90 856 020 239

**TOURISM SHOPPING REFORM GROUP**

**Pre-Budget Submission 2014-15**

I am highly supportive of the Commonwealth investigating the merits of the TSRG proposal. It has the potential to be a demonstration of how government and industry can work together to deliver better outcomes for the national economy.

Yours sincerely

A handwritten signature in blue ink that reads "Tim Nicholls". The signature is written in a cursive style with a large initial 'T'.

Tim Nicholls  
Treasurer and Minister for Trade

## Appendix 4: Tourist Refund Schemes: International comparisons

### The global prevalence of the “open market”

The majority of countries offering a TRS do so in what is called an “open market”. Under an open market, private sector refund providers compete with one another to administer GST refunds on behalf of the Government. The competitive market environment results in competition and the incentive for refund providers to develop more sophisticated product offerings. Private providers in an open market have the incentive to:

- Promote “tax-free shopping” to travellers and retailers;
- Train and assist retailer staff to provide a tax-free shopping experience;
- Educate and assist travellers to understand the GST refund scheme;
- Develop innovative systems for the processing of tax refunds;
- Work with taxation and Customs authorities to enhance the administration process; and
- Enable retailers to manage their own refund system.

### Savings to government:

Internationally, the TRS is generally a user-pays system, which removes the primary cost of the system from the taxpayer. The refund of GST to tourists is generally regarded as a commercial activity and **NOT** a core activity of government. That being said, export verification does generally remain a responsibility of the local Customs Service. However, authorities can realise export verification savings through the use of a risk management framework and by considering outsourcing manual verification where it is required.

The following countries have an open market for the tourist refund scheme:

Argentina		Hungary		Netherlands	
Austria		Iceland		Norway	
Belgium		Ireland		Poland	
Bosnia & Herzegovina		Italy		Portugal	
Bulgaria		Japan		Serbia	
Croatia		Jordan		Singapore	
Cyprus		Korea		Slovakia	
Czech Rep		Latvia		Slovenia	
Denmark		Lithuania		Spain	
Estonia		Luxembourg		South Africa	
Finland		Mauritius		Sweden	
France		Mexico		Switzerland	

## TOURISM SHOPPING REFORM GROUP

Pre-Budget Submission 2014-15



**In contrast**, the following four countries are the few that continue to operate a Government-run tourist refund scheme:



### Key benefits of an open market

- **Macro-economic benefits (taxation & finance perspective):**
  - ✓ Enhancing the take-up rate of the scheme through competition between refund operators;
  - ✓ Promotes export;
  - ✓ Has both a clear positive direct and indirect impact on the economy (the latter by enhancing greater visitation and economic activity in the visitor economy);
  - ✓ Reducing or eliminating administrative costs of GST refunding for the Government; and
  - ✓ Ensuring a low operating commission for refund providers, due to competition.
- **Marketing/promotional benefits (tourism & retail sector);**
  - ✓ Promoting the country overseas as a tourist shopping destination;
  - ✓ Ensuring effective promotion of the TRS within the country;
  - ✓ Allowing the country's retailers to take part in a global marketing program, and to compete internationally with key overseas retailers for the lucrative international shopping dollar; and
  - ✓ Enabling well-trained and informed retail staff, who can use the TRS to 'up-sell' to international travelers and increase overall international visitor expenditure on retail shopping;

## Appendix 5: Electronic Tourist Refund Scheme (eTRS) technology

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*Electronic Tourist Refund Scheme (eTRS) is the first end-to-end fully electronic GST refund service for tourists. It provides numerous advantages to governments, travellers and retailers alike.*

*Below is a summary of eTRS technology, developed and implemented in other markets around the world, including Singapore, by leading tourist refund provider Global Blue.*

### 1. Introduction to the world of digitisation

In recent years, private sector providers have transformed the TRS in other markets through the process of 'digitisation'. Through the development of new technology, countries have shifted from traditional manual refund processing to a digital platform. This integration of digital technology introduces speed, flexibility, reliability, and lower costs to traditional TRS models.

Many industries across the travel sector are increasingly digitising their business models, including retail (such as EMV chip on credit cards, digital cameras and on-line shopping) and travel and transportation (ePassports and eTickets).

A fully digital TRS can result in the long term removal of the paper cheque or manually-processed EFT transactions from the refund process.

### 2. Description of the Electronic Tourist Refund Scheme (eTRS)

The eTRS is the first end-to-end fully electronic GST/VAT refund service. The system comprises of pre-registered traveller data, compiled with purchase data, to enable a paperless transaction from the point of sale to the point of refund.

Under the system, recently rolled out in Singapore, traveller customers engage with retailers and the refund providers through a digital process that is fully integrated into the purchase, refund and export verification process. Affiliated retailers enter traveller details electronically at point of sale (such as swiping a passport or credit card), which are then available for processing at the point of departure (i.e. airport).

The digital system enables Customs officers to access purchase data on the system, which can be verified electronically upon inspection. Furthermore, the eTRS system can also enable travellers to process refund claims electronically at a purpose-built kiosk, therefore negating the need for manual processing of the refund.

Travellers have the ability to pre-register a preferred refund option (credit card or bank account), which can enable the automatic payment of refunds into the pre-registered account. The service can cater for all types of merchant facilities and, importantly, allows for the participation of multiple GST refund operators within the open market.

In addition to the electronic processing of refunds, the eTRS system also enables Customs authorities to introduce a risk-management approach to export verification. As such, Customs can greatly streamline the export verification process (*see Section 7*).

***The eTRS system does not result in a monopoly of electronic TRS payments by a single provider.***

An eTRS system does not result in a change in the refund process, which still consists of the same steps - shopping, export verification and refunding. It is simply an enhancement that can enable a more effective and efficient system for travellers and government agencies.

### 3. Conceptual framework of the eTRS process



Source: Global Blue, 2011

The purchase, export verification and refund process consist of the following steps:

1. The traveller is required to register his/her details with the refund operator. He/she is encouraged to do so prior to shopping (but can also do so after shopping) by registering at the traveller portal on the refund operator's website, or in person at a registration kiosk strategically placed in key tourist areas (such as major shopping centres). The refund operator registers the traveller's details into a secure data base;
2. The following will take place for a registered traveller at the retailer, upon the point of sale:
  - i. The identifier (a card or passport) is swiped by the retailer;
  - ii. The traveller's details appear on the retailer's screen for identity check; and
  - iii. A transaction receipt is printed for traveller's reference, and the purchase data is stored in the refund provider's secure database.
3. At export verification (where manual verification takes place):
  - i. The verifier (either a Customs officer or an outsourced person swipes the traveller's passport;
  - ii. All of the traveller's transactions appear on the verifier's computer screen;
  - iii. The verifier electronically 'approves', 'rejects' or 'skips' each transaction on the screen; and
  - iv. The verifier electronically 'stamps' the traveller's transactions for all approved and rejected transactions.
4. The traveller receives the refund at the refund point for immediate refund. Travellers, who registered a credit card or bank account in their traveller's profile, can be refunded automatically within five days. *An automatic refund option eliminates the need for the traveller to visit a manual refund point.*

#### 4. Key features of the eTRS system

The key features of eTRS include:

Central storage of transactions in a transactional data base	<ul style="list-style-type: none"> <li>• Traceability</li> <li>• Unambiguous transaction information and status</li> </ul>
Pre-registered traveller details	<ul style="list-style-type: none"> <li>• One-off registration - no duplicate entry of traveller data</li> <li>• Refund preferences registered in advance</li> <li>• Traveller is informed in advance about tax free shopping rules &amp; procedures in general. Country specific rules are added per country.</li> </ul>
Electronic export stamping (with support for red and green channel filtering)	<ul style="list-style-type: none"> <li>• Automated export validation</li> <li>• Rules based transaction analysis</li> </ul>

Source: Global Blue, 2011

#### 5. Benefits for the stakeholders; Government, traveller and retailer respectively

The main benefits for each stakeholder are;

<i>Government</i>	<i>Traveller</i>	<i>Retailer</i>
<b>More efficient export verification process;</b> a. Pre-set verification rules can be implemented b. Automatic rules analysis used to highlight transactions for closer review c. Rules can easily be changed and distributed to all validation points d. Multiple rules can be monitored at the same time	<b>Less paper documentation</b> (the electronic transactions are linked to an identifier such as a credit card or tax free card)	<b>Simplified issuing process;</b> a. No physical print-out of export documents b. Support for traveller identification and eligibility through token c. Reduction of "human errors" d. No need of storage, ordering or maintenance of paper cheques
<b>Better planning in the export verification process;</b> a. Setting of advanced rules is possible; b. Rules based on dynamic data such as individuals' behavior	<b>Faster issuing process</b> as traveler data is retrieved from central data base	<b>Faster issuing process &amp; less paperwork;</b> a. Only sales data registered b. Traveller data entry is retrieved from central data base
<b>Reduced risk for fraud;</b> a. Possibility of reviewing trends of frequent travelers, purchases etc b. Analysis of validated transactions => Improved learning and rules management	<b>A smoother, quicker and safer refund process will enhance the traveller's shopping experience</b>	<b>Reduced risk for fraud;</b> a. No physical export documents (refund cheques) that can be stolen or manipulated
<b>More efficient use of resources</b> if the optional feature of red and green channel (automated validation) is selected (please refer to heading '9. Added feature: Automated export validation') a. increased capacity to manage tax refund claims b. Green transactions handled automatically c. Reduced number of transactions for manual inspection => less resources required at customs for export verification d. staff focus on highlighted transactions	<b>Reduction to a 2 step refunding process possible</b> a. Refund method and payment details registered in sign up process. If credit card or bank account refund is selected there is an automatic refund after validation b. Potentially more and better refund options available such as shopping vouchers and stored value cards c. Reduced time spent lining up for customs validation	<b>Increased commercial opportunities;</b> a. Access to detailed traveler & business information b. Communication possibilities to inbound travellers

#### 6. Additional security

A key benefit of the eTRS system is greatly-improved security in comparison to manual, paper-based TRS frameworks. In particular, key improvements arising through the development and rollout of eTRS include the following:

- Online capturing of issued refund transactions;
- Status changes of the transaction once it is captured online and stored centrally;
- Electronic security (qualified digital signatures), which replaces antiquated paper based security;
- Advanced fraud prevention through complex event management;
- The ability for stakeholders to verify transaction status by travellers at any time; and

- The ability for transactions to be linked to the identified traveller.

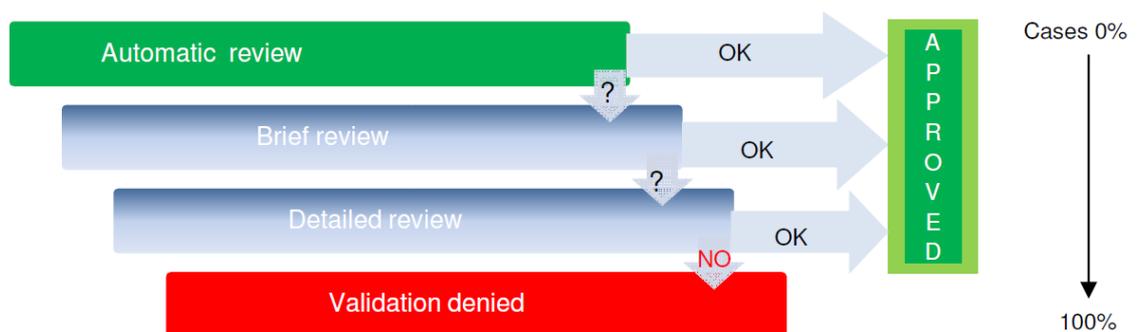
## 7. Export validation: the ability to introduce a risk management approach

The eTRS system enables Customs authorities to introduce a risk management framework to the export verification process. Currently, manual TRS systems, such as Australia's require that 100 per cent of transactions are manually verified at the export verification location (i.e. airport). Internationally, this feature is called **automated export validation**, also referred to as 'the green channel and red channel' process.

Under this approach, some transactions are automatically approved (green channelled) according to a rules framework that is pre-determined by Customs. As such, a smaller and defined grouping of transactions are required to be reviewed by a verifier (such as a Customs officer). The risk management framework that determines the green channel and red channel transactions can be set by Customs according to certain aspects, such as the type of goods, refund amount, the origin of the traveller or the traveller's next destination.

**Only Customs can define the risk management rules that determine the green channel and red channel classification. This can be adjusted by Customs at any time.**

*Automated export validation process*



Source: Global Blue, 2011

**“A smooth and secure refund process for Governments, retailers and travellers means more efficient customer service, less exposure to fraud and more satisfied travellers...”**

*Global Blue, leading provider of tourist refund services globally*

## Appendix 6: Case study: Singapore and the Visitor Economy

Some countries, such as Singapore, treat tourism shopping as a very serious economic activity and accordingly are active in promoting it. As a result, Singapore has achieved the status of “a shopping hub” in the world.

Singapore has also gone through the experience of having a non-performing Tourist Refund Scheme, which improved greatly following the introduction of marketing for the scheme to international visitors.

### Economic contribution

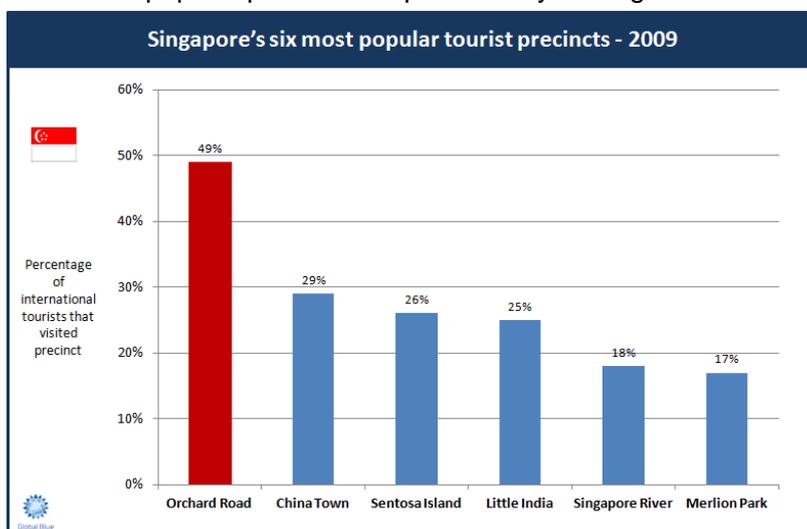
Tourism is extremely important to Singapore. The industry constitutes 10.3 per cent of the GDP and 8 per cent of employment, equivalent to almost 200,000 jobs.<sup>22</sup>

Singapore ranked 8th overall in the World Economic Forum’s (WEF) Travel and Tourism Competitiveness Index (released in March 2007). Singapore has excellent aviation and land transport infrastructure, which greatly enables the traveler experience. Furthermore, Singapore’s population is highly-educated, with an astute understanding of the needs of the traveler.

Singapore’s policy and regulatory environment is extremely conducive to the development of the travel and tourism industry.

### Popularity of tourism shopping

The graphic below demonstrates that shopping along Singapore’s Orchard Road precinct is the most popular paid and un-paid activity amongst international visitors.

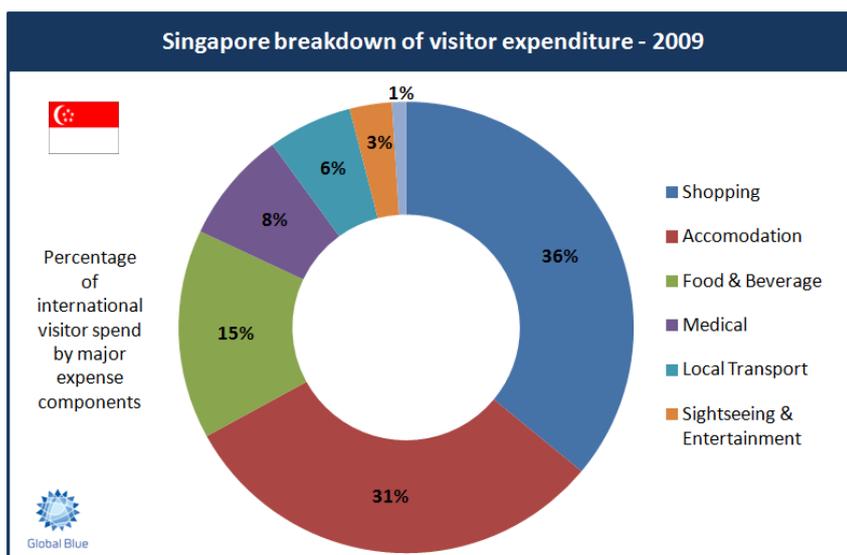


Source; STB Annual Report on Tourism Statistics, 2009

### Average expenditure on tourism shopping

On average, international visitors spent approximately AUD 253 per head on shopping, which amounted to 36 per cent of total average expenditure while in Singapore in 2009.

<sup>22</sup> Global Blue, 2011



Source: STB Annual Report on Tourism Statistics, 2009

### The Singapore Government is prioritising tourism shopping

Singapore Tourism Board (STB) is an economic development agency for one of Singapore's key service sectors - tourism. The mission of the Board is to develop and champion tourism, so as to build the sector into a key driver of economic growth for Singapore. With its strategic tourism units covering the key purposes of visit by tourists, the STB will work towards revitalising traditional segments ranging from sightseeing and attractions to business travel, as well as to actively tap into emerging travel segments, such as international visitation for healthcare and education services.

The STB is currently seeking to enhance the contribution of the Tourism Shopping and Dining sectors to the visitor economy by 2015. Central to this push are the three key strategies:

- 1. Build Purpose of Visit**  
*To build Singapore's reputation as a 'Shop & Eat' destination and help attract more visitors to Singapore for this purpose;*
- 2. Support Visitor Arrivals**  
*Driving visitor growth from key markets and segments; and*
- 3. Increase Per Diem Expenditure**  
*Increase the shopping and dining expenditure of every visitor, regardless of the primary reason for their trip to Singapore.*

An example of promoting tourism shopping is STB's annual initiative of "the Great Singapore Sale" in which Global Refund takes a very active part.

## Appendix 7: Inland Revenue Authority of Singapore – report on eTRS

Below is a publication released by the Inland Revenue Authority of Singapore to promote the rollout of eTRS technology in Singapore.



SHOP, SWIPE, GO!



INLAND REVENUE AUTHORITY OF SINGAPORE

A SPECIAL FEATURE BY IRAS

# IRAS PROVIDES HASSLE-FREE NEW TOURIST REFUND SYSTEM

No other shopping paradise makes it this easy, or fast, for tourists to claim their Goods and Service Tax (GST) refunds. With the new electronic Tourist Refund Scheme (eTRS), not only do they enjoy a consistent process when they buy from different retailers in Singapore, they can also expect simpler, faster clearance at our airport checkpoints. When the world's first paperless tourist refund system goes full swing in 2012, IRAS will offer a seamless shopping experience that is in a class of its own.

Just a passport and a credit card at participating retailers – that's all it takes for tourists to enjoy a hassle-free shopping experience under the new electronic Tourist Refund Scheme (eTRS). No more forms to fill in, or standing in queues at Changi Airport to claim their GST refunds.

The seamless process begins at the shop where the tourist's purchase details are captured into an electronic system and tagged to a token – the most convenient being his credit card. This same process applies regardless of where or how many times he makes a purchase throughout his stay, as long as it is with participating retailers.



At the airport, the tourist uses his passport and token to retrieve records of his purchase details at the eTRS self-help kiosk and simply chooses to either get his GST refund in cash, or paid to his credit card account. How easy is that?

**A welcome change in the current system**

The old paper-based GST refund system, operated by retailers or Central Refund Agencies (CRAs), is inconvenient as both tourists and retailers were required to fill in refund claim forms at different points of purchase.

Developed by Inland Revenue Authority of Singapore (IRAS) in partnership with Global Blue and Singapore Customs, eTRS was introduced this year to streamline the current system of multiple central refund agencies and independent retailers.

**Boosts tourism arrivals and the Singapore economy**

Since an initial implementation in May this year, the hassle-free eTRS has enabled tourists to breeze through our shops and the airports with greater ease. When the system is fully in place come August 2012, the hassle-free tourist refund system will improve Singapore's position as a shopping destination by keeping and boosting tourism arrivals and contribute to a more robust Singapore economy.

Mr Fong Yong Kian, Director-General, Singapore Customs agreed, "The eTRS cuts down unnecessary paperwork for tourists when they submit GST-refund claims to Singapore Customs for verification. With this scheme, tourists can enjoy hassle-free shopping and seamless GST refund. This will further boost tourism receipts for Singapore."

"For the many tourists who shop in Singapore, the electronic Tourist Refund Scheme will be a welcome innovation as it transforms the process of seeking GST refunds into a paperless and hassle-free one. This enhanced convenience is an excellent illustration of Singapore's on-going endeavour to deliver a seamless and quality destination experience to all our visitors," enthused Ms. Au Kah Peng, Chief Executive of Singapore Tourism Board.

**A BOON FOR RETAILERS**

Retailers are pleased that the system frees up precious time and manpower required for the old paper-based scheme. More importantly, an increasing number of tourists are attracted to stores participating in the scheme. Retailers who have enquiries or comments on the scheme may call 1800 356 8633 or email [gstfeedback@iras.gov.sg](mailto:gstfeedback@iras.gov.sg)

“Most foreign customers are delighted with the simplified tourist refund process. They appreciate the hassle-free experience as well as the fact that it helps them cut down waiting time at the airport. The ‘heavy spenders’ in particular are impressed that their tax refunds are credited directly to their credit card account instead of being handed out cash at the departure point.”

*Chen Chai, Retail Executive, The Travel Store*

“eTRS will make the sale transaction process smoother and having happier customers is a clear value-add. At the same time, this service makes it more convenient for customers to do their tax refunds at the airport, further demonstrating that Singapore's service and retailing industry is truly customer-focused. This will reinforce Singapore as a great place to shop.”

*Elm Chew, President & Founder of 7th Street*

“With eTRS, customers do not need to complete their particulars at our counters anymore. They also enjoy a shorter waiting time at the airport terminal as they only need to scan their eTRS tickets and save time on the GST claiming. Retailers benefit as well by using the time saved to concentrate on service.”

*Sherril Lim, Vice-President for Human Resource and TANDS Store Operations*

**Strong partnerships ensure system success**

“We are truly excited to partner with the Inland Revenue Authority on the official country-wide rollout of this state-of-the-art electronic system in Singapore. eTRS provides retailers and tourists with a unique seamless tax refund process minimizing administrative steps and touch points for errors. Now retailer can focus on growing their business from international customers whilst tourists benefit from a simple and efficient GST refund process so they can completely enjoy their shopping experience in Singapore.”

*Mr Per Sattarberg, President & CEO of Global Blue*

Global Blue

“Congratulations to IRAS and Global Blue for the successful launch of eTRS. SingTel is happy to play a part in eTRS by providing SingTel Meg@POP EthernetLink service. It is a dedicated high speed business fibre solution that ensures high performance and reliable connectivity from retailers' sites to the central tax processing database at all times.”

*Mr Goh Poon Huan, Vice President, Business Product, SingTel*

SingTel

“NCS is privileged to be involved in the infrastructure implementation and maintenance support for the new eTRS. We believe that technology plays an important role in elevating Singapore's status as a world-class tourist destination through the introduction of new systems such as the eTRS, which brings added convenience to tourists.”

*Mr Foo Jian Chuan, Group General Manager, Infrastructure Management & Solutions, NCS*

NCS

“Our best wishes to IRAS on Phase 1 Pilot of eTRS. We look forward to the gradual and seamless transition to Phase 2 Period of eTRS. Since 1985, Fintrax and Premier Tax Free have been innovating tax refunds and card payments worldwide, including Singapore since 2004. Our unique solutions continue to benefit all tourists and merchants in partnership with local banks and government authorities. With Premier Tax Free, merchants continue availing of our electronic retailing solutions in Singapore, and claimants continue receiving on average around 85% of the GST.”

*Mr David Koh, Country Manager (Commercial Relations), Premier Tax Free Singapore*

Fintrax Premier Tax Free



“This is my first time claiming tax refund in Singapore and the process is fast. I love Singapore and I will definitely come back again. I think other countries should implement this system.”

*Kim Bridgford from Australia*

“The system is smooth, easy and convenient! I wonder what next! I'm impressed already. Singapore Rocks!”

*Mr Anish Mehta from India*

“The system worked very well. It is very quick and efficient. The process was fast and I was very satisfied.”

*Ms Anusha Vikram from Australia*

“I don't have to queue to get my refund. The system is very easy to use and the process of claiming is easy by touching a few buttons.”

*Zuhairi Laila from Indonesia*



“eTRS enhances Singapore's positioning as a premier tourist destination,” said Mrs Josephine Teo, Minister of State for Finance & Transport, at the official launch of eTRS. Standing from left are Mr Per Sattarberg, President & CEO of Global Blue; Mr Fong Yong Kian, Director-General of Singapore Customs; Ms Au Kah Peng, Chief Executive of Singapore Tourism Board; Mr Muzes Len, Commissioner of Inland Revenue; Mr Josephine Teo, Mr Foo Jian Chuan, Executive Vice President (Airport Management) of Changi Airport Group.

## **Appendix 8: KPMG Economic Modelling – Economic Impact of a Private Provider Model for the Tourism Refund Scheme in Australia**

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cutting through complexity

# Economic Impact of a Private Provider Model for the Tourist Refund Scheme in Australia

6 February 2013



## Disclaimers

### ***Inherent Limitations***

*This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement which is not subject to Australian Auditing Standards or Australian Standards on Review or Assurance Engagements, and consequently no opinions or conclusions intended to convey assurance have been expressed.*

*No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, Global Blue management and personnel consulted as part of the process.*

*KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.*

*KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.*

*The findings in this report have been formed on the above basis.*

### ***Third Party Reliance***

*This report is solely for the purpose set out in the Scope Section and for Global Blue Holdings AB's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.*

*This report has been prepared at the request of Global Blue Holdings AB in accordance with the terms of KPMG's engagement letter/contract dated May 2012. Other than our responsibility to Global Blue Holdings AB, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.*

## Contents

Executive Summary	i
1 Introduction	1
1.1 Background	1
1.2 Scope	2
1.3 Report structure	3
2 Tax-free shopping	4
2.1 Background	4
2.2 Economic rationale	5
2.3 Different methods of TRS service delivery	8
3 Australian Tourist Refund Scheme	10
3.1 Current scheme	10
3.2 Proposed new TRS arrangements	12
3.3 Analysis of TRS	17
4 Method of analysis	20
4.1 Database development	20
4.2 Model theory and calibration	21
4.3 Data collection	23
5 Tax-Free Shopping in Australia	26
5.1 Economic baseline	26
5.2 Economic impact of the TRS private provider model in Australia	31
A Industry list	40

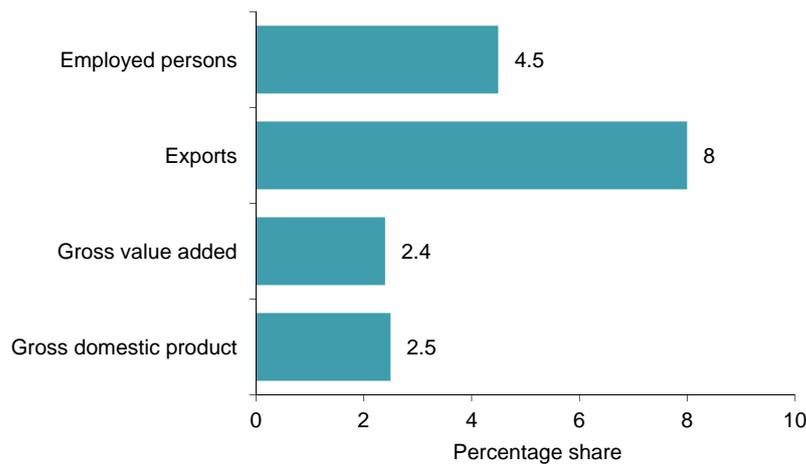


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## Executive Summary

Australia's tourism industry makes a significant contribution to the Australian economy, as illustrated in the following chart.

Chart A: Tourism share of the Australian economy (% share, 2010-11)



Source: Australian Bureau of Statistics, 2011, *Australian National Accounts: Tourism Satellite Account, 2010-11*, Cat. No. 5249.0, Canberra.

In 2010-11, tourism accounted for 4.5 per cent of employed persons, 8 per cent of exports and 2.5 per cent of total Australian GDP. However, the tourism share of GDP has fallen in recent years since its peak in 2000-01 at 3.4 per cent<sup>1</sup>.

In recognition of the decline in tourism industry performance, the Australian Government has developed a number of strategies to foster continual development and growth of the tourism industry. In one of these, the Tourism White Paper<sup>2</sup>, the Australian Government committed to undertake a review of existing tourist shopping arrangements in Australia. This included investigating outsourcing of the Tourist Refund Scheme (TRS) to identify and analyse potential options for improving the delivery and administration of the scheme and duty-free shops.

In 2007-08:

- 3.6 per cent of all international visitors and Australian residents departing Australia (“departing travellers”) claimed the TRS (406,661 people);
- refunds were claimed on \$594 million of purchases, which resulted in GST refunds of \$54 million; and
- the average value of items claimed against was \$1,461.

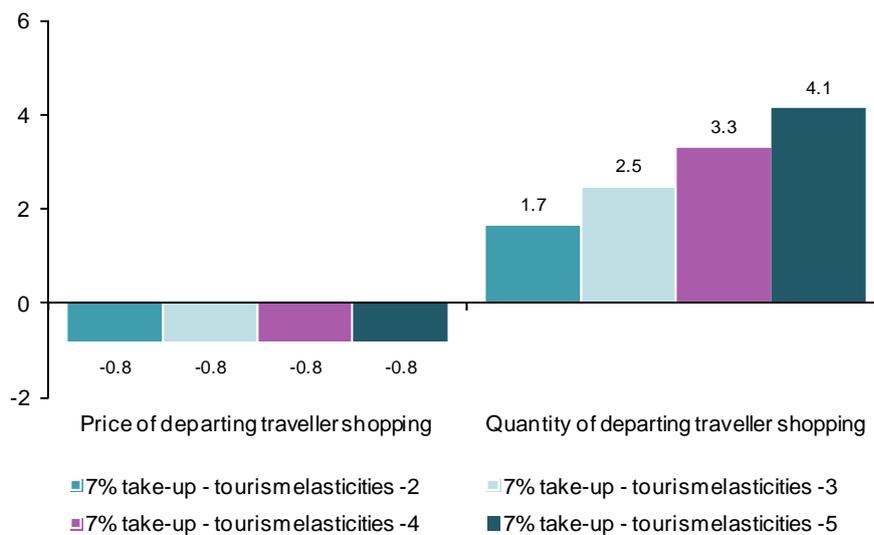
<sup>1</sup> Australian Bureau of Statistics, 2011, *Australian National Accounts: Tourism Satellite Account, 2010-11*, Cat. No. 5249.0, Canberra.

<sup>2</sup> Commonwealth of Australia, 2003, *A Medium to Long Term Strategy for Tourism*, Canberra.

If improved delivery and administration of the TRS increases the uptake from 3.6 per cent (base scenario) to 7 per cent<sup>3</sup>:

- it is estimated that the additional uptake will mean the average expenditure claimed against (all else being equal) would be around \$1,271<sup>4</sup>, which is slightly lower than the current average expenditure (at \$1,461 per person under a 3.6 per cent take-up);
- this would result in \$1,008 million in claims and \$92 million in GST refunds each year, which is \$38 million in more refunds than under the base scenario;
- however, as some of these refunds relate to new tourism shopping exports (that would not have occurred in the absence of the greater promotion of the TRS), this means that the fall in GST revenue from departing travellers is less than the increase in refunds, at \$25.6 million per year.<sup>5</sup>

Chart B: Impact of the introduction of private providers to the TRS on the demand for tourism products (% change, all simulations)



Source: KPMG analysis

<sup>3</sup> This analysis examines the impact of a 7 per cent take-up rate, which is based on Treasury estimates of the take-up rate after the implementation of the proposed changes to allow TRS private refund providers

<sup>4</sup> Interpolating between the known data points (3.6 per cent of people claim \$1,461 per person and 100 per cent of people claim \$517 per person) suggests per capita expenditure at a 7 per cent uptake could be \$1,271.

<sup>5</sup> Under the central simulation with tourist shopping export demand elasticity of -4.

Computable General Equilibrium (CGE) modelling of the reduction in the price of tourism exports indicates the following, compared to the 3.6 baseline take-up rate, under a 7 per cent take-up.<sup>6</sup>

- Annual tourism shopping exports are higher, by between 1.7 and 4.1 per cent (or \$88 million to \$219 million); annual international visitor arrivals are also higher, by between 0.18 and 0.38 per cent (or around 10,000 to 23,000 more visitors); and overall exports are between 0.03 to 0.04 per cent higher.
- There is a modest boost to economic activity in the long-run, with annual real GDP between \$6.9 million and \$22 million higher than under the base scenario. This means that each additional \$1 in tourism shopping induced by the TRS scheme, flows through to between \$0.08 and \$0.10 in GDP activity.
- There are mixed impacts across the different government tax revenue streams and the overall revenue impact estimate is highly dependent on the tourist shopping export demand elasticity assumed.
  - There is likely to be a net cost to State Government revenues, estimated at between \$9.4 million and \$26.0 million annually. The lower GST revenue on tourist shopping is accompanied by between -\$1.1 million and +\$1.7 million per year in other tax revenue impacts (such as additional labour tax collections and reduced company tax collections), and \$10 million savings in Customs TRS administration costs (which are ultimately paid by the States, as a deduction from net GST revenue).<sup>7</sup>
  - There is likely to be a net benefit to Commonwealth Government revenue, with higher labour taxes and excise duties resulting in an increase of net revenue of between \$8.6 million and \$27.6 million annually.
- the net annual change in combined Commonwealth and State taxation revenues is relatively modest (likely to fall somewhere between -\$17.4 and +\$18.2 million<sup>8</sup>).

While the analysis above shows that a more open TRS scheme may have an almost neutral impact on tax revenue, by also making it easier to access a GST refund, the scheme has the added benefit of realigning the implementation of the tax system back closer to one of its original aims, that of not taxing exported goods.

The scheme also provides some support to an industry that has had its share of challenges, such as loss of competitiveness in the face of high exchange rates. Additionally, private providers of the TRS have an incentive to promote tax free shopping in Australia which in turn is a promotion of Australian Tourism itself. This may have further implications for the preference of tourists to visit Australia beyond those captured in the modelling.

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<sup>6</sup> The ranges presented in these results are based on simulations of the potential impact of the new take up rate under different tourist shopping export demand elasticities (from -2 to -5). Our core analysis within the report is based on the generally accepted elasticity of -4.

<sup>7</sup> Under the private provider model, there is likely to be a saving in the State Governments' costs associated with the administration of the TRS systems. Global Blue estimates that this saving to the State governments (who pay these costs under the GST agreement with the Federal Government) could be between \$10 million and \$20 million per annum. The calculations above use a conservative assumption of \$10 million in savings.

<sup>8</sup> Small gains in revenue occur under simulations where tourists are assumed to be more responsive to prices (export demand elasticities of -4 or -5). Net losses in revenue occur under simulations where those elasticities are -2 or -3.



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# 1 Introduction

## 1.1 Background

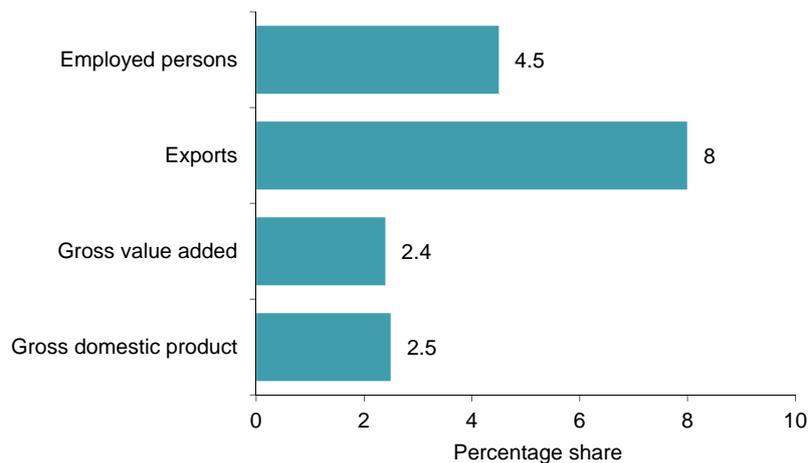
The original and core business of Global Blue Holdings AB (Global Blue) is the facilitation of tax-free shopping through Tourist Refund Schemes (TRS) for international travellers. Tax-free shopping is currently available in many tourist-receiving countries and is designed to alleviate discrepancies in the tax treatment of domestic and foreign retail purchases<sup>9</sup>.

Under a TRS arrangement, international visitors who make purchases in a participating retail outlet are able to claim a refund on the Value Added Tax (VAT) or Goods and Services Tax (GST) paid on any goods that are purchased for personal use and taken to their home country. In many cases, a traveller returning home with goods purchased offshore will be subject to the home country's VAT/GST on those goods. As such, a TRS system prevents travellers from being double taxed on these goods.

A TRS scheme assists in the creation and/or maintenance of pricing parity across borders and potentially encourages retail shopping while travelling. The absence of such a system increases the average price of tourist shopping and may result in lower tourism spending (a source of export revenue).

Tourism makes a significant contribution to the Australian economy, as illustrated in the following chart.

Chart 1-1: Tourism share of the Australian economy, 2010-11



Source: Australian Bureau of Statistics, 2011, *Australian National Accounts: Tourism Satellite Account, 2010-11*, Cat. No. 5249.0, Canberra.

<sup>9</sup> Global Blue, 2012, <http://www.global-blue.com>

In 2010-11, tourism accounted for 2.5 per cent of total Australian Gross Domestic Product (GDP) (Chart 1-1). The tourism share of GDP has fallen in recent years since its peak in 2000-01 at 3.4 per cent<sup>10</sup>.

In recognition of the decline in tourism industry performance, successive Australian Government's have developed a number of strategies to foster continual development and growth of the tourism industry, including:

- the Tourism White Paper: A Medium to Long Term Strategy for Tourism<sup>11</sup>;
- the National Long-Term Tourism Strategy<sup>12</sup>;
- Tourism 2020<sup>13</sup>; and
- 2020 Tourism Industry Potential<sup>14</sup>.

In the Tourism White Paper, the Australian Government committed to undertake a review of existing tourist shopping arrangements in Australia. This included investigating outsourcing of the TRS to identify and analyse potential options for improving the delivery and administration of the scheme and duty-free shops. As a result of the review, the Australian Government committed to make a number of changes to improve the flexibility of existing tourist shopping arrangements including changes to the TRS.

## 1.2 Scope

KPMG was commissioned by Global Blue to model the broad macroeconomic impacts of a private provider model for the TRS on the Australian economy and Government tax revenue. The aim of the economic analysis is to estimate the tax and revenue effects of changes to TRS at the macroeconomic level and demonstrate the potential economic gains of adopting TRS reforms. The analysis involves quantitative modelling of the proposed reforms of the TRS, including:

- estimation of how and to what extent TRS uptake rates impact tourism spending in Australia;
- use of Computable General Equilibrium (CGE) modelling to examine the flow-on and broader economy-wide effects of TRS in terms of output, employment and exports by industry sectors (particularly tourism-related products and industries); and
- examination of the direct and indirect impacts of effectively reducing the GST rate on retail purchases of departing travellers.

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<sup>10</sup> Australian Bureau of Statistics, 2011, *Australian National Accounts: Tourism Satellite Account, 2010-11*, Cat. No. 5249.0, Canberra.

<sup>11</sup> Commonwealth of Australia, 2003, *A Medium to Long Term Strategy for Tourism*, Canberra.

<sup>12</sup> Commonwealth of Australia, 2009, *National Long-Term Tourism Strategy*, Canberra.

<sup>13</sup> Department of Resources, Energy and Tourism and Tourism Australia, 2011, *Tourism 2020 - Whole of government working with industry to achieve Australia's tourism potential*, Canberra.

<sup>14</sup> Department of Resources, Energy and Tourism and Tourism Australia, 2010, *2020 Tourism Industry Potential...a scenario for growth*, Canberra.

The scope of this report includes reporting of the following (Section 5.1):

- the size of the retail shopping sector;
- international tourist expenditure patterns on retail shopping and other expenditure metrics;
- indirect taxation revenue;
- the economic/industrial structure in Australia; and
- macroeconomic characteristics of the economy (such as GDP, investment, international trade and employment).

The impacts of the TRS estimated using economy-wide modelling (Section 5.2) include the:

- impact on industry activity;
- economy-wide impacts (including GDP, employment and prices); and
- government sector impacts (e.g. changes in government taxation revenue).

This analysis forms part of a broader series of case studies to assess the economic impact of the tax-free shopping system.

### **1.3 Report structure**

The remainder of this report is structured as follows:

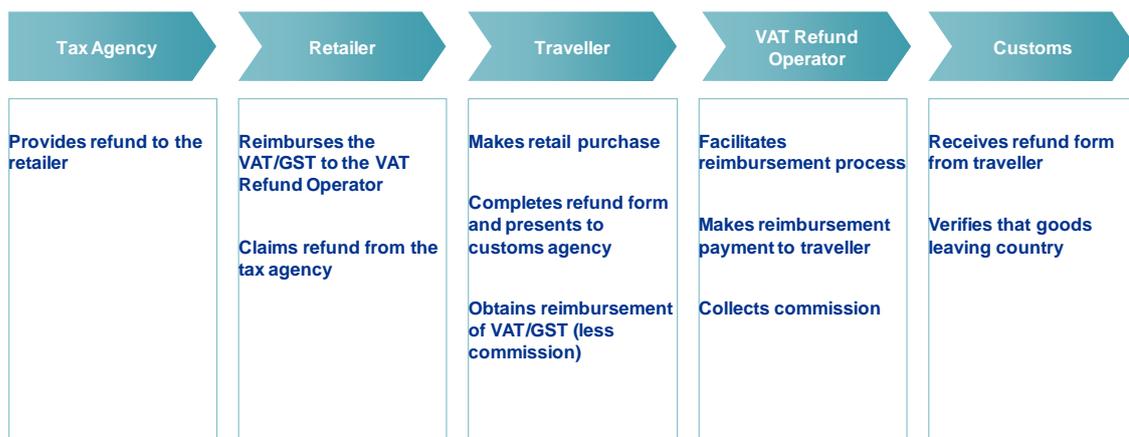
- Section 2 provides a summary of tax-free shopping, outlines the economic rationale for the scheme and describes current take-up rates;
- Section 3 describes the current Australian TRS and proposed changes;
- Section 4 outlines the method of analysis and key data and assumptions; and
- Section 5 provides the economic background in Australia, outlines the scenarios that have been examined, and summarises the economic implications of changes to the Australian TRS.

## 2 Tax-free shopping

The following sections provide an overview of tax-free shopping and the economic rationale for having a tax-free shopping scheme.

### 2.1 Background

The tax-free shopping process (illustrated in the following diagram) involves the international traveller, the retailer, customs and border control agencies and the tax agency. Intermediaries such as Global Blue (also known as a VAT Refund Operator - VRO) act as a facilitator of the process. When a traveller makes a purchase from a participating retailer, at the point of sale a VAT/GST refund form is provided for purchases over a given threshold value. The traveller then presents the form to the customs agency at the point of exit from the country and they verify that the goods purchased are leaving the country. This verification by the customs agency triggers a payment by the VRO to the value of the VAT/GST paid (less a commission) to the traveller. The VRO in turn claims the value of the VAT/GST from the retailer who in turn claims it from the country's tax agency.



Global Blue has acted as the VRO for TRS in many countries around the world for 30 years and developed the concept originally<sup>15</sup>. There are a number of countries, including Australia, that are yet to fully adopt a TRS for international visitors.

<sup>15</sup> Global Blue, 2012, <http://www.global-blue.com>

## 2.2 Economic rationale

Tourist refund schemes operate in many countries around the world as a method of reimbursing travellers for internal taxes paid at the time of purchase. Unlike duty free shopping arrangements, in which goods are physically sold by specialist retailers to travellers with a tax/duty exemption already included, tourist refund schemes enable travellers to access tax concessions through a wide range of retailers and across a wide range of goods<sup>16</sup>.

Governments are motivated to design and operate tourist refund schemes to address a range of policy issues, including:

- **Tax policy rationale** – ensure that internal consumption taxes do not apply to exports to avoid/remove inconsistencies in government policy and to help maintain export competitiveness; and
- **Tourism policy rationale** – provide incentives for international travellers to increase their retail expenditure.

### 2.2.1 Tax policy rationale

Consumption taxes such as a GST, VAT or Sales Taxes are designed to apply to the consumption or use of a product within the jurisdiction in which the tax is levied. In general, governments do not apply internal taxes on goods that are exported. Making a tax-free or tax-refund scheme available to tourists ensures more consistency with a government's policy of exempting exports from GST.

#### Tax policy rationale

- Consumption taxes designed to be levied on consumption or use within jurisdiction
- Ensure that internal consumption taxes do not apply to exports to maintain export competitiveness
- Goods purchased in one country and transported to another for use are 'micro-exports'
- Introduction of tax-free shopping generally coincides with introduction of new consumption taxes (e.g. Australia) to aid consistency in the application of an "internal tax free" policy to exports.

Goods purchased by international travellers in one country and then transported for use or consumption in another country are treated as a 'micro-export'. Under a tax-free shopping system, this definition extends to goods purchased by international travellers as outlined below:

*"Typically, sales taxes and value-added taxes are applied with the restriction that governments do not charge those taxes on exports to other countries. This principle can be applied to international tourists who make purchases and take them back home"*<sup>17</sup>

The introduction of new consumption taxes generally coincide with the introduction of a tax-free shopping system. For example, Australia introduced a TRS in 2000 to coincide with the introduction of Australia's GST. This ensured that the application of the consumption tax was more aligned with the Australian Government's policy of exempting exports from GST.

<sup>16</sup> Global Blue, 2012, <http://www.global-blue.com>

<sup>17</sup> *Dimanche, F. 2003, The Louisiana Tax-free Shopping Program for International Visitors: A Case Study, Journal of Travel Research, Vol. 14, pp. 311 – 314.*

## 2.2.2 Tourism Policy Rationale

While a TRS for international travellers is essentially a tax administration measure, its application has other specific policy benefits particularly to the tourism industry.

### Tourism policy rationale

- Creates additional incentive for international travellers to visit and spend
- Shopping may be a significant part of the travel experience for many travellers
- Travellers propensity to shop motivated by range of factors including price
- Tax-free shopping potentially strengthens perceptions of a country as a shopping destination

By providing effective tax-free status, through a tax refund, a tax-free shopping system potentially creates additional incentives for international travellers to either increase their likelihood of visiting a certain destination based on shopping, and/or their total expenditure on retail shopping while visiting that destination.

*“Tourists can benefit from such programs and destinations can benefit financially as if they can generate additional arrivals as a result of tax-free shopping.”<sup>18</sup>*

Shopping may not be a primary motivator for international travellers to visit a specific country; however, international visitors perceive shopping as adding value to their overall travel experience. Specifically:

*“Leisure shopping is recognised as one of the most popular global tourist activities...”*

*“...‘shopping in Sydney’ is the number one activity engaged in by overseas [Taiwan] tourists visiting Australia”<sup>19</sup>*

Travellers’ propensity to shop is motivated by a range of factors including price differences. In a 1995 study, D.J. Timothy and R.W. Butler found that a traveller’s shopping habits are influenced by price differences, along with motivations arising from getting away from a routine living environment.<sup>20</sup> As such, evidence suggests that travellers on an international trip have an increased propensity to spend money on retail shopping.

Tax-free shopping schemes are intended to enhance the attractiveness of retail shopping for international visitors and strengthen perceptions of the country as a shopping destination. Countries around the world attempt to attract international visitors within a competitive international environment. As a greater proportion of the world’s population become international travellers, a greater number of international visitors cross borders and spend money.

Tourism is viewed as a positive force in economic development that can help hasten economic development. Countries have developed their tourism industries around the world as a means to

<sup>18</sup> Dimanche, F. 2003, *The Louisiana Tax-free Shopping Program for International Visitors: A Case Study*, Journal of Travel Research, Vol. 14, pp. 311 – 314.

<sup>19</sup> X.Y. Lehto, L. Cai, J.T O’Leary & T. Huan, 2004, ‘Tourist shopping preferences and expenditure behaviours: The case of the Taiwanese outbound market’, *Journal of Vacation Marketing*, Vol. 10, No. 4, p. 321.

<sup>20</sup> D.J. Timothy & R.W Butler, 1995, ‘Cross-border shopping: A North American perspective’, *Annals of Tourism Research*, Vol. 22, No. 1, pp. 16 – 34.

earn foreign exchange, create jobs and deliver an economic benefit to local and national economies.<sup>21</sup>

Tourism manifests itself in many different ways for different types of travellers. In many circumstances, people travel internationally to visit natural attractions such as beaches, mountains and rivers, or to visit historical attractions that are unique to a specific destination, such as historic buildings or landmarks. However, in many instances man-made attractions can play the biggest role in drawing international visitors to a destination. One good example is Singapore, a small country with limited natural attractions, which has become a major international visitor destination. Singapore's Prime Minister Lee Kuan Yew reflected on this success in 1993 stating:

*"Why should anybody come to Singapore to begin with? What did we have?... we created the attraction. We created the interest that brought six million tourists. We developed a marketing strategy... and made ourselves useful to the world"*<sup>22</sup>

As a largely man-made destination, Singapore is an example of a country that has recognised the power of shopping, along with other activities such as arts and entertainment, as a means for developing the country's offering as an international destination. Cai *et al* states that for several cities around the world, "*shopping has been integrated into the (destination's) overall strategic planning, or become part of the marketing mix*", adding that "*cities such as Paris and Hong Kong have successfully projected and positioned themselves as the capitals of shoppers' paradise.*"<sup>23</sup>

In the case of Singapore, a tax-free shopping system helps to enhance the value of shopping for its international visitors:

*"The existence of a tax-free facility encourages tourists to buy more and more."*<sup>24</sup>

Some researchers have attempted to quantify the impact of a TRS on international visitor shopping habits. In 2010, researchers in the US state of Texas surveyed 6,000 shoppers who used the tourist refund scheme available in that state. This survey found that "slightly more than 70 per cent of the respondents indicated that they spent more because of the availability of tax-free shopping."<sup>25</sup>

The recent study in Texas is consistent with Frédéric Dimanche's case study of a similar state-based tax-free shopping arrangement in Louisiana, USA, which found that "results show that tax-free shopping is an incentive that increases tourists' propensity to buy retail goods".<sup>26</sup>

<sup>21</sup> Y. Hermana, 2007, 'Singapore Tourism Industry: a Contribution to the Economy', in Sumberdaya, p.p, Tourism, Cultural Identity, and Globalization in Singapore, Research Center for Regional Resources, Indonesian Institute of Sciences, Jakarta, pp. 95 – 151.

<sup>22</sup> Lee Kuan Yew, quoted by Teo and Chang, 2000, p. 17 in Hermana, 2007, op cit, p. 98

<sup>23</sup> <sup>23</sup> X.Y. Lehto, L. Cai, J.T O'Leary & T. Huan, 2004, Op Cit, p. 321

<sup>24</sup> Y. Hermana, 2007, Op Cit, p. 128

<sup>25</sup> D. Hoyte, 'Economic and Tax impacts of Sales Tax Export Exemptions: 2011', Texas Economic Impact, Austin, 2011, p. 4.

<sup>26</sup> F. Dimanche, 2003, Op Cit, 9. 311

## 2.3 Different methods of TRS service delivery

Factors influencing availability of tax-free shopping are heavily influenced by the governing legislative and regulatory framework. TRS use is impacted by the operational structure of the system, including:

- the monetary claim threshold / minimum claim amount, including whether consumers can aggregate multiple purchases to meet threshold requirements;
- access by retailers to the TRS service;
- the eligible claim period for customers to access a refund; and
- the administrative and export verification requirements of the TRS service on retailers and consumers.<sup>27</sup>

While the regulatory framework has a significant impact on the supply of TRS services, consumer demand is likely to be driven by product awareness and experience with service delivery. As with other service industries, the responsibility to build awareness of a service rests with the service provider. In many countries around the world tax-free shopping providers actively promote their services through traditional marketing such as advertising, in-store promotions and associated awareness campaigns.

### 2.3.1 Government-run model

Under a government-run model, the government provides both the export verification service and coordinates the refund service for consumers. Rather than operating under a commission-led business model, a government-run scheme is a service provided by government agencies, who pay the administrative cost of running the scheme.

Without commission-based incentives, there is likely to be little motivation for a government-run scheme to actively market or promote a TRS. Indeed, any increase in uptake could be viewed as a cost to government, in terms of tax revenue lost and program administrative costs, rather than as a financial opportunity.

Government-run schemes are less common than open market schemes, and exist in the following countries:

- Australia
- Indonesia
- Taiwan
- Thailand

<sup>27</sup> Australia introduced changes to several of these service characteristics in the 2007-08 Federal Budget

### 2.3.2 Private operator / open market model

Globally, in countries where there is a TRS regulatory structure and private sector involvement, governments either outsource the administration of this scheme to a private provider, or enable an open market for private sector providers to offer TRS services in conjunction with retailers. Private TRS operators draw an income through charging a commission, often a percentage of the refund amount. Accordingly, the refund provider has an economic incentive to increase tax-free sales (increase take-up rates) and expand the footprint of the TRS among international travellers.

Under an open market arrangement, private operators are free to compete with each other to provide tax-free shopping services to consumers and retailers alike. The existence of multiple providers in the market place can create a competitive dynamic and further incentive for TRS providers to promote their schemes and enhance product offerings to consumers and retailers.

The open market model is common throughout the European Union (EU), and in some other markets in South America and the Asia-Pacific. The following countries are known to have an open market for their TRS:

• Argentina	• Hungary	• Namibia
• Austria	• Iceland	• Netherlands
• Belgium	• Ireland	• Norway
• Bosnia & Herzegovina	• Italy	• Poland
• Bulgaria	• Japan	• Portugal
• Croatia	• Jordan	• Serbia
• Cyprus	• South Korea	• Singapore
• Czech Republic	• Lebanon	• Slovakia
• Denmark	• Latvia	• Slovenia
• Estonia	• Lichtenstein	• South Africa
• Finland	• Lithuania	• Spain
• France	• Luxembourg	• Sweden
• Germany	• Mauritius	• Switzerland
• Greece	• Mexico	• Turkey
	• Morocco	• United Kingdom

## 3 Australian Tourist Refund Scheme

### 3.1 Current scheme

Under the current Australian TRS, international visitors and Australian residents departing from Australia ('departing travellers') may be eligible to claim a refund for the GST and wine equalisation tax (WET) paid on certain goods<sup>28</sup>.

The conditions that must be met to claim a refund are outlined below:

Travellers must:

- spend \$300 (GST inclusive) or more in one store and get a single tax invoice;
- buy goods within 30 days before departure;
- wear or carry the goods on board the aircraft or ship and present them along with the original tax invoice, passport and international boarding pass to a Customs and Border Protection Officer (Customs) at a TRS facility;
- make claims at the airport up to 30 minutes prior to the scheduled departure of passenger flight;
- make claims at seaports no earlier than 4 hours and no later than 1 hour prior to the scheduled departure time of the vessel;
- apply for a refund only on goods one can take with them (unless aviation security measures, in regard to liquids, aerosols and gels prevent them from doing so) onto the aircraft or ship when they leave Australia;
- not apply for a refund for consumable goods, consumed or partly consumed in Australia, (such as wine, chocolate or perfume); and
- be an overseas visitor or Australian resident, except operating air and sea crew.

Customs is responsible for the administration of the TRS on behalf of the Australian Taxation Office (ATO). The TRS allows travellers to make a claim, subject to meeting the above conditions of the scheme, and receive a refund for the GST and WET they paid on goods purchased in Australia. The GST paid on the eligible product is refunded in full while the WET refund is 14.5 per cent of the price paid for wine.

Under Commonwealth procurement requirements, Customs released a Request for Tender in August 2010, to provide an electronic payment infrastructure to allow travellers to receive a TRS refund through their preferred payment method. In December 2010, Customs entered a contract with Global Blue Australia for the provision of Payment Delivery Services for the TRS. Customs worked closely with Global Blue's facilitation of TRS payments from February 2011. The new arrangements could potentially provide greater transparency of transactions and efficiencies regarding the investigation of claims. As part of this contract, Global Blue Australia

<sup>28</sup> The information presented in this chapter is based on the Australian Customs Department publically available information accessed at <http://www.customs.gov.au>

currently facilitates TRS payments and introduces a number of enhancements that could assist Customs with administration of the scheme.

### 3.1.1 Take-up rate

The take-up rate of a TRS system is influenced by several factors, including:

- value of the service to the consumer;
- quality of the service to the consumer;
- ease of access to the service by the consumer; and
- awareness of the service by the consumer.

These factors are common to the take-up and success of services in different industries across the economy. The above-factors will influence the supply of and demand for a TRS within a market.

Current data indicates that the take-up rate of TRS in Australia is relatively low at around 3-4 per cent meaning that 3-4 passengers in every 100 departing travellers are using the existing Australian TRS<sup>29</sup>. Similar rates were found in studies conducted by Access Economics in 2007<sup>30</sup> and CRA International in 2006<sup>31</sup>. The TRS uptake has not changed significantly since the inception of the scheme in July 2000.

Table 3-1: Tourist Refund Scheme take-up rate (short-term departures)

	2007	2008	2009	2010
Number of departing travellers ('000 persons)	11,329	11,384	12,463	13,350
Number of claims (000s)	407	451	444	477
Take-up rate (number of claims)	3.6%	4.0%	3.6%	3.6%
Total GST refunded (\$m)	54.0	72.0	68.3	74.4

Source: Australian Customs and Border Protection Service *Annual Report 2010-11* (and earlier issues) and Australian Bureau of Statistics, 2011, *Australian Tourism Satellite Account*, Cat. No. 5249.0, Canberra.

Although the current TRS appears to be relatively simple and accessible to all retailers and to all travellers at all departure points, the take-up rate of refunds (around 4 per cent of all departing travellers) is relatively low by international standards. This is potentially due to a lack of effective marketing and promotion of the TRS.

<sup>29</sup> A person can make more than one claim. Therefore, this estimate is a proxy to the actual TRS take-up rate.

<sup>30</sup> Access Economics 2007, *The economic impacts of outsourcing the Tourism Refund Scheme*, Department of Industry Tourism and Resources 2007

<sup>31</sup> CRA International 2006, *Review of tourist refund scheme options*, CRA International, 6 February 2006

### 3.1.2 Amount of GST/WET refunded

As shown in Table 3-2, the total TRS annual GST and WET refund has grown from \$42 million in 2000-01 to more than \$74 million in 2010-11 (in nominal terms). Total TRS claims have increased from 336 thousand claims in 2000-01 to 477 thousand claims in 2010-11. Notably, the average claim value has also increased from \$1,369 in 2000-01 to \$1,714 in 2010-11.

Table 3-2: Amount of GST/WET refunded

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Number of claims (000s)	336	389	389	433	441	437	407	451	444	477
Total refund (\$m)	41	47	47	50	53	57	54	72	68	74
Total value of claims (\$m)	451	516	516	548	578	626	594	792	751	818
Average claim (\$)	1,341	1,325	1,325	1,265	1,309	1,431	1,461	1,757	1,690	1,716

Source: KPMG estimates based Australian Customs and Border Protection Service *Annual Report, 2010-11* (and earlier issues).

## 3.2 Proposed new TRS arrangements

In the 2007-08 Commonwealth Budget<sup>32</sup>, the Australian Government announced a package of changes to the TRS. The package comprised two components:

- Component A: several (three) enhancements to the entitlements to undertake tax-free shopping; and
- Component B: introducing private providers.

There are significant differences in the requirements to be fulfilled to implement these two quite separate components.

### 3.2.1 Component A: Enhancements to entitlements to undertake tax-free shopping

Three specific enhancements to the entitlements of departing travellers to undertake tax-free shopping were announced, as follows:

- Under the new arrangements, the period during which travellers can purchase goods and be eligible to claim a refund of GST and WET through the TRS would be extended from 30 days to 60 days;
- The period during which travellers can make tax-free purchases through the duty free sealed bag system would also be extended from 30 days to 60 days; and
- Departing travellers will be allowed to aggregate separate invoices issues by the same retailer in order to meet the minimum expenditure threshold of \$300 (including GST).

In order to implement these widened enhancements to TRS refund entitlements, the Budget papers confirmed that the unanimous agreement of the States and Territories ('the States') would be required.<sup>33</sup> This requirement is consistent with the GST agreement between the

<sup>32</sup> Commonwealth Budget Paper No. 2, pg 26.

<sup>33</sup> Commonwealth Budget Paper No. 3, *Appendix C – GST Revenue Policy Decisions*

Commonwealth and the States, under which any change to the tax base, or the entitlements to GST refunds, would require the unanimous agreement of the Commonwealth and the States.

Amending regulations will be required to give effect to these changes.

It is understood that the unanimous agreement of the States has been obtained in relation to these proposed enhancements, and that amending GST regulations are expected to be tabled in the Federal Parliament in the near future.

The cost to the States of the likely increase in GST refunds resulting from the implementation of these enhancements is not known.

The 2007/08 Budget papers identified a total cost to GST revenue to the States, from both Components A and B of the package, as \$61m in 2007/08.<sup>34</sup> However, Budget Paper 3 did not disaggregate the estimate between Component A and Component B.

### 3.2.2 Component B: Introducing private providers

The second component of the package was a housekeeping change to the manner of operation of the TRS. It consisted of a decision that repayment arrangements under the TRS would be outsourced to multiple private refund providers. Under the proposed ‘private provider’ model, private sector operators would freely compete in the open market for the opportunity to make GST claims on behalf of departing travellers. The proposed claim process is illustrated in the following diagram.



<sup>34</sup> Commonwealth Budget 2007/08 Paper No. 3 – Appendix C – GST Revenue Policy Decisions

This proposal was of an operational nature, and would not have affected in any way, the entitlements of departing travellers to TRS refunds. The proposal did not constitute a change to the GST tax base, or to entitlements to refunds of GST.

Accordingly, this operational change did not require the agreement of the States. This was clearly confirmed in the Budget papers:

“The changes to the TRS (*other than introducing private providers*) and to the sealed bag system require the unanimous agreement of the States.”<sup>35</sup> (emphasis added)

However, in the 2008/09 Budget, the newly elected Commonwealth Government reversed this decision, and announced that it would not be proceeding with the private provider model.

It is understood that, under the proposal as previously announced, refund providers would be licensed to operate under this proposed outsourcing scheme if they met certain conditions, including:

- TRS refunds must be made available at all departure points;
- retailers must be able to access the system;
- refunds will be subject to audits and penalties will apply for inappropriate activity.

As stated above, the 2007/08 Budget papers did not identify any specific amount of GST revenue loss that would be directly attributable to the introduction of private providers.

The purpose of this paper is to identify the impact on (a) the Commonwealth Budget, and (b) the net GST (and other taxes) revenue of the States as a direct result of the introduction of private providers.

### 3.2.3 Economic implications

Contrary to the standard treatment of other exports, retail purchases by overseas visitors in Australia incur GST. In 2010-11, these export retail sales generated \$6.8 billion<sup>36</sup>, which (to put into some perspective) is nearly three times the value of Australia’s wool exports<sup>37</sup>. Despite this, the tourism sector does not enjoy the GST-free treatment of other export-oriented industries, an impediment that potentially hinders the international competitiveness of the Australian retail and tourism industries with potential detrimental flow-on impacts to the national economy.

As outlined previously, the economic rationale for TRSs relate to tax policy and tourism policy.

Australia has a comprehensive GST that seeks to tax the consumption of all goods and services at a common rate. The GST policy is not intended to tax consumption of goods and services that are exported overseas. The generally accepted international basis for imposition of consumption taxes is that cross-border trade should result in taxation in the jurisdiction where consumption occurs. This principle is adopted in many jurisdictions that have introduced consumption taxes.

There is a related economic justification for providing GST refunds to foreign visitors. Australia imposes GST on the consumption of imported goods but exempts all exports (including agriculture and manufacturing exports) from GST. Australian exporters are generally price takers on world markets. As a result, if GST were imposed on these exports, it would be

<sup>35</sup> Commonwealth Budget 2007/08 Paper No. 3 – Appendix C – GST Revenue Policy Decisions

<sup>36</sup> Australian Bureau of Statistics, 2011, *Australian Tourism Satellite Account 2010-11*, Cat. No. 5249.0.

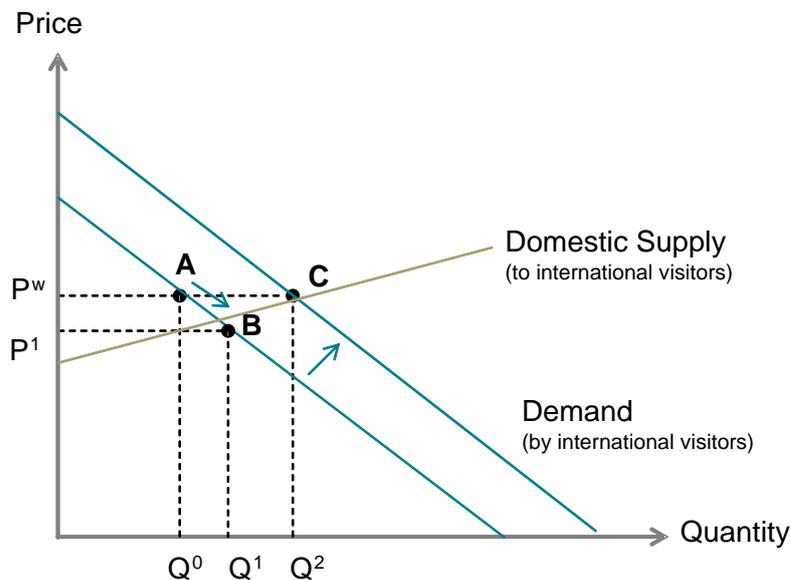
<sup>37</sup> Australian Bureau of Statistics, 2012, *International Trade in Goods and Services, Australia, June 2012*, Cat. No. 5368.0, Canberra

unlikely that the suppliers could pass the tax on to foreign consumers in the same way as businesses can pass on the GST to domestic consumers. The incidence of GST would then fall entirely on the exporter so that the after tax price of exports in Australia would fall by the amount of the GST. This would create a distortion in relative rates of return in the Australian economy, causing resources to flow from export goods to the import competing and non-traded goods sectors of the economy.

Accordingly, such a GST regime would be less efficient than a GST that consistently exempted exports. Expenditures by foreign tourists are exports. In the same way that Australian exports of manufactured products are purchased by overseas residents, expenditure by foreign visitors is also expenditure by overseas residents. Because foreign visitors will be charged GST while buyers of other Australian exports are not, the relative profitability of the tourism industry is reduced, causing the industry to be smaller than otherwise. GDP is lower as a result because, at the margin, resources are induced to flow away from higher to lower productivity activities. On resource allocation grounds there is an efficiency case for exempting tourism exports from GST.

Partial equilibrium (single market) economic impacts of introducing a TRS refund are illustrated in Figure 3-1.

*Figure 3-1: Partial equilibrium economic impact of TRS refund on the international tourist shopping market*



Source: KPMG analysis

Removing the GST on tourism exports reduces the price (to  $P^1$ ) and this flows through to increase the quantity of tourism exports (a movement along the export demand curve to  $Q^1$ ). Removing the GST on tourism exports also makes them more attractive to international consumers (in comparison to the same goods in other countries), and thus results in an increase in export demand until the price is again at the fixed world price for tourism shopping exports (the export demand curve shifts up).

The potential benefits of TRS are summarised in the following diagram.



### 3.2.4 Expected impacts of new TRS arrangements

There are a number of potential impacts associated with the proposed new TRS arrangements. These impacts are summarised in the following table.

Table 3-3: Potential impact of changes to TRS arrangements

Impact	Description
Competition resulting in increased promotion of the scheme	Multiple providers competing for tourist claims result in increased marketing and promotion.
Higher take-up rates	Increased promotion by providers raises consumer awareness and increases take-up rates.
Lower average price of tourism shopping	Increase in GST refunds lowers the average price of tourist purchases.
Increased demand for tourist products	Greater awareness of TRS increases number of incoming leisure tourists and an increase in shopping expenditure.
Change in government revenue	Increase in government revenue associated with increase in tourism expenditure. Decline in government revenue associated with increase in GST refunds.

Source: KPMG analysis and Access Economics Pty Limited, 2007, *The economic impacts of outsourcing the Tourism Refund Scheme*, report prepared for the Department of Industry Tourism and Resources, June.

### 3.3 Analysis of TRS

There have been a number of studies on the economic implications of tax-free shopping schemes<sup>38</sup>. Previous studies have focussed on the macroeconomic benefits of GST/VAT refunds, using either input-output (IO) multiplier analysis or general equilibrium (GE) models. In most studies, the models estimate the impact of VAT refunds on:

- changes in expenditure and GDP;
- value-added for factors of production (labour and capital);
- administration costs and consumer spending on tax revenue; and
- other tax revenues and overall net revenue impact on the government.

Some studies also report the changes in employment and output in tourism related sectors (e.g. transportation, accommodation, and food and beverage industries), changes in the number of foreign tourists or business travellers, and the changes in total expenditure of tourists and business travellers.

The following sections summarise two previous reports relating to the Australian TRS, namely:

- an IO analysis undertaken by CRA International on the privatisation of TRS; and
- a CGE analysis on the privatisation of TRS undertaken by Access Economics.

#### 3.3.1 CRA International

CRA International conducted one of the most comprehensive reports on TRSs in Australia<sup>39</sup>. CRA used IO multipliers to analyse the economic impact of privatising TRS. The study assumes that privatising the TRS will increase take-up rate of refunds, from 3.9 per cent to around 7.5 per cent. This assumption was not endogenously estimated; rather it is based on experiences from privately operated refund schemes outside Australia. Assuming the increase in take-up rate to 7.5 per cent, CRA International estimated a significant increase in tourist expenditure and GDP. There was also an increase in value-added on workers, owners of businesses and government revenue. These figures were questioned by Access Economics in their analysis (see following section).

CRA International comprehensively highlighted the benefit of privatisation, although the analysis fell short of quantifying these benefits. The report showed that privatisation of TRS could minimise information asymmetries and natural monopolies, hence minimising market failure. Furthermore, as the private sector has greater incentives to maximise take-up (to increase commission revenue), this policy objective of TRS is more likely to be achieved if privatised.

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<sup>38</sup> Examples include: Access Economics Pty Limited, 2007, *The economic impacts of outsourcing the Tourism Refund Scheme*, report prepared for the Department of Industry Tourism and Resources, June 2007; CRA International, 2006, *Review of tourist refund scheme options*, report prepared for Global Refund Australia Pty Ltd, February 2006; Louisiana Public Facilities Authority (2012), *Economic Development – Tax Free Shopping*, <http://www.lpfa.com/economic-development/Economic-Stimulus-and-Job-Creation/Tax-Free-Shopping>; and Vidar Christiansen and Stephen Smith (2001) "The Economics of Duty-Free Shopping" *CESifo Working Paper No 595*, October 2001.

<sup>39</sup> CRA International, 2007 update, *Review of tourist refund scheme options*, report prepared for Global Refund Australia Pty Ltd, February 2007.

The main findings of the CRA report with respect to the economic impacts of privatising the TRS in Australia are summarised below.

#### CRA International – Review of tourist refund scheme options

The review found that there would be substantial net benefits shifting the responsibility for the operation of the Australian TRS from the Australian Customs Service (ACS) to private refund operators. These benefits include:

- An increase in take-up rate of refunds from 3.9 per cent to around 7.5 per cent.
- An increase in inbound tourist/other spending in Australia of \$103.8 million.
- An increase in GDP/GSP of \$48.4 million.
- A net cost to government tax collections of \$1 million comprised of a decline in GST revenue (\$19.2 million) almost completely offset by an increase in income and other taxes (\$16.2 million) at the commonwealth level, and an increase in payroll tax (\$2 million) at the state level.

Source: CRA International, 2007 update, *Review of tourist refund scheme options*, report prepared for Global Refund Australia Pty Ltd, February 2007.

The CRA report suggests that the impact of private operation of the TRS on tourist spending in Australia and on income generation may be much larger than the above estimates. This is because most refund operators offer a range of services to affiliated retailers and tourists that have the potential to further increase the level of tourist spending. These include the provision of information to retailers that may enable them to better target and meet the needs of tourists. There are also promotional and training activities directed to increasing sales to tourists. Given the size of tourist spending, a modest success rate from these activities would induce a very large increase in the absolute value of tourist spending. In contrast, the Australian Customs Service has no incentive to promote tourist spending under the current TRS arrangements<sup>40</sup>.

### 3.3.2 Access Economics report

An Access Economics study on TRS privatisation in Australia built on the CRA International report by using a general equilibrium model. However, the Access Economics estimates only included the impact of GDP and government revenue at the state/regional level. Using CRA International's assumption on up-take value, it modelled a baseline scenario of 3.9 per cent take-up rate, and modelled two alternate scenarios of 7 per cent and 10 per cent take-up rates following privatisation of TRS.

The Access Economics 10 per cent take-up scenario was based on an outdated assumption in the original (February 2006) CRA study that modelled a series of changes to tourism shopping arrangements. These changes not only included privatisation of refund activities, but also included, amongst other things, a reduction in the TRS claim threshold from \$300 down to \$100. This additional change was expected to increase in the take-up rate further to around

<sup>40</sup> CRA International, 2006, *Review of tourist refund scheme options*, report prepared for Global Refund Australia Pty Ltd, February.

10 per cent. As noted above, the updated CRA report (2007) modelled a 7.5 per cent take-up rate when analysing the private provider model in isolation.

The Access Economics report showed a positive economic impact on export and output of the tourism sector and changes in tax revenue and GDP for each state in Australia<sup>41</sup>. The main findings of the Access Economics report with respect to the economic impacts of outsourcing the TRS in Australia are outlined below.

#### Access Economics - The economic impacts of outsourcing the Tourism Refund Scheme

General equilibrium modelling of a reduction in the price of tourism exports indicates that it drives additional economic activity; increasing real GDP by \$53.5 million. This increase in activity claws back only \$7.7 million in GST revenues and \$9.9 million in other State taxes. The net revenue loss to the States and Territories is thus \$14.8 million.

Source: Access Economics Pty Limited, 2007, *The economic impacts of outsourcing the Tourism Refund Scheme*, report prepared for the Department of Industry Tourism and Resources, June.

### 3.3.3 This KPMG study

The CRA International and Access Economics studies aimed to quantify the economic benefits of privatising the TRS. This analysis builds on these previous studies.

Key improvements in this study:

- it separates tourist products from take home products to make a more direct application of the change in refunds;
- it uses more up-to-date Australian Input-Output Tables<sup>42</sup> and Tourism Satellite Accounts<sup>43</sup> published by the ABS;
- it maps the product categories in Tourist Satellite Accounts into the economic model product categories;
- effective GST rates on outbound traveller shopping are calibrated based on the Australian Customs and Border Protection Service data<sup>44</sup> and Tourism Satellite Accounts<sup>45</sup> data and the model database;
- direct and indirect economic impacts of TRS with a 7 per cent take-up rate is estimated; and
- it is more comprehensive in terms of accounting for microeconomic and macroeconomic relationships and refinement to the implementation of TRS.

<sup>41</sup> Access Economics Pty Limited, 2007, *The economic impacts of outsourcing the Tourism Refund Scheme*, report prepared for the Department of Industry Tourism and Resources, June.

<sup>42</sup> Australian Bureau of Statistics, 2011, *Australian National Accounts: Input-Output Tables, 2007-08*, Cat. No. 5215.0.55.001, Canberra.

<sup>43</sup> Australian Bureau of Statistics, 2011, *Australian National Accounts: Tourism Satellite Account, 2010-11*, Cat. No. 5249.0, Canberra.

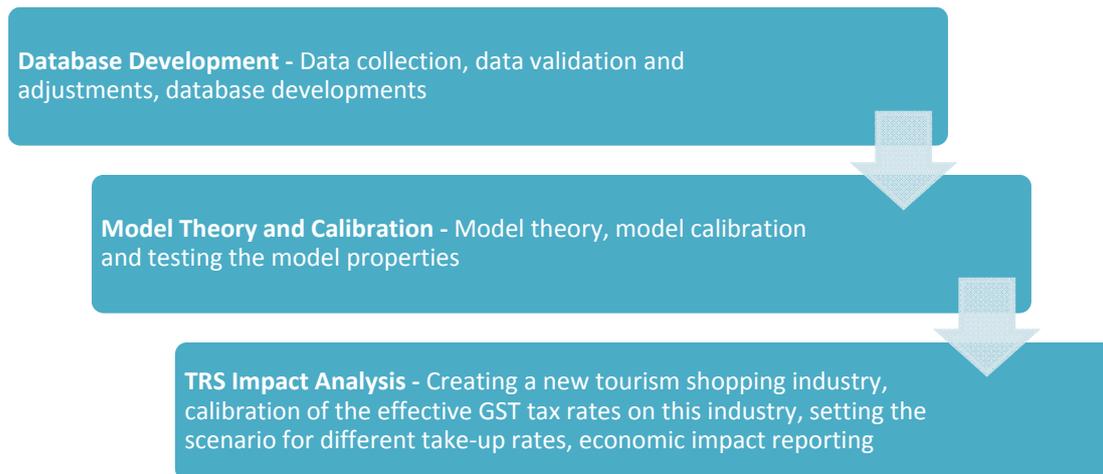
<sup>44</sup> Australian Customs and Border Protection Service, 2011, *Annual Report 2010-11*, Canberra.

<sup>45</sup> Australian Bureau of Statistics, 2011, *Australian National Accounts: Tourism Satellite Account, 2010-11*, Cat. No. 5249.0, Canberra.

## 4 Method of analysis

This section discusses the key assumptions underpinning the Australian modelling exercise and provides a brief description of the formal modelling framework.

KPMG's approach to the model development and scenario analysis is outlined in the following diagram.



The model database is based on the ABS 2007-08 input-output (I-O) tables<sup>46</sup>. Using this database as a starting point, KPMG has developed a comparative static computable general equilibrium (CGE) model for the Australian economy.

### 4.1 Database development

The Australian 2007-08 I-O tables provide the key building block of the Australian CGE model database. The Australian I-O database specifies 111 industries and products. A complete list of these industries and products is provided in Appendix A.

To meet the CGE data requirements, additional information was required relating to the investment by sector and by products. This additional data was sourced from the ABS National Accounts. To better reflect the TRS scheme, the retail products purchased by the departing travellers were extracted from the existing household final expenditure data and allocated to a new "tourism shopping" industry. The entire output of this new industry is exported and pays GST. An effective GST rate is calibrated for this new industry based on the current GST collections, expenditure and (3.6 per cent) TRS take-up rate. With this new industry/commodity, the Australian model has 112 industries and products.

<sup>46</sup> Australian Bureau of Statistics, 2012, *Australian National Accounts: Input-Output Tables, 2007-08*, Cat. No. 5215.0.55.001, Canberra.

## 4.2 Model theory and calibration

KPMG has developed a fully specified CGE model for implementation and scenario analysis of TRS uptakes. The model enables analysis of the impact of policies on the Australian economy. Specifically, the model provides estimates of the total direct and indirect impact of TRS uptake rates on key economic indicators for the Australian economy, including:

- industry value-added;
- wages and salaries;
- gross returns to capital;
- living standards (as measured by household consumption); and
- other key macroeconomic indicators.

The CGE core is based on a small open economy model of Australia with nested production and utility functions. Figure 4-1 is a schematic representation of the core's input-output database of Australia. The main features that can be seen in this schematic are described below.

- The rows show the structure of the purchases made by each of the agents identified in the columns.
- Each of the commodity types identified in the model can be obtained within the country or imported from overseas.
- The commodities are used by industries as inputs to current production and capital formation, or are consumed by households and governments, are exported and are accumulated as inventories.
- Only domestically produced goods appear in the export column.
- There are 12 domestically produced goods that are used as margin services which are required to transfer commodities from their sources to their users.
- Various types of commodity taxes are payable on the purchases.
- As well as intermediate inputs, current production requires inputs of three categories of primary factor: labour (divided into occupations), capital and agricultural land.
- The “other costs” category covers various miscellaneous industry expenses.
- Each cell in the input-output table contains the name of the corresponding matrix of the values (in some base year) of flows of commodities, indirect taxes or primary factors to a group of users.

Figure 4-1: CGE model theoretical structure

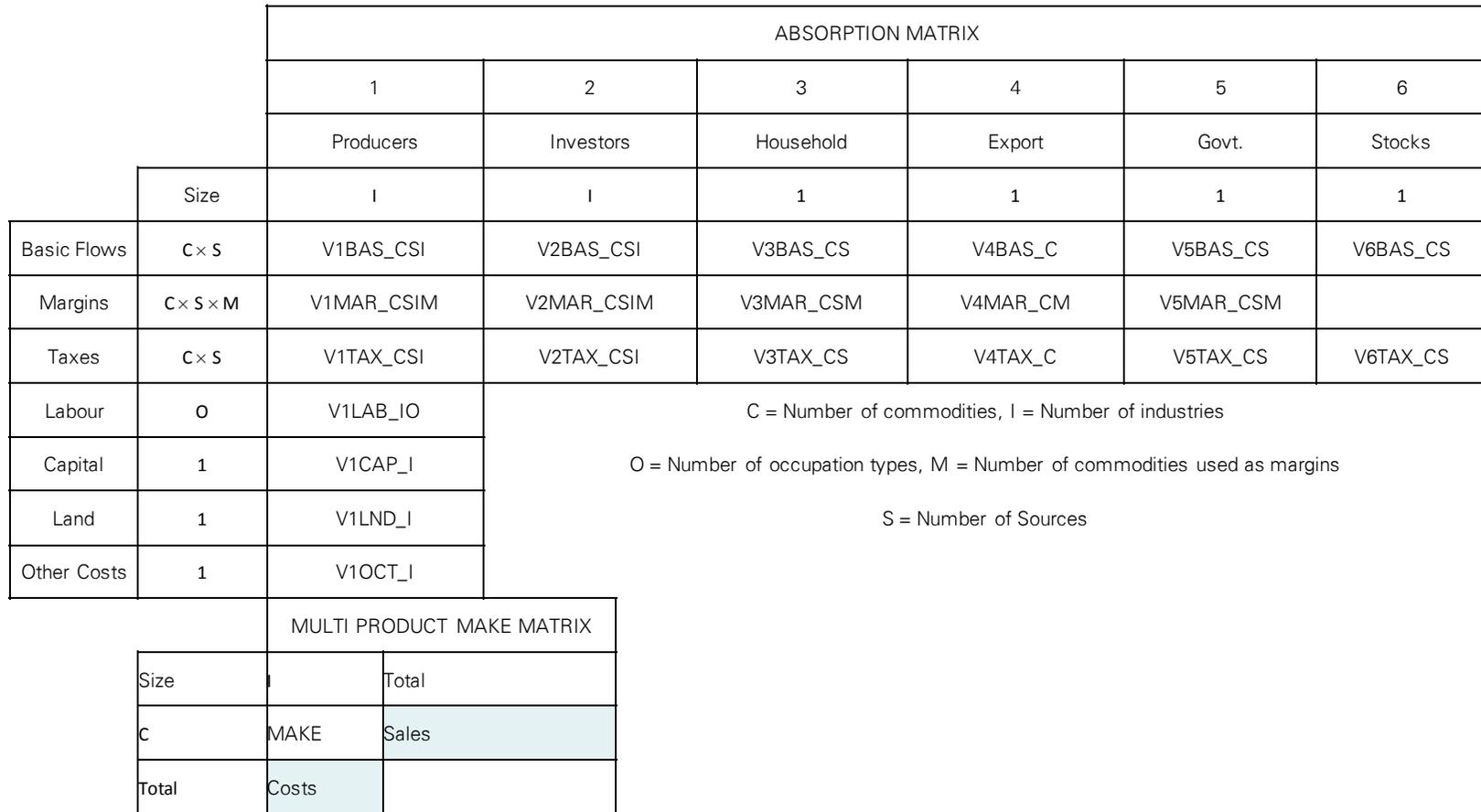


Figure 4-1 is also suggestive of the theoretical structure required of the CGE core, which includes: demand equations required for our six users; equations determining commodity and factor prices; market clearing equations; definitions of commodity tax rates. The equations of the CGE core can be grouped according to the following classification:

- producers' demands for produced inputs and primary factors;
- demands for inputs to capital creation;
- household demands;
- export demands;
- government demands;
- demands for margins;
- zero pure profits in production and distribution;
- indirect taxes;
- market-clearing conditions for commodities and primary factors; and
- national macroeconomic variables and price indices.

The MAKE multi-production matrix indicates that a commodity may be produced by more than one industry or that a single industry may produce more than one commodity.

### 4.3 Data collection

To analyse the economic impacts of the TRS, it was necessary to compile some key data and make economic assumptions. These data were primarily sourced from the Australian Bureau of Statistics and previous analyses.

The key tourism data used in the scenario design are listed below.

Table 4-1: Key tourism data used in CGE modelling

	2007-08	2008-09	2009-10	2010-11
International traveller shopping expenditure (\$m)	2,637	2,807	2,776	2,859
Domestic departing traveller shopping expenditure (\$m)	3,211	4,039	4,742	5,553
Total departing traveller shopping expenditure (\$m)	5,848	6,846	7,518	8,412
Departing international travellers ('000 persons)	5,629	5,541	5,692	5,907
Short-term departures by Australian residents ('000 persons)	5,700	5,843	6,771	7,443
Total departing travellers ('000 persons)	11,329	11,384	12,463	13,350
Av. spend on take home shopping by international travellers (\$)	468	507	488	484
Av. spend on take overseas shopping by domestic residents (\$)	563	691	700	746
Av. spend on take overseas shopping (\$)	516	601	603	630
Total GST refunded (\$m)	54	72	68	74
Total value of spend claimed against (\$m)	594	792	751	818
Number of claims (000s)	407	451	444	477
Average value of spend claimed against (\$)	1,461	1,757	1,690	1,716

Source: KPMG estimates; Australian Customs and Border Protection Service *Annual Report, 2010-11* (and earlier issues); Australian Bureau of Statistics, *Australian Tourism Satellite Accounts 2011* (cat. no. 5249.0).

The data and estimation process was as follows.

- Total *traveller shopping expenditure* and the *number of departing travellers* are both known. *Average shopping expenditure* by travellers is simply expenditure divided by the number of tourists.
- The total amount of *GST refunded* under the scheme is also known. This, combined with the *GST rate*, can be used to infer the value of *tourism shopping claimed against*. This value can be divided by the *number of claims* made in order to obtain the value of the *average claim*.
- An increase in the take-up rate would increase the number of claims, but would likely lower the average amount per claim. The total amount refunded is the *number of claims* x *average claim* x *the GST rate*.

#### 4.3.1 Take-up rates and ‘average’ claim

This analysis examines the impact of a proposed reform to the TRS, which aims to make it more accessible to tourists.

- In 2010-11, the TRS take-up rate was 3.6 per cent under the current TRS arrangements.
- This study follows the updated CRA report in examining the impact of a private provider model in isolation. Thus, this analysis examines the impact of a 7 per cent take-up rate, which is based on Treasury estimates of the take-up rate after the implementation of the proposed changes to allow TRS private refund providers<sup>47</sup>.

Thus, this analysis examines the likely impacts under a movement from 3.6 per cent to a 7 per cent take-up rate.

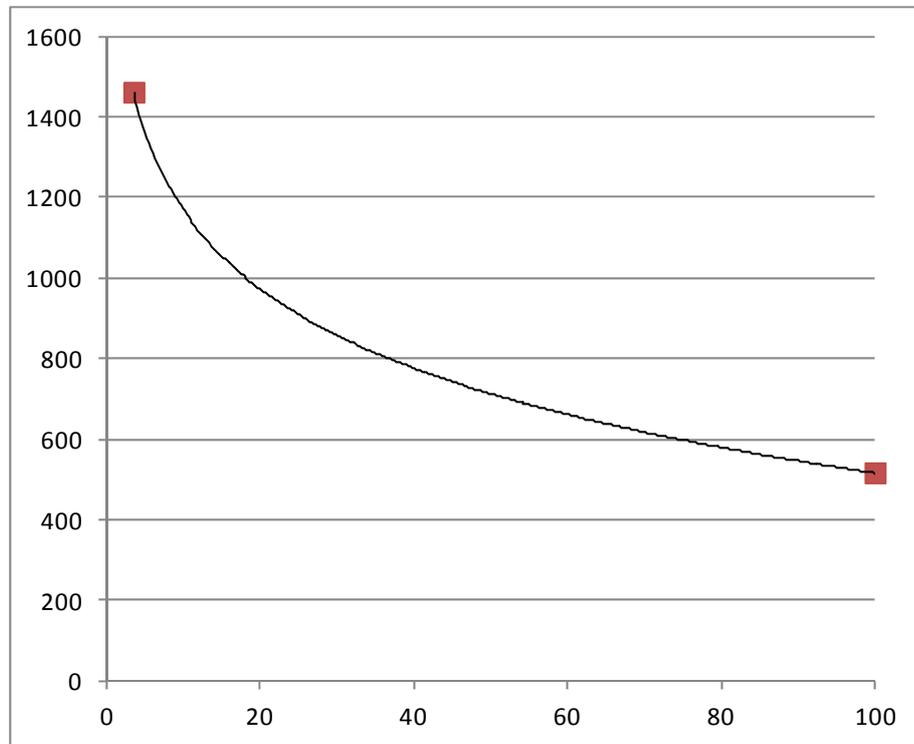
To examine the impact of this change in take-up rates, we first need to estimate what this means in terms of additional GST refunds. This requires an estimate of the relationship between the expected take-up rate and the value of the average claim, as well the value of total expenditure.

In 2007-08, the average spend claimed against, across departing international and Australian travellers, was \$1,461 (Table 4.1). The overall average spend (claimed and not claimed against) across this same group was \$516. Thus, if more of this overall spending is claimed against (all else being equal), the average spend claimed against is lower.

It is estimated that the average TRS claim will be lower, the higher the take-up rate (all else being equal). The basis for this assumption is that relatively high spending tourists have a greater incentive to make claims. As awareness increases among tourists under a private scheme, average spend per claim is lower as lower spending claimants become aware of the refund scheme. The KPMG analysis assumes that the relationship between the expected take-up rate and the value of the average claim is likely to take the non-linear form shown in Chart 4-1 (a similar assumption was made by Access Economics in their 2007 report). It should be noted that this does not mean that the average spend on shopping will not increase over time. This also assumes that the average spend is not significantly impacted by additional shopping stimulus.

<sup>47</sup> Access Economics Pty Limited, 2007, *The economic impacts of outsourcing the Tourism Refund Scheme*, report prepared for the Department of Industry Tourism and Resources, June, p.9

Chart 4-1: Projected average TRS claim for a given take-up rate



Source: KPMG estimates based on the Australian Bureau of Statistics, Australian *Tourism Satellite Account*, 2012, Cat. No. 5249.0 and Australian Customs and Border Protection Service *Annual Report 2010-11*.

#### 4.3.2 'Average' GST rate on tourist shopping

The 'average' GST rate for international visitor spending on shopping in Australia is calculated based on the information in Table 4-1.

- It is estimated that the current average GST rate is around 8.9 per cent. This is calculated as
  - the GST applicable on the total departing traveller shopping expenditure (10 per cent x \$5.3 billion before tax = \$532 million);
  - less the current refund (\$532 million - \$54 million = \$478 million);
  - divided by the total departing traveller shopping expenditure (\$478 million / \$5.3 billion = 8.9 per cent).
- The new average GST rate is estimated at 8.0 per cent under a take-up rate of 7 per cent.

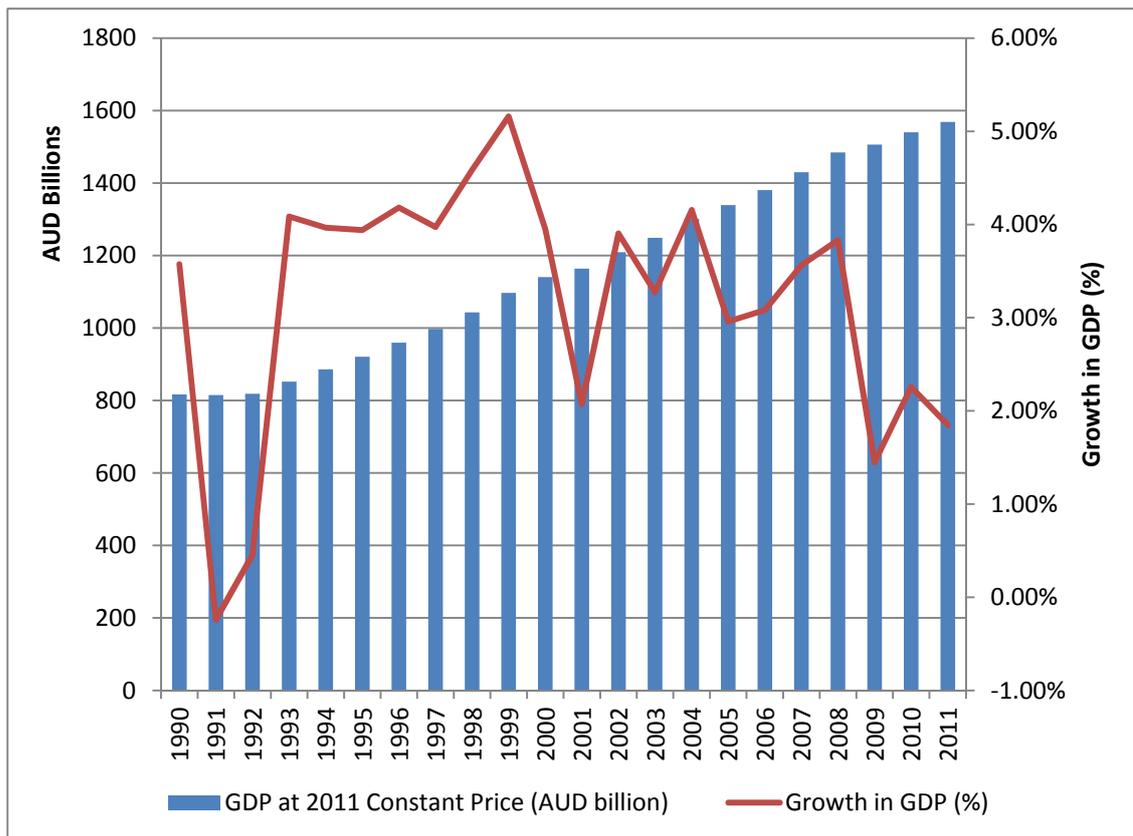
## 5 Tax-Free Shopping in Australia

### 5.1 Economic baseline

#### 5.1.1 Australian economy

For the most part of the past two decades, Australia has experienced strong economic growth, averaging 3.4 per cent in the 1990s and 3 per cent since 2000. Unemployment is around 5 per cent, half that of many developed northern hemisphere countries. Inflation is contained and the Australian Government’s net debt is amongst the lowest in the OECD countries. The strong economic performance in Australia follows from a significant rise in the terms of trade and demand for Australia’s minerals and natural gas exports, notably from China and other Asian countries.

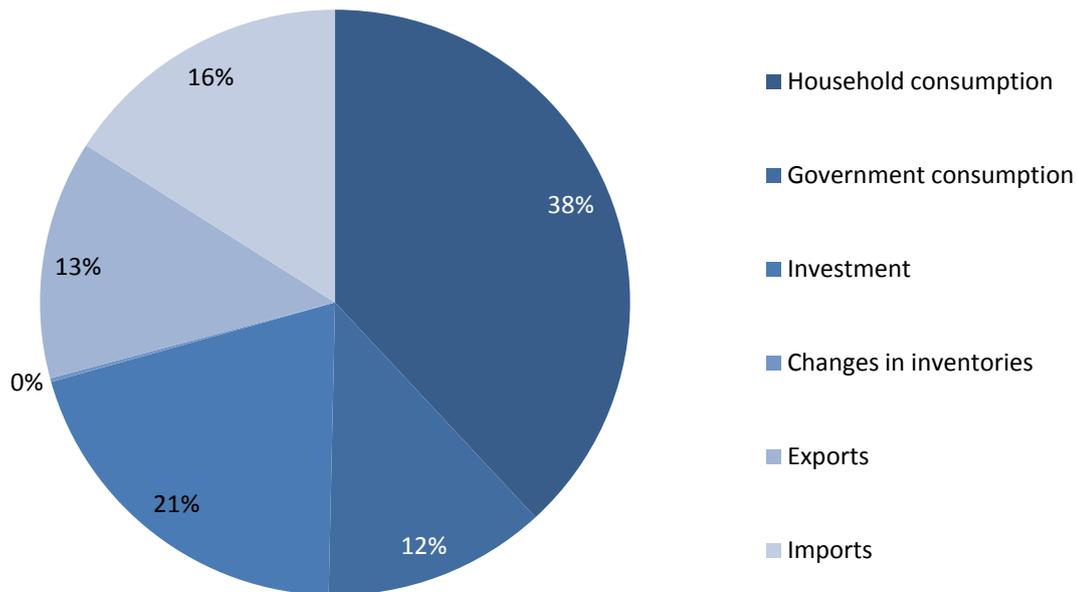
Chart 5-1: GDP Levels and Growth Rate for Australia



Source: World Development Indicator, World Bank

The following chart shows Australia's GDP by expenditure components for the most recent financial year of 2011/12.<sup>48</sup>

Chart 5-2: Share of GDP expenditure components, chain volume measures, 2011/12



Source: Australian Bureau of Statistics, Catalogue No. 5206.0

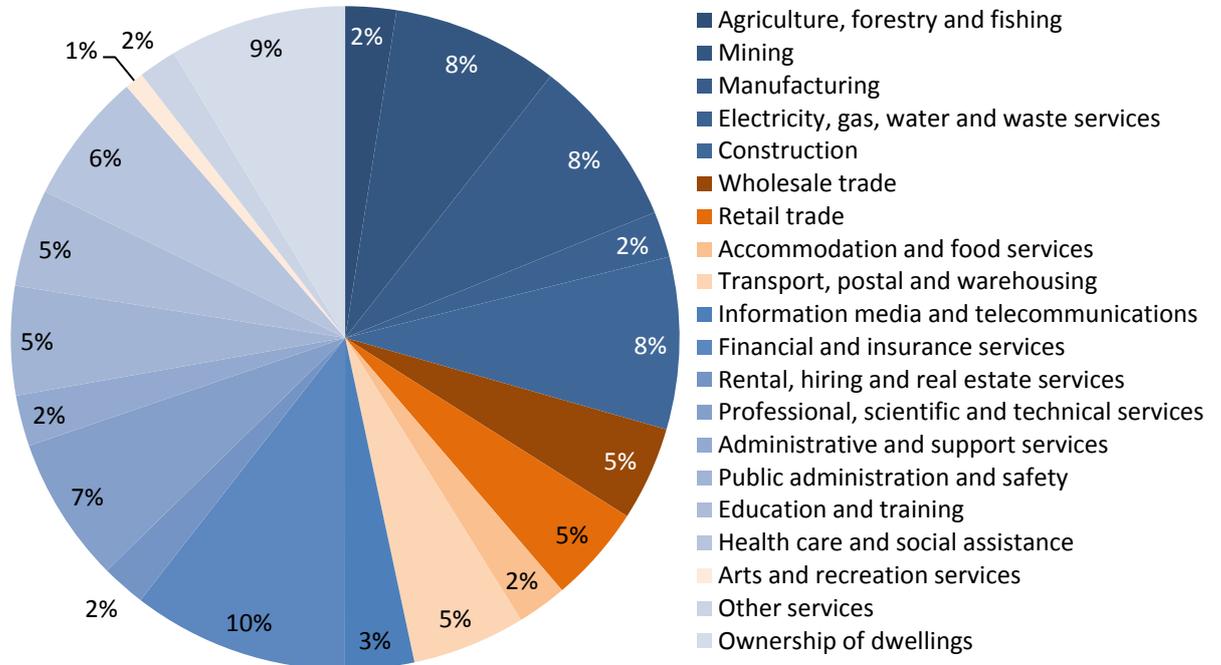
In terms of output, Australia's major industries are the services and manufacturing industries. While the share of the manufacturing industry has declined, in absolute terms, manufacturing production has continued to expand. Services industries have grown significantly over the past 50 years, rising from around 60 per cent of total output in the 1960s to around 80 per cent recently. In the 1950s, services were closely linked to manufacturing, with wholesale trade and transport supporting the production and distribution of manufactured goods. Since then, the share of distribution services has steadily fallen, consistent with the declining relative importance of manufacturing and also agriculture. In contrast, the fastest growing service industries in recent years have been business services, including financial and professional services, and social services such as health and education.

Given the relatively high labour intensity of the services sector, most of the employment falls within this industry. As evident in Chart 5-4, the services sectors employ a significant proportion of the labour force, mostly within the healthcare and social assistance, retail trade and professional and scientific sectors.

As shown in the two charts below, the retail trade sector in financial year 2011/12 contributed 5 per cent of Australia's output, and employs 11 per cent of total employment. The charts also highlight the contribution of industries that supply the tourist market (orange pieces).

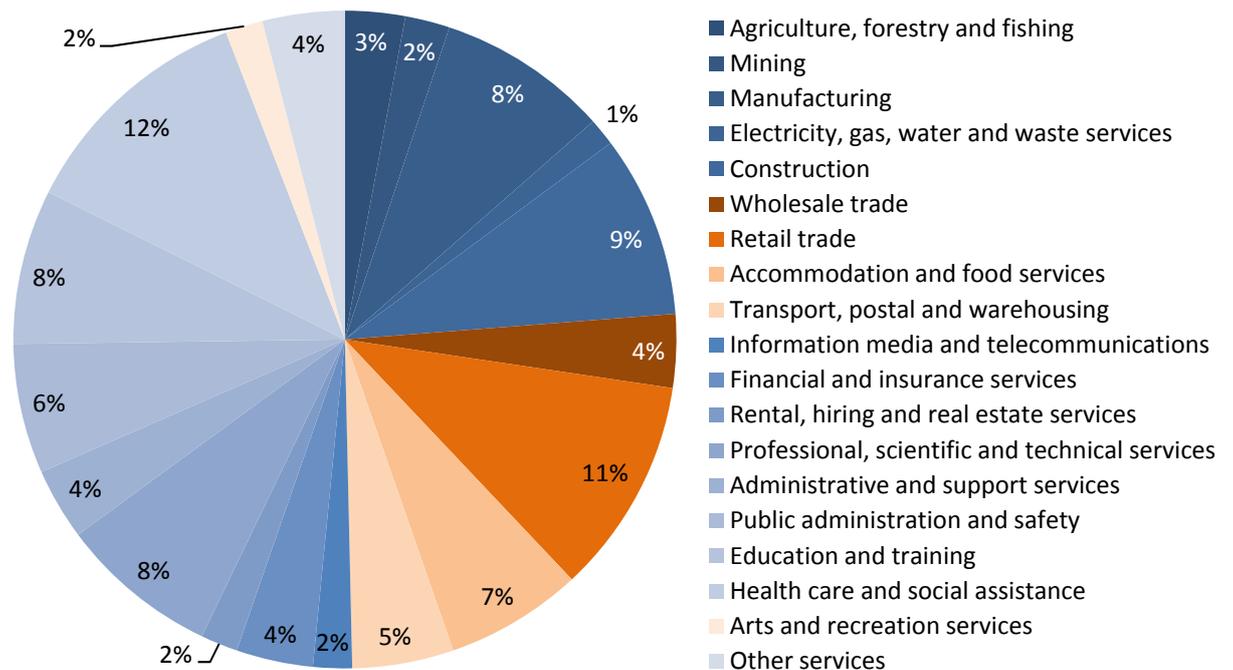
<sup>48</sup> Chain volume measures.

Chart 5-3: Share of Value Added by Industry, chain volume measures, 2011/12



Source: Australian Bureau of Statistics, Catalogue No. 5206.0

Chart 5-4: Share of Employment by Industries, 2011/12



Source: Australian Bureau of Statistics, Catalogue No. 6291.

## 5.1.2 Tourism

The tourism industry is an important contributor to Australia’s economy, given the country’s small open economy status, its abundance of unique landscape, and its proximity to the growing Asian market. Australia ranked in the 8<sup>th</sup> place in tourism expenditure receipts in 2011, receiving over US\$31 billion from tourism.<sup>49</sup>

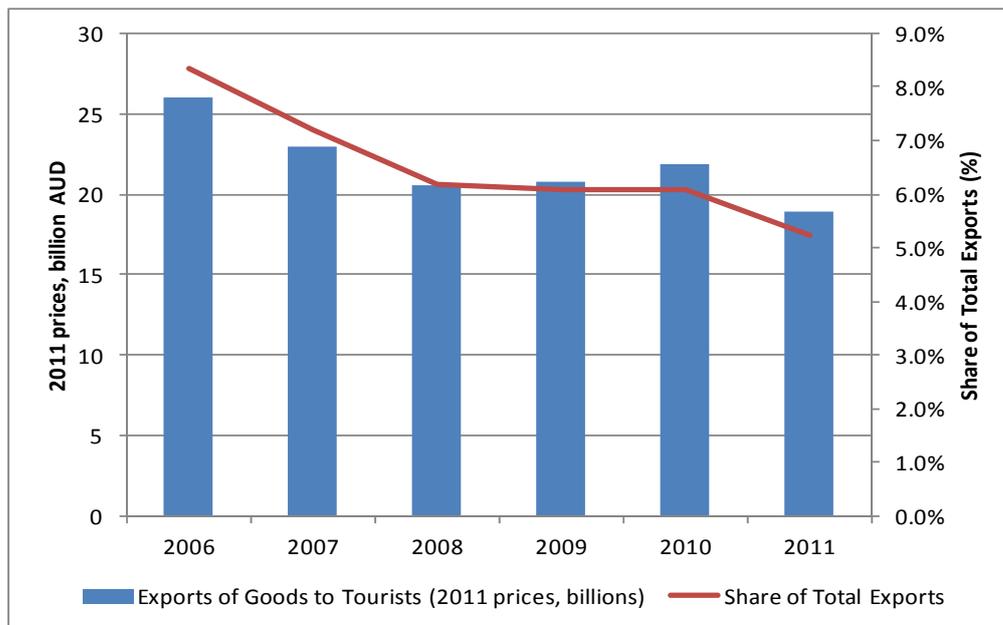
However, the industry has also been facing many challenges, such as increased competition from overseas tourist destinations, the adverse impact of the strong Australian dollar, and reduced appetite for travel amidst global economic uncertainties. According to the latest research by the Department of Resources, Energy and Tourism (DRET), Australia’s share of the global total has been mostly on the decline since the early 2000’s (in terms of arrivals), while its contribution to total arrivals has been on the rise roughly over the same period. This highlights a need for the Australian tourism sector to increase its attractiveness to global travellers.

The following two charts depict Australia’s exports of goods to tourists and tourism receipts, in constant 2011 Australian dollar (AUD) levels and as a relative share. Reporting in constant 2011 AUD enables better comparison of the figures in these different years, as this compares the “real” or “inflation adjusted” impacts.

Broadly, these statistics support the finding of the DRET research (discussed above), namely that Australia’s tourism sector has been experiencing challenges in recent years.

Chart 5-5 shows that real, or inflation-adjusted, exports of goods to tourists have been falling for most years between 2006 and 2011. Its share of total exports is also on the decline.

*Chart 5-5: Australia’s Exports of Goods to Tourists, levels (constant 2011, billion AUD) and as a share of Total Exports*

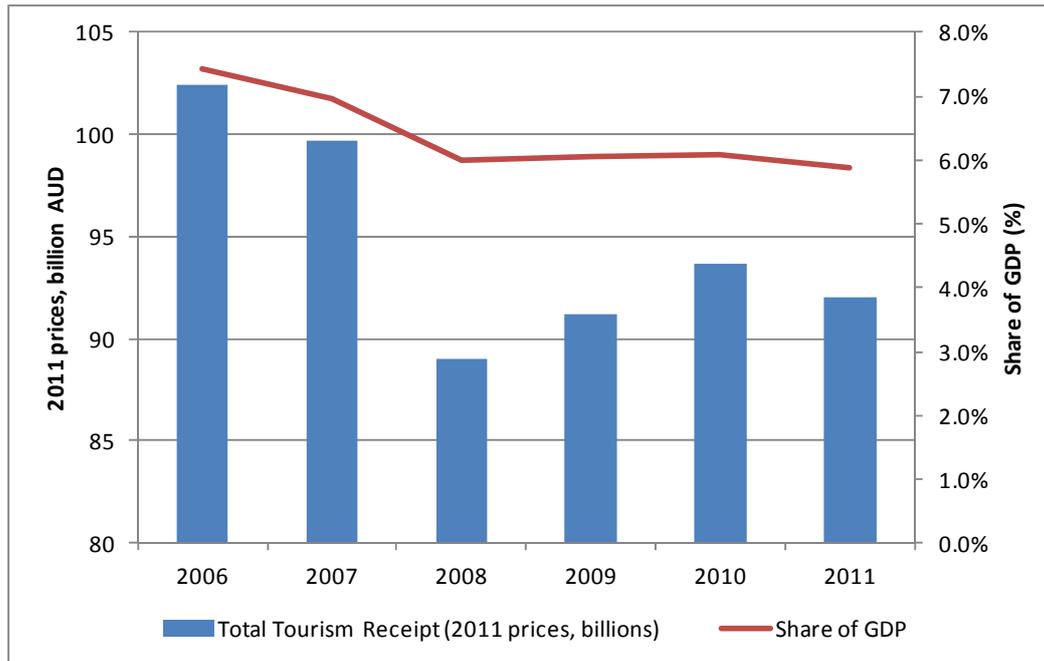


Source: World Tourism Organisation.

<sup>49</sup> Tourism Industry Facts & Figures at a glance, Tourism Research Australia, Department of Resources, Energy and Tourism, September 2012.

Chart 5-6 further depicts the sluggishness in Australia’s tourism sector. It indicates that the inflation-adjusted tourism receipts in years 2007-2011, especially those in 2008, were lower compared to 2006. It also shows that the tourism receipts share of GDP has also declined.

Chart 5-6: Australia’s Tourism Receipts, levels (constant 2011, billion AUD) and as a share of Total GDP



Source: World Tourism Organisation.

Australia’s tourism sector would likely benefit from some additional stimuli and support to experience a turnaround and improve its position in the world tourism market. While factors, such as subdued global tourist appetite and the high Australian dollar, are somewhat determined in the world market, there are policies that may be implemented locally to improve Australia’s competitiveness. In particular, the previously discussed relatively low TRS take-up rate is an area that might be improved. The remainder of this report examines the potential economic impacts of increasing Australia’s current TRS take-up rate.

The following section describes in detail the scenarios developed for the economic impact analysis and outlines the findings of the analysis.

## 5.2 Economic impact of the TRS private provider model in Australia

### 5.2.1 Scenarios

To analyse the economic impacts of changes to the tax refund scheme in Australia, KPMG considered the following scenarios:

- Base Case – the TRS take-up rate remains at its current level of 3.6 per cent;
- Alternative Scenarios – the TRS take-up rate increases to a rate of 7 per cent and:
  - Scenario Two – tourism export price elasticity is -2;
  - Scenario Three – tourism export price elasticity is -3;
  - Scenario Four – tourism export price elasticity is -4; or
  - Scenario Five – tourism export price elasticity is -5.

We have modelled the increase of the TRS take up under four conditions to highlight the importance of the sensitivity of tourist shopping export demand to the price of tourist shopping. As the bulk of the economic impact of the introduction of the TRS is dependent on the change in behaviour of tourist shoppers, this sensitivity is critical in determining these overall impacts. Other economy-wide modelling of Australian tourism have used values such as -3 (used in the MONASH model<sup>50</sup>) and -4 (used in the MM900 model<sup>51</sup>) for these elasticities.

As a small open economy, Australia faces highly price sensitive export demand for most products, making Australian exporters virtually price takers in the global market. However, Australia's tourism offerings are differentiated from other countries and, as such, Australian tourism exports face a lower level of price sensitivity compared to other Australian exports. Our central case is based on a tourist shopping export demand elasticity of -4 (a generally well-accepted estimate), but for completeness, smaller and larger elasticities have also been considered in this analysis.

Modelling results are reported in terms of the deviation between the baseline and the scenario, in both percentage terms and levels (in 2007-08 prices). The net economic impact for each scenario is estimated by comparing the results from the two sets of simulations (baseline and scenario). The impacts of the TRS take-up rate is measured by differences between the business-as-usual and different take-up scenario at a point in time. Net economic effects are the result of a complex interaction of multiple effects.

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<sup>50</sup> P. Dixon and T. Rimmer, 1999, The Government's Tax Package: Further Analysis based on the MONASH Model, CoPS/IMPACT Working Paper Number G-131

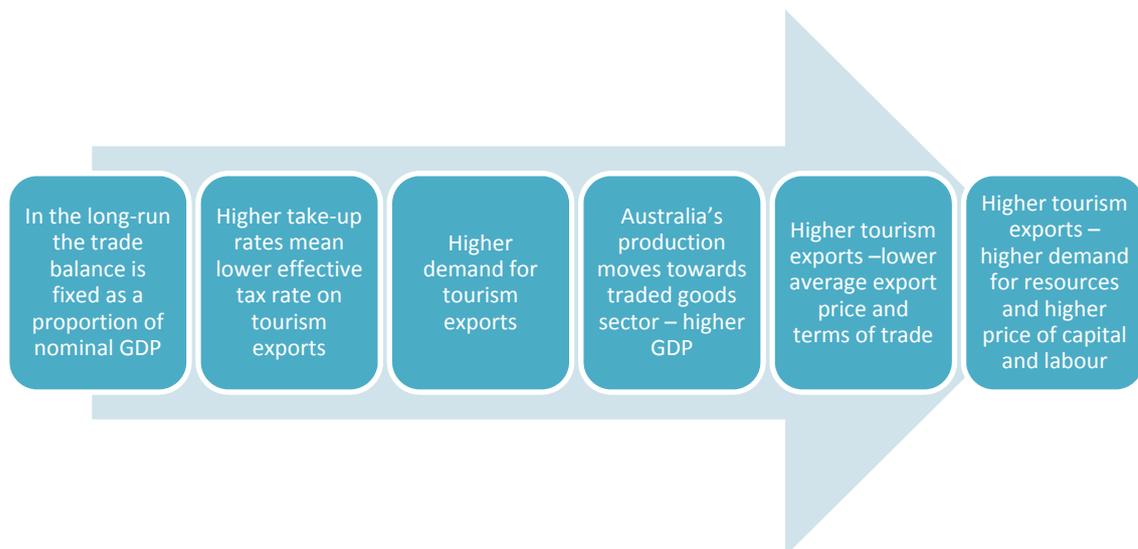
<sup>51</sup> KPMG Econtech, 2010, CGE Analysis of part of the Government's AFTSR Response, Treasury 2010

The economy-wide impact of TRS, for example, is made up of the following direct and indirect components.

- The **direct economic impact** of an expanded tax-free shopping scheme is lower GST collected on tourist shopping. This makes the average price of take-home products lower than would otherwise be the case and the quantity demanded for those products will increase.
- The **flow-on** economic effects are additional tourism activity, the downstream effects on sectors of the economy, plus additional inputs purchased from upstream sectors as a result of higher activity.
- The **multiplier** is a ratio of the total (direct plus flow-on) impacts to the direct impacts.

### 5.2.2 Economic impact

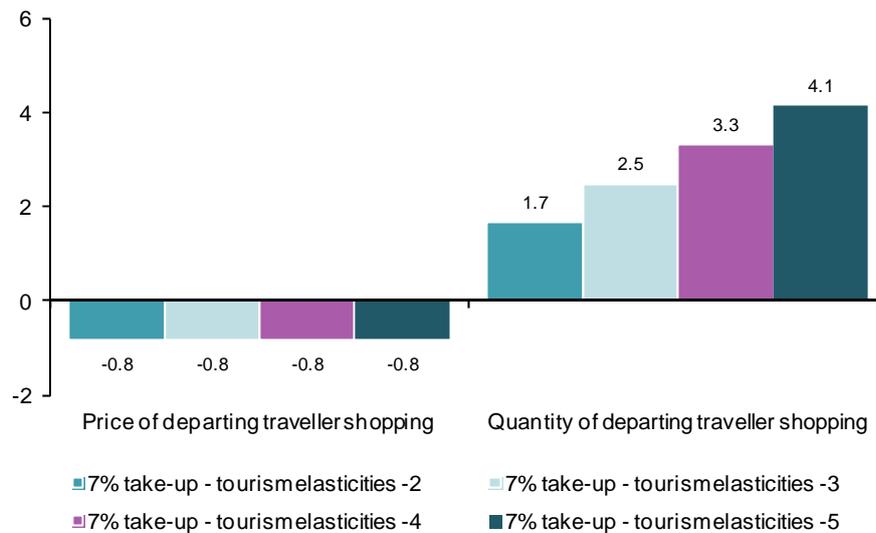
The results of the economic modelling and analysis are summarised in the following diagram and detailed below.



Impact on demand for tourism products

The impact of the private provider scenario on the demand for tourism products is summarised in the following chart.

*Chart 5-7: Impact of the TRS private provider model on demand for tourism products (% change from baseline, all simulations)*



Source: KPMG analysis

Notes: departing traveller shopping is defined here as departing traveller purchases of goods to take overseas

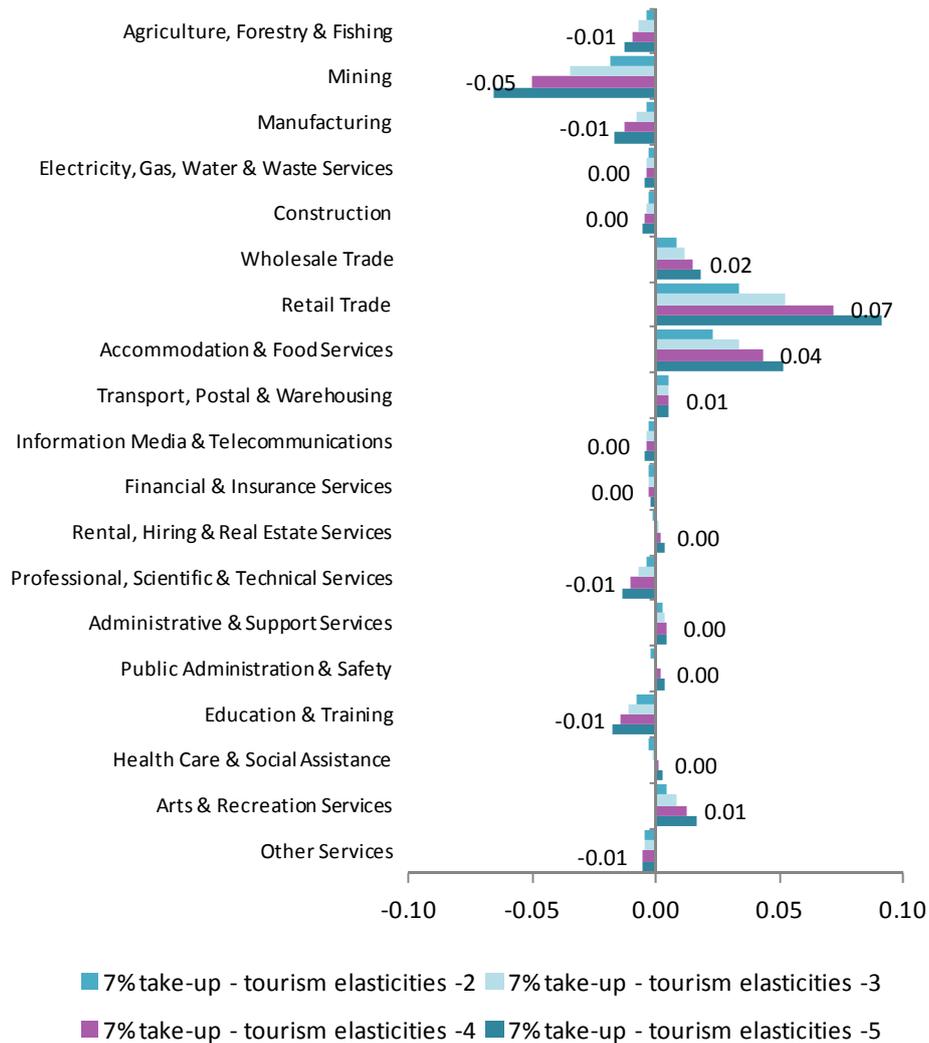
As described earlier, under a higher take-up rate (or with greater access to GST refunds), the average price of tourism shopping exports is lower. The lower price of traveller shopping results in higher demand for traveller shopping products.

Under the 7 per cent take-up, the average price across all traveller shopping is 0.8 per cent lower. Assuming a -4 price elasticity of tourism exports, this leads to higher demand of 3.3 per cent, compared to the 3.6 per cent take-up baseline.

Impact on industry activity

The impact of the private provider scenario on economic activity is summarised in Chart 5-8.

*Chart 5-8: Impact of the TRS private provider model on industry activity (% change from baseline, all simulations)*



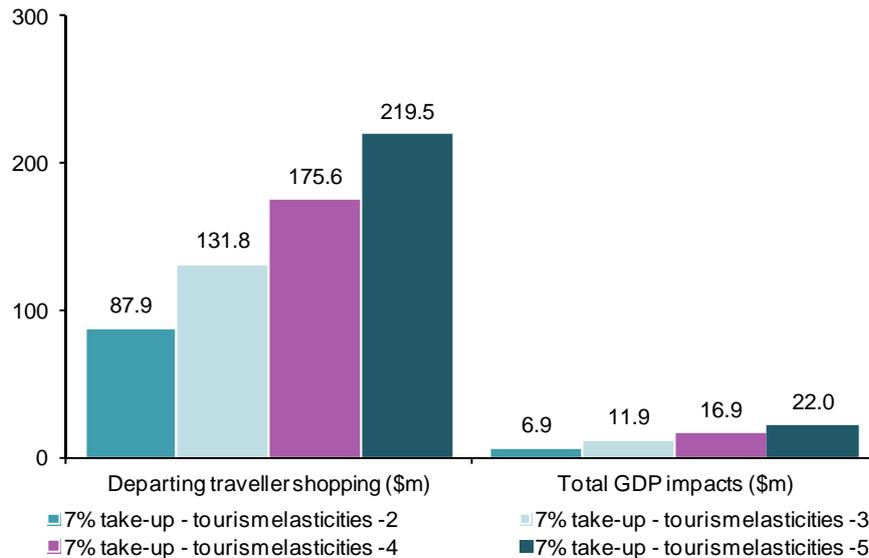
Source: KPMG analysis

The industries that service the tourist industry show the biggest impact, with value-added in the trade, accommodation and food services industries all higher compared to the baseline. Some industries have lower value-added, as they face higher prices or exchange rate pressures.

### Impact on GDP

The impact of the private provider scenario on GDP is summarised in Chart 5-9.

*Chart 5-9: Impact of the TRS private provider model on GDP (\$m, 2007/08, annual deviation from baseline, all simulations)*



Source: KPMG analysis

Notes: tourist shopping is defined as international visitor purchases of goods to take-home

The direct economic impact of the private provider scenario is that the lower GST collected on traveller shopping encourages more traveller shopping exports compared to the 3.6 per cent take-up baseline. The price of traveller shopping exports is expected to be lower under the scenario (as more GST refunds are accessed) and, as a result, the quantity demanded is higher.

Specifically, the \$175.6 million annual increase in traveller shopping under the -4 elasticity scenario is equivalent to the 3.3 per cent rise in the quantity of traveller shopping (shown in Chart 5-3), compared to the baseline.

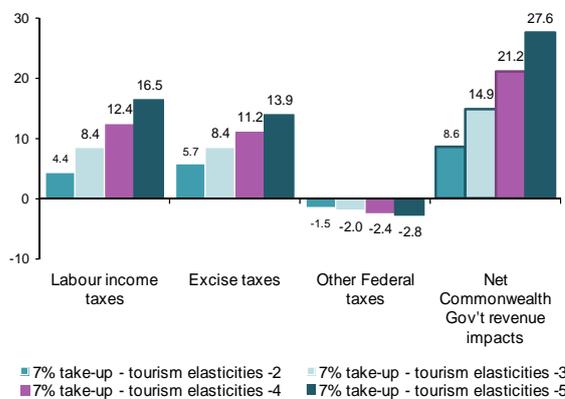
The flow-on economic effects are additional tourism activity, the downstream effects on sectors of the economy, plus additional inputs purchased from upstream sectors as a result of higher activity.

The total average annual GDP (compared to the 3.6 per cent take-up baseline scenario) is estimated to be higher by \$16.9 million under the -4 elasticity scenario (this is explained in more detail under chart 5-13). Under this scenario, each additional \$1 in tourism shopping induced by the current TRS scheme, flows through to an additional \$0.10 in GDP activity.

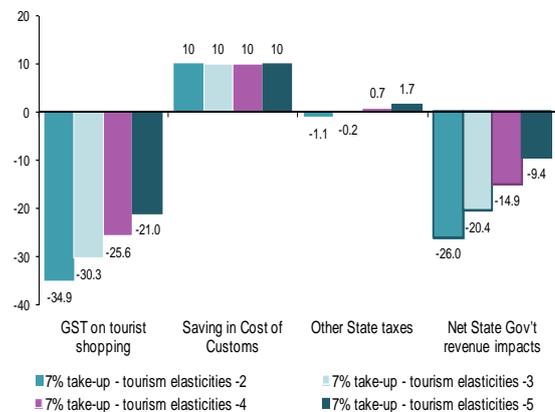
Impact on Government revenue

The impact of the tax-free shopping scenarios on Commonwealth government, State government and combined Commonwealth and State government revenue is summarised in Charts 5-10, 5-11 and 5-12.

*Chart 5-10: Impact of the TRS private provider model on Commonwealth government revenue (\$m, 2007/08, annual deviation from baseline, all simulations)*



*Chart 5-11: Impact of the TRS private provider model on State government revenue (\$m, 2007/08, annual deviation from baseline, all simulations)*



Source: KPMG and industry analysis

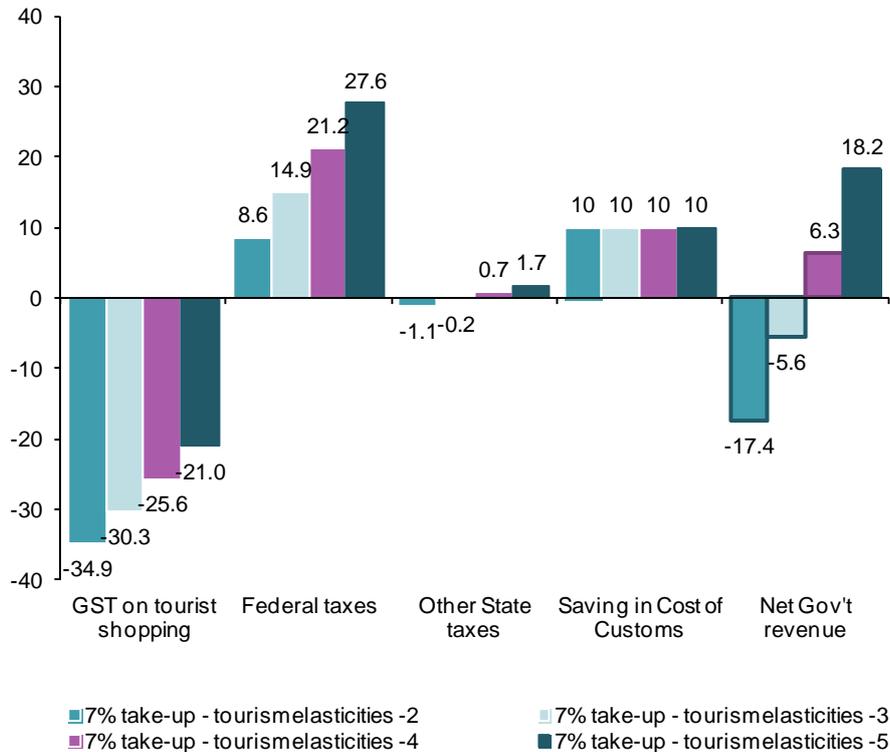
- Notes:
1. Other Federal Taxes include taxes on capitals.
  2. The excise taxes include excises and taxes on imports equivalent to excises.
  3. Other State Taxes include GST and payroll taxes.
  4. Tourist shopping is defined as departing travellers' purchases of goods to take overseas

Revenue impacts under the 7 per cent take-up/-4 elasticity scenario, compared to under the current 3.6 per cent take-up, are shown below.

- **Commonwealth revenue impacts:** estimated increases in labour income taxes and excise duties will drive higher annual Commonwealth tax revenue of \$21.2m (see Chart 5-11).
- **State revenue impacts:** the net cost to state tax revenue is estimated at \$14.9 million. The lower GST revenue on tourist shopping is offset at the state level by \$0.7 million per year in additional other tax revenue (such as additional payroll tax collections), and \$10 million annual savings in Customs TRS administration costs (which are paid by the States, as a deduction from net GST revenue) (see Chart 5-12).

Under the -4 elasticity scenario, GST revenue is \$25.6 million lower than under the base case. The fall in GST revenue is less than the amount refunded under the scenario. This implies that some of the boost to refunds relate to new tourism exports that would not have occurred in the absence of a TRS private provider system and do not therefore represent a loss of revenue.

Chart 5-12: Impact of the TRS private provider model on combined Commonwealth and State government revenue (\$m, 2007/08, annual deviation from baseline, all simulations)



Source: KPMG and industry analysis

Overall, under the -4 elasticity scenario, the net annual loss in combined Commonwealth and State taxation revenues is a modest \$3.7 million (before savings in customs costs). Lower GST collections are largely offset by higher revenue from other taxes, such as higher excise collections on additional alcohol and tobacco exports and increased labour income tax collections.

While such a scenario is likely to lead to slightly lower tax revenue collections, there is also likely to be an offsetting saving in the Government’s costs associated with the implementation of the TRS systems. It is estimated that this saving to the government could be between 10 million and 17 million dollars<sup>52</sup>. Taking the more conservative estimate, if the system saves the government \$10 million each year, then under the -4 elasticity case there would actually be an overall net gain in revenue to the government. See Chart 5-12 above.

Reform away from a government-run TRS in Australia, to an open market arrangement that enables private GST refund providers to provide a holistic service has the potential for the Australian Government, through Customs, to realise administrative savings. These savings are

<sup>52</sup> Global Blue industry estimates based on analysis in the 2006 CRA report and estimates of total cost of TRS administration to Customs. Note: this figure may be conservative, given the possibility for more comprehensive reform that could remove the need for Customs to provide export verification services.

estimated to be between 10 million and 20 million dollars per annum through a reduced need for qualified Customs officers to manually facilitate TRS refunds at the border.

Given that the cost of administrative services pertaining to GST collections are deducted from overall GST revenues, this represents a cost saving to state and territory governments.

Depending on the scope of changes, Customs could potentially realise savings by no longer needing to provide the following services:

1. 100 per cent export verification services; and
2. the physical processing of refund payments, as this service will now be provided by the private provider and paid for by the consumer.

Customs could reduce its export verification expenses through a greater use of a risk management framework, through which Customs could opt to automatically verify a proportion of low-risk (e.g. low value) TRS claims. Risk management may decrease the number of transactions requiring a physical export verification inspection. Under more comprehensive changes, Customs could then, at a later stage reform, opt to fully outsource the remaining physical export verification services to a private third-party provider. This would enable Customs to fully remove itself from the TRS process, and realise maximum savings by removing itself from all front-end services. There is existing precedence for such outsourcing in Australia, where the off-airport duty free retail industry engages a third-party private entity to verify exports under their 'sealed bag scheme'.

In addition to the administrative cost currently borne by Customs, and paid for by the states and territories, the current IT payments system directly costs Customs just over \$900,000 p.a.<sup>53</sup>. This could represent a further saving to government through reform from a government-run TRS to a private provider platform.

#### Impact on economic activity

The impact of the TRS private provider scenario on economic activity is summarised in Chart 5-13 on the following page.

Overall, under the 7 per cent take-up scenario, the lower effective taxes lead to higher demand for tourism exports. This encourages some additional annual international visitors (higher by 0.3 per cent or around 18,000 more visitors in 2007-08 terms under the -4 elasticity scenario), leading to overall exports 0.03 per cent higher (or around \$80 million in 2007-08 terms) than under the baseline.

In 2007-08, expenditure by foreign tourists averaged just under \$4,000 each<sup>54</sup>. Based on this figure, 18,000 additional visitors could mean around \$70 million higher expenditure by international travellers. Thus, these exports are likely to be a large component of the \$80 million in additional total net exports shown in the figure below. Further, around 12 per cent of current traveller expenditure is on shopping, which means around \$8.5 million of

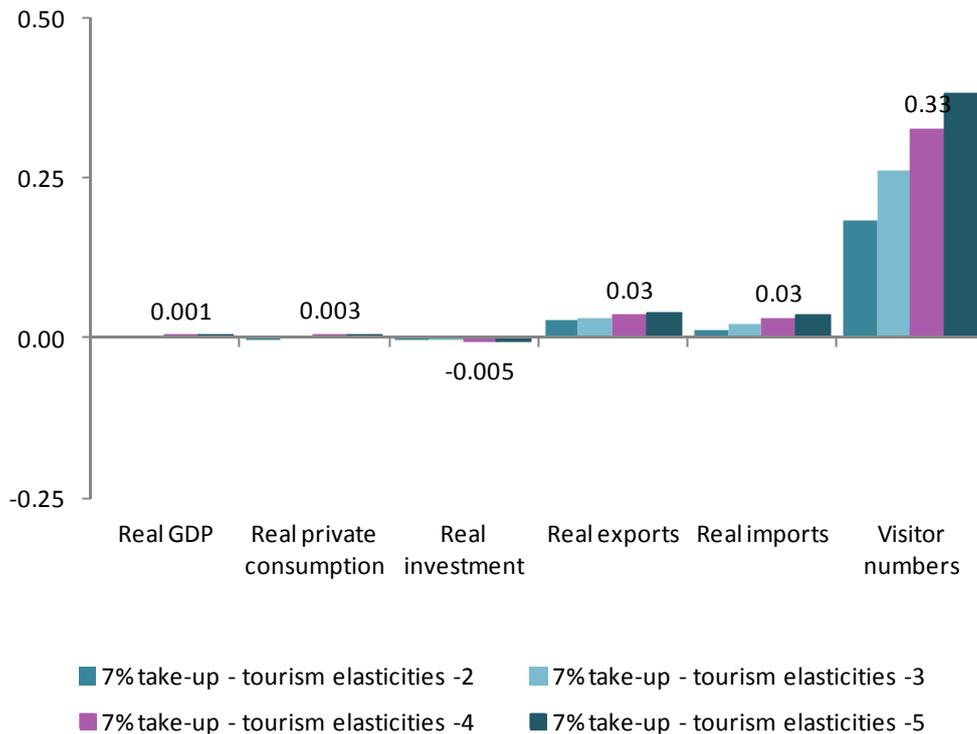
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<sup>53</sup> Source: Australian Customs and Border Protection Agency (Customs) contract notice #102368, to provide Financial Payment Services for the current Tourist Refund Scheme, dated 9 December 2010. Full contract value \$2.8 million over 38 months.

<sup>54</sup> Australian Tourism Satellite Accounts 2011 (cat. no. 5249.0).

the higher traveller shopping (\$175 million, shown in chart 5-9) could be attributed to these additional travellers.<sup>55</sup>

Chart 5-13: Impact of the TRS private provider model on economic activity (% change from baseline, all simulations)



Source: KPMG analysis

Higher foreign demand leads to slightly higher real GDP of around 0.001 per cent (equivalent to \$16.9 million higher annual GDP in 2007-08 terms). Most of the GDP gain comes from a reduction in tax distortions. There is a modest boost to overall exports associated with an efficiency gain in exporting more, in line with comparative advantage due to reduction of tax distortions. This also supports a slightly higher level of domestic consumer spending. The long run labour market closure assumption (that employment is determined by institutional and demographic factors) means that the gains to labour emerge through higher wages rather than higher employment.

While the analysis above shows that a more open TRS scheme is likely to have a very modest impact on the economy, by also making it easier to access a GST refund, the scheme has the added benefit of realigning the implementation of the tax system back closer to one of its original aims, that of not taxing exported goods. The scheme also provides some support to an industry that has had its share of challenges, such as loss of competitiveness in the face of high exchange rates.

<sup>55</sup> It should be noted that these back-of-the-envelope estimates do not take into account changes in behaviours, prices or the average spend of travellers. They are simply a means of helping explain the more complex CGE results.

## A Industry list

Table A1: List of industries used in the modelling

Sheep, Grains, Beef and Dairy Cattle	Veterinary Pharmaceutical and Medicinal Product Manufacturing	Accommodation
Poultry and Other Livestock	Basic Chemical Manufacturing	Food and Beverage Services
Other Agriculture	Cleaning Compounds and Toiletry Preparation Manufacturing	Road Transport
Aquaculture	Polymer Product Manufacturing	Rail Transport
Forestry and Logging	Natural Rubber Product Manufacturing	Water, Pipeline and Other Transport
Fishing, hunting and trapping	Glass and Glass Product Manufacturing	Air and Space Transport
Agriculture, Forestry and Fishing Support Services	Ceramic Product Manufacturing	Postal and Courier Pick-up and Delivery Service
Coal mining	Cement, Lime and Ready-Mixed Concrete Manufacturing	Transport Support services and storage
Oil and gas extraction	Plaster and Concrete Product Manufacturing	Publishing (except Internet and Music Publishing)
Iron Ore Mining	Other Non-Metallic Mineral Product Manufacturing	Motion Picture and Sound Recording
Non Ferrous Metal Ore Mining	Iron and Steel Manufacturing	Broadcasting (except Internet)
Non Metallic Mineral Mining	Basic Non-Ferrous Metal Manufacturing	Internet Publishing and Broadcasting and Services Providers, Websearch Portals and Data Processing Services
Exploration and Mining Support Services	Forged Iron and Steel Product Manufacturing	Telecommunication Services
Meat and Meat product Manufacturing	Structural Metal Product Manufacturing	Library and Other Information Services
Processed Seafood Manufacturing	Metal Containers and Other Sheet Metal Product manufacturing	Finance
Dairy Product Manufacturing	Other Fabricated Metal Product manufacturing	Insurance and Superannuation Funds
Fruit and Vegetable Product Manufacturing	Motor Vehicles and Parts; Other Transport Equipment manufacturing	Auxiliary Finance and Insurance Services
Oils and Fats Manufacturing	Ships and Boat Manufacturing	Rental and Hiring Services (except Real Estate)
Grain Mill and Cereal Product Manufacturing	Railway Rolling Stock Manufacturing	Ownership of Dwellings
Bakery Product Manufacturing	Aircraft Manufacturing	Non-Residential Property Operators and Real Estate Services
Sugar and Confectionery Manufacturing	Professional, Scientific, Computer and Electronic Equipment Manufacturing	Professional, Scientific and Technical Services
Other Food Product Manufacturing	Electrical Equipment Manufacturing	Computer Systems Design and Related Services
Soft Drinks, Cordials and Syrup Manufacturing	Domestic Appliance Manufacturing	Building Cleaning, Pest Control, Administrative and Other Support Services
Beer Manufacturing	Specialised and other Machinery and Equipment Manufacturing	Public Administration and Regulatory Services
Wine, Spirits and Tobacco	Furniture Manufacturing	Defence
Textile Manufacturing	Other Manufactured Products	Public Order and Safety

Tanned Leather, Dressed Fur and Leather Product Manufacturing	Electricity Generation	Education and Training
Textile Product Manufacturing	Electricity Transmission, Distribution, On Selling and Electricity Market Operation	Health Care Services
Knitted Product Manufacturing	Gas Supply	Residential Care and Social Assistance Services
Clothing Manufacturing	Water Supply, Sewerage and Drainage Services	Heritage, Creative and Performing Arts
Footwear Manufacturing	Waste Collection, Treatment and Disposal Services	Sports and Recreation
Sawmill Product Manufacturing	Residential Building Construction	Gambling
Other Wood Product Manufacturing	Non-Residential Building Construction	Automotive Repair and Maintenance
Pulp, Paper and Paperboard Manufacturing	Heavy and Civil Engineering Construction	Other Repair and Maintenance
Paper Stationery and Other Converted Paper Product Manufacturing	Construction Services	Personal Services
Printing (including the reproduction of recorded media)	Wholesale Trade	Other Services
Petroleum and Coal Product Manufacturing	Retail Trade	Tourist Shopping
Human Pharmaceutical and Medicinal Product Manufacturing		