



Tasmania

259462

TREASURER



6 APR 2007

Hon P Dutton, MP
 Minister for Revenue and Assistant Treasurer
 Parliament House
 CANBERRA ACT 2600

Dear Minister

Pete

PROPOSED AMENDMENTS TO EXPAND THE ADMINISTRATIVE ARRANGEMENTS FOR TOURIST SHOPPING

s22 23/4/07

Thank you for your letter of 4 January 2007 regarding proposed changes to the administrative arrangements governing the Tourist Refund Scheme (TRS). I appreciate the opportunity to comment on this proposal. As there are three measures being put forward, I will address each of them separately.

Aggregation of multiple invoices

The Australian Government has proposed an amendment to the TRS rules that will allow international visitors to Australia (and Australians travelling abroad) to aggregate multiple invoices from the same retailer, in order to meet the minimum spend of \$300 required to claim a refund of the Goods and Service Tax (GST) and any Wine Equalisation Tax (WET) levied on those invoices. Just as ensuring that taxpayers meet their obligations is an important part of tax administration, ensuring that the tax system honours the entitlements of taxpayers is a fundamental principle that informs taxation policy. I agree that the current rules are likely to result in otherwise valid claims being rejected. Consequently, Tasmania approves the proposal to allow the aggregation of multiple invoices for the purposes of the TRS.

Extension of timeframe for exporting goods

The Australian Government has proposed that the time in which goods must be exported in order to qualify for refunds under the TRS be extended from 30 days to 60 days. In addition, it is proposed that the timeframe for the use of the customs "sealed bag" system (used to prevent consumption of goods by travellers prior to departure from Australia) also be extended to 60 days to be consistent with the TRS. Again, the possibility that the current arrangements may result in otherwise legitimate claims for a refund being rejected is inconsistent with the rationale behind the TRS. I note that the extended timeframes reflect the general export provision in the *A New Tax System (Goods and Services Tax) Act 1999*. On this basis, Tasmania approves the proposed extension of the timeframe for exporting goods.

Outsourcing of TRS processing

The TRS is currently provided by the Australian Customs Service (ACS). A private sector firm, Fintrax Payment Services (Australia) Pty Ltd, provides TRS processing services to ACS, having competed in an open tender process to do so. However, it is the ACS that

provides the interface between international travellers and the TRS, and the ACS that is responsible for both export verification and the integrity of the TRS.

The Australian Government has proposed that the provision of refunds under the TRS be opened up to the private sector, via an open tender process. In support of the proposal, the Australian Government has claimed that spending in Australia by international travellers will increase, and the take-up rate for TRS refunds will almost double. The estimated cost to GST revenue of this measure is in the region of \$50 million per annum, of which approximately \$2 million would be revenue surrendered by Tasmania.

In principle, I have no issue with a measure that increases the take-up of TRS refunds. As I have stated previously, it is important that taxpayers are able access their entitlements and that taxation administration arrangements make it as easy for them to do so as possible. However, I am not convinced by the arguments put forward in support of the proposed changes to the delivery of TRS refunds, nor am I convinced of the economic benefits that will flow to Australia in a general sense, and Tasmania in particular.

Tourism is an important part of the Tasmanian economy, and recent years have seen growth in the number of international travellers visiting the State. It is my view, however, that if the outsourcing of TRS refunds does encourage greater expenditure by international travellers in Australia at all, the beneficiaries are likely to be retailers in a number of interstate capitals, particularly Melbourne, Sydney and Brisbane. Regional destinations will receive little or no economic benefit and, depending on the as yet undetermined licensing conditions imposed on TRS refund providers, it may even be possible for retailers in Tasmania, particularly smaller retailers such as Tasmania's boutique winemakers, to be disadvantaged.

In terms of air travel, there are currently no scheduled international flights into or out of Tasmania, meaning that international visitors to the State are unlikely to have access to refund providers until they reach the city or airport from where they will leave Australia. Therefore, it is difficult to see how the outsourcing of TRS refunds will generate any additional turnover for retailers in Tasmania.

In terms of sea travel, the number of cruise ships visiting Tasmania, many of which carry international visitors, has been growing steadily, as the State's reputation as cruise destination grows. While the volume of tourists that visit the State aboard cruises is significant for Tasmania, it represents a relatively small proportion of international visitors to Australia. Given that not every ship visiting Tasmania departs for an international destination, it concerns me that the potential volume of TRS refunds in Tasmania may not be sufficient to induce a private sector refund provider to establish operations in Tasmania. This would mean that international visitors aboard cruise ships would no longer be able to access the TRS while still in Tasmania. Accordingly, any additional expenditure in Tasmania generated through TRS refunds would be lost.

The proposed outsourcing of refunds also appears to introduce an additional step in the TRS process, in that it will require international travellers to deal with both the ACS and a refund provider, rather than just the ACS as is currently the case. I do not believe that such arrangements represent an improvement in terms of their efficiency or transparency, and the fact that travellers will receive something less than their full entitlement to a refund is not an outcome to recommend the proposed arrangements either.

I accept the principle that the Goods and Services Tax (GST) is intended to tax consumption in Australia only. However, I do not see that the proposed TRS outsourcing arrangements are

any more consistent with that principle than the current processes. Given the service delivery risks and reduced refunds that would be provided to travellers under such an arrangement, I am not prepared to consent to the proposal to outsource the provision of TRS refunds. I am of the view, however, that implementation of the measures which I have endorsed is not contingent on the outsourcing of the TRS refund process.

Yours sincerely
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Michael Aird
Treasurer

