

## Introduction

The Tourism Shopping Reform Group (TSRG) is a coalition of tourism and retail industry associations and businesses. The TSRG's key aim is to support enhancements to Australia's tourism shopping arrangements with a view to improving the overall attractiveness of Australia as a tourist destination.

The TSRG has developed an administrative enhancement proposal to reform the existing Tourist Refund Scheme (TRS). This proposal will enable private refund providers to administer the TRS within an open and competitive market. This is common practice internationally and, in fact, Australia is one of only four known countries that has a taxpayer-funded and government run scheme. A copy of the current TSRG Pre-Budget Submission provides full details of our proposal.

*This submission seeks to highlight the inherent problems of the existing Commonwealth-State arrangements for approving policy changes to the GST and the negative impacts these can have on the Australian economy. The submission highlights the difficulty caused by the requirement for unanimous approval of GST changes by all states territories and the problems we have had in obtaining basic information on the nature of any objections. Given this veil of secrecy, we do not know, and probably never will, whether other reforms have met a similar fate.*

## Background

In response to a review of the TRS arrangements in Australia, the Howard Government announced a series of proposed measures in the 2007-08 Federal Budget. These measures included both policy entitlement changes and an administrative measure to streamline payment and passenger processing.

Following the change of government in 2007, the policy changes were eventually implemented, providing greater eligibility for the TRS and off-airport duty free shopping. However, the Commonwealth was unable to enact the administrative change required to enable an effective tourism shopping system. This was largely due to the cumbersome Commonwealth-State arrangements regarding changes to the GST. The administrative change announced in the 2007-08 Federal Budget was the same as the one currently proposed by the TSRG.

- Under the intergovernmental arrangements, changes to the *base* or *rate* of the GST require the unanimous approval of all states and territories. However, changes of an administrative nature only require the majority approval of the Commonwealth, states and territories.<sup>1</sup>
- The Commonwealth has decided that the administrative change to enable private refund providers should be considered a change to the GST base and has sought the unanimous support of all jurisdictions.

The TSRG has been seeking approval for the implementation of the administrative changes since 2011 but has not yet been able to achieve the unanimous support of all states and territories.

*The TSRG membership is frustrated that a small, yet essential and strongly-supported administrative enhancement to the TRS has been held hostage to the antiquated Commonwealth-State arrangements.*

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<sup>1</sup> A New Tax System (Managing the GST Rate and Base) Act 1999, section 11

The TSRG implores policy makers to recognise that this proposal should be viewed as an administrative change requiring majority state/territory support – and not as a change to the GST base or rate that requires unanimous support. After years of review by all governments at a Commonwealth, state and territory level, this essential enhancement is now ‘shovel ready’. Unlike changes to the rate or base, the Prime Minister has not ruled out the enactment of minor administrative changes to the GST within this current term of government<sup>2</sup>.

## Issues

*Secrecy.* Unfortunately, the TSRG have not been able to establish the exact position of each of the states and territories. As of May 2015, we have been informed that three jurisdictions objected to the proposal but we have not been informed which they are nor the basis of their concerns. *Nevertheless we have obtained the majority support required by the legislation for an administrative change.* The proposal has the widespread support of the industry which has invested significant time and effort over some ten years and now *governments will not even extend us the courtesy of sharing their views.*

*Poor Policy Outcomes.* The TSRG has had strong, positive support from various governments and their departments and agencies for this proposal, yet the current impasse preventing its adoption appears to be entangled with greater issues around the GST. In particular, the proposal has been caught up in the broader issue of the disbursement of funds between individual states and territories. This means that a significant national economic benefit has been jeopardised for the sake of very small funding changes for individual states and territories. Analysis of the industry modelling, reviewed by the GSTAS process, demonstrates that any GST revenue impact arising from this proposal would be outside of the forward estimates timeframe. *We consider this process a significant challenge for the development of sound and sensible national economic policy.* The veil of secrecy suggests that the public would never know of similar cases.

*Need for national leadership.* Despite several federal ministers publicly supporting the proposal, the TSRG believes that the current Commonwealth-State GST arrangements have prevented the federal government from taking any formal leadership on this issue. This started with the determination by the Commonwealth Treasury that the marginal revenue impact of increased TRS usage should be constituted as a change to the GST base – necessitating the unanimous support of all state and territory jurisdictions. As such, the protracted and stalled inter-governmental process has culminated with a ‘beggar-your-neighbour’ approach by some states and territories, with states jurisdictions reluctant to support a smart, common-sense proposal.

## Conclusion

There is ongoing debate over many aspects of the GST and these are appropriately dealt with in a review such as *Re:Think*. Our experience suggests that the current Commonwealth-State GST arrangements prevent proposals for sensible enhancements and reform from being dealt with on their merits. As such, parochial state and territory interests prevent the ability for our national tax system to effectively evolve and meet the challenges of a global economy.

We consider that it is time now to explicitly review the arrangements for managing ongoing developments to the GST and suggest that, without reform of that process, consideration of essential GST reforms and administrative enhancements may well be pointless.

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<sup>2</sup> The Hon. Tony Abbott MP, Prime Minister, address to the National Press Club, 2 February 2015.

## Recommendation

- That policy makers need to recognise that the current arrangements for managing the GST are seriously flawed and should be reviewed; and
- That the tourism shopping proposal is an administrative change to the GST which has already received majority state and territory support, and the Commonwealth should proceed with this urgently-needed administrative enhancement.

**June 2015**

**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.**

**The TSRG includes the following associations and businesses**

**Lead supporters:**



TOURISM SHOPPING REFORM GROUP  
SUBMISSION TO RE:THINK TAX DISCUSSION PAPER – JUNE 2015



Tourism and retail supporters:



Further tourism and retail industry associations and business continue to indicate their support

Contact: [touristshopping@afta.com.au](mailto:touristshopping@afta.com.au)