

Briefing: Enhancing the Tourist Refund Scheme to improve the visitor experience, streamline passenger processing and increase international visitor expenditure

1. Issue

- The Tourism Shopping Reform Group (TSRG) is a coalition of tourism and retail industry associations and businesses who support the enhancement of Australia's Tourist Refund Scheme (TRS). The TSRG recognises the fundamental role of retail shopping as a key expenditure activity in the visitor economy.
- The TSRG understand that the Federal Government is presently investigating options to reform the TRS. The administration of Australia's current TRS is costly, labour-intensive, time-consuming, paper-based and an inefficient use of scarce Australian Border Force (ABF) resources.
- The TSRG has been seeking changes to the administration of the TRS to allow competition by private refund operators. This will drive tourist shopping and product development to international visitors and allow refunds to be paid whilst visitors are still in Australia, which will result in further visitor spending.
- The TRS costs the States and Territories (through ABF) approx. \$14 million per annum. Australia is one of only eleven known countries with a taxpayer-funded and operated TRS (along with countries like Indonesia, Thailand and Taiwan).
 - *The cost of TRS administration is deducted from GST revenues before they are distributed to the States and Territories under the 'GST Agreement'.*
 - The then-Australian Customs and Border Protection Agency has previously identified the need to modernise TRS technology.¹ Only reform towards a world's-best-practice private refund provider model can properly address the inadequacy of the current TRS system to improve airport passenger efficiency.
- Australia lags behind regional neighbours such as Singapore, where the TRS is a user-pays system operated by private refund providers. Private providers operate in a competitive market, and provide innovative systems that dramatically streamline airport refund claim times and passenger processing. Private schemes also reduce the cost to Government of operating the system with funding being on a user-pays basis and funded through a modest commission on the refunded amount.
- Private providers have an incentive to actively promote the TRS and encourage travellers to make further retail purchases. In turn, this adds to the attractiveness of the country as a tourist destination.
 - One of fastest growing outbound tourist markets is China and shopping is high a high priority for Chinese travellers. Shopping accounts for 88 per cent of Chinese traveller's budgets² and improving our shopping arrangements will be an important aid to capturing a larger share of this vital market.
- An earlier version of the TSRG proposal was previously adopted by the Howard Government and included in the 2007 budget along with changes to the TRS policy. The policy changes – to claim periods and the aggregation of multiple TRS purchases – commenced on 17 April 2013. However, the administrative change to private providers was not implemented.
 - Implementation of the change to private providers will maximise the economic benefit from tourist shopping.
- The proposal does have a small impact on GST collections, estimated in our modelling at \$25 million in Year Four of operation. However, this modest cost to future GST revenue growth is partially offset by administrative savings and payroll tax increases. Our modelling estimates *an additional \$226 million in expenditure within the visitor economy.*

Alternative TRS reform options:

- The Federal Government is presently considering multiple TRS reform options. The TSRG understands that one potential option is change entitlements within the present TRS. Under this option, (a) Australian travellers would no longer have access to make TRS claims and (b) the minimum spend threshold would increase from the current level of \$300.
- The TSRG strongly opposes this option, and has consistently argued that TRS reform does not require, and should not include, a change to current entitlements. The \$300 minimum claim threshold is one of the highest in the world, and caps overall usage of the scheme at a take-up rate that is low by international standards.
- Only the TSRG's proposal to introduce private refund providers can unlock industry investment to address the core shortcomings of the current TRS. Furthermore, a worlds-best practice TRS can ensure a positive boost to Australia's tourism and retail industries – both of which are major employment engine rooms within our economy.

¹ *Customs Blueprint for Reform, 2013-2018, p 37*

² *Jing Daily, 'Chinese Tourists still love shopping as outbound ranks grow 19.5 per cent', published 31 August 2015.*

2. Status of the TSRG's proposal: GST amendment approval process

- As a change to the GST, the proposal has been subject to the Commonwealth-State approval process.
 - 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.³
 - The Federal Government has treated this proposal as requiring unanimous approval as a change to the base rather than majority approval as an administrative change.
 - The proposal only fell short of unanimous support as WA and the NT objected on grounds unrelated to the proposal itself. This was despite no objections being raised previously when the modelling was considered in the inter-Treasury GST Administration Sub-Committee (GSTAS) process.
 - Despite the current position of WA and NT, the proposal has received the majority support required by the legislation. We believe that achieving unanimous approval will be very difficult and that requiring this is blocking a minor administrative change, which would provide important national benefits.

3. Benefits for administration and passenger processing

- *Long queue times in airports:* The manual process for TRS claims in airports results in a slow process for departing international travellers at airports and this has on occasion led to flight delays.
 - This is not a desirable situation given ABF targets of reducing passenger processing times, and the need to streamline administrative processes at international airports and cruise terminals.
- *Current TRS is not efficient:* The administration of Australia's current TRS and off-airport duty free shopping is costly, labour intensive, time-consuming, paper-based and an inefficient use of scarce ABF resources. The need to staff TRS counters reduces flexibility for the ABF in managing its operations.
- *Cost recovery:* Analysis of our economic modelling estimates administrative savings of approximately \$10 million per annum. The private provider model would recoup costs on a user-pays basis through commissions.
- *Improved risk management:* Long queues and claim times are partially due to the fact that the current TRS does not have the functionality to develop and implement a risk management approach.
 - ABF cargo facilitation operates in a risk management framework, which enables ABF to focus its resources on cargo shipments that require particular scrutiny.
 - However, the TRS lacks this functionality and results in the unnecessary need for ABF officers to manually verify each refund claim irrespective of its value and the refund type. A private provider platform will enable a risk management approach – with the framework and rules managed by ABF. This will also be useful in managing declarations by returning Australian passengers.
- *Improved security:* The existing TRS does not include security measures that can trace purchases intended for refund, from the point of sale to the point of refund. Furthermore, the existing system does not prevent the use of counterfeit invoices by shoppers to make false TRS claims.
 - Private sector providers in other countries, such as Singapore, have incorporated advanced fraud prevention measures into an end-to-end digital TRS system.
 - Refund providers have the functionality to link their system with ABF to ensure cooperation and compatibility between security features and the risk management role of ABF. As such, ABF can be alerted to potential fraudulent activity in real time.
- Furthermore, allowing private providers to operate freely in the TRS system will lead to new employment opportunities all along the TRS services supply chain. Private providers will indeed bring new ideas and innovation into the TRS system. New jobs will be created in the most value adding areas of the supply chain in order to develop creative, technological and more efficient TRS solutions. By implementing our TRS reform proposal, the Government will have the chance to embrace and harness new sources of growth to deliver the next age of economic prosperity in Australia.

4. Benefits of TRS enhancement to the Visitor Economy

- 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. A new, digital visitor processing platform could enable Australia to better capitalise on tourism investment. Private refund providers have an incentive to promote their service and encourage greater visitor spending.
- Economic modelling, commissioned by the TSRG, and examined in detail by GSTAS, indicates that the proposal will enhance Australia's competitiveness as a tourism shopping destination, resulting in:
 - additional Australia-wide visitor economy expenditure of **\$226 million p.a.** (\$175.6 million tourist shopping and \$50.7 million on other services); and
 - an extra **18,000 international visitor arrivals to Australia per year.**

³ A New Tax System (Managing the GST Rate and Base) Act 1999, section 11

5. Policy recommendation

- *That the Federal Government implements the proposal to change the administration of Australia's GST Tourist Refund Scheme (TRS) to allow competition by private refund operators.*
- *That this change should proceed on the basis that (a) it is of an administrative nature only and (b) the proposal has already received the majority support required under the legislation for managing the GST arrangements.*
- *That there are **no changes TRS entitlements**, such as removing Australians from the scheme or increasing the minimum purchase threshold above \$300.*

11 March 2016

25940194v1

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 and retail supporters:



BVLGARI

Salvatore Ferragamo

PASPALLEY

BURBERRY

LOUIS VUITTON



AMPCAPITAL

TIFFANY & Co.

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

Contact: touristshopping@afta.com.au

as of
11 March 2016