SUBMISSION

THE ALLIANCE FOR VISITORS TAX REFUND

Prepared for:

The Honourable Randy Boissonnault

Minister of Tourism and Associate Minister of Finance

July 20th, 2022

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1. The Alliance for Visitors Tax Refund

The Alliance for Visitors Tax Refund (AFVTR) welcomes the opportunity to provide comments on the federal government's post-pandemic Federal Tourism Growth Strategy launched by the Minister of Tourism and Associate Minister of Finance, the Honourable Randy Boissonnault, on May 18, 2022.

The Canadian tourism sector has faced unprecedented and serious economic challenges since the beginning of the COVID-19 pandemic. Industries, including hospitality and retail, have been impacted by this collapse.

As the Government of Canada embarks on the road to economic recovery, these industries will need to see key regulatory, policy and legislative changes to enable them to sustain the important financial losses they have endured since the spring of 2020.

Given this unprecedented context, the AFVTR was formed in January 2022 to encourage the federal government to remedy the situation. The AFVTR is an alliance composed of the main Canadian retailers, their industry association, property owners and tax refund experts. They include Aldo Group Inc., Birks Group Inc., Cadillac Fairview, Global Blue, Harry Rosen Inc., Hudson's Bay Company, QuadReal Property Group, the Retail Council of Canada and Triple Five.

In this submission, the AFVTR will share its views on incentives the federal government could put forward to attract tourists to the country at a time when the end of the pandemic is in view.

2. Recommended action: **to implement a Visitor Tax Refund program**

The AFVTR strongly encourages and supports the implementation of a new, innovative, and fully digital Visitor Tax Refund (VTR) program by the Government of Canada in the immediate future. This VTR program would substantially benefit the tourism sector, retailers, and the Canadian economy more broadly. The AFVTR recommends that this program be one of a series of measures implemented to encourage the recovery of the Canadian tourism industry.

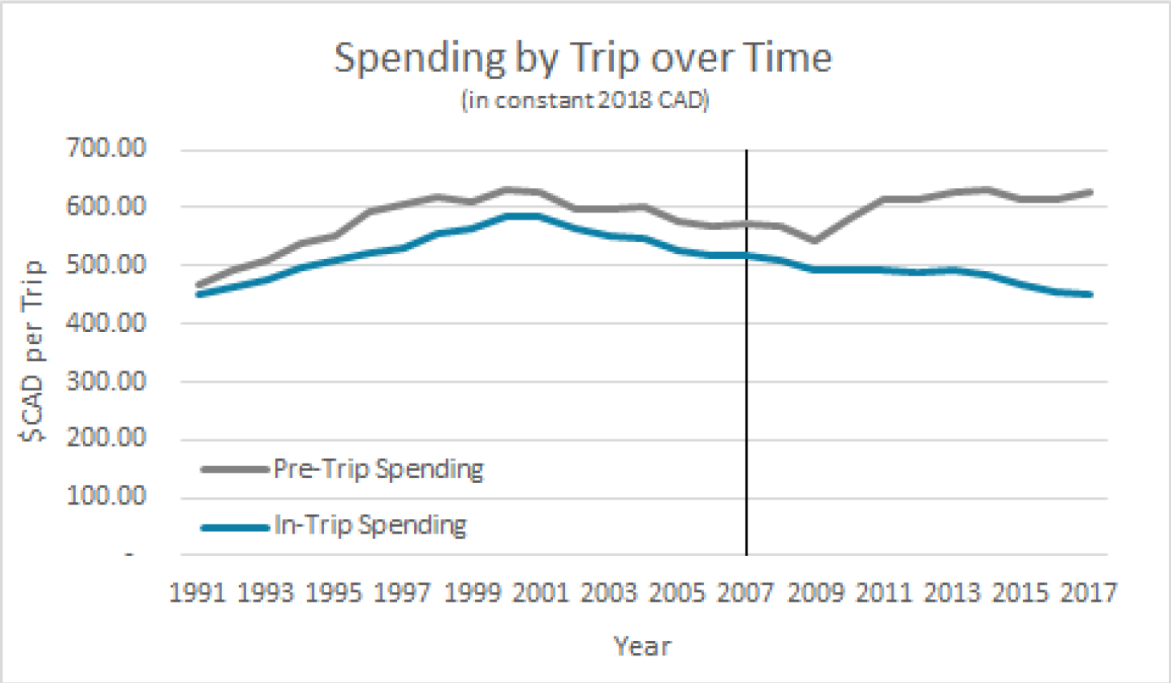
A new and innovative VTR would enable international shoppers to reclaim the Goods and Services Tax (GST) and provincial sales tax on their purchases when they return home. The GST refunds for international shoppers are present and implemented in a growing number of countries. There are currently more than 70 countries offering this benefit out of the 180 that apply a Value-Added Tax (VAT).

While the policy and legal objective of a refund program is to ensure neutrality of tax treatment between tourist expenditure on exported goods and other exports, the VTR enhances international competitiveness of the domestic tourism industry and retailers while increasing retail sales and exports from the country leading to a range of macro-economic benefits. According to the Organisation for Economic Cooperation and Development (OECD) VAT guidelines, exports should generally not be subject to tax.

3. Context

The tourism sector in Canada is facing serious economic challenges. It is in the worst shape of its history because it suffered with the closure of international borders due to the Coronavirus pandemic (COVID-19). In a pre-COVID-19 environment, the tourism sector was valued at 6.4% of Gross Domestic Product (GDP) representing USD111.6 billion in 2019 (compared to France at 8.5% in 2019), with ~750,000 Canadian jobs created by the tourism sector. However, due to the COVID-19 pandemic, those figures have seriously plummeted. to just **3.2% and USD52.4 billion respectively in 2020,** which represented a shocking 53% loss (see appendix II).

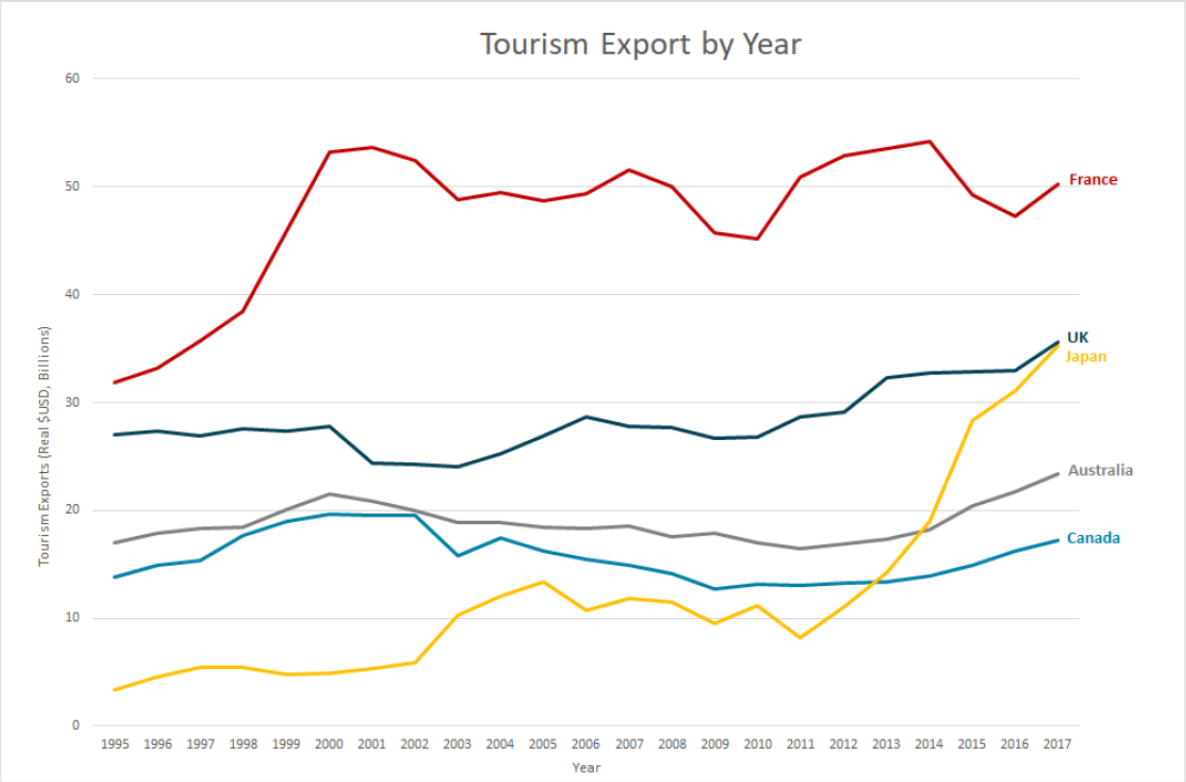
These declines are impacting Canadian industries, including tourism and retail, which have been affected by this unfortunate collapse. This has only exacerbated an ongoing decline in per capita tourist spending that has been in evidence since the previous Visitor Rebate Program (VRP) program was cancelled by the Government of Canada back in 2007 (see appendix I).The tourism industry has seen a decline of 5% over the past seven years as measured by spend-per-tourist. This contrasts significantly with competing jurisdictions, such as Japan, which has seen an increase of over 23% in tourist spend per capita since that country launched a new tax refund program in 2012. In addition, the Bahamas has seen an increase of over 19% since it launched tax refunds in 2015.



Source: Statistics Canada. Table 36-10-0230-01 Tourism demand in Canada, constant prices (x 1,000,000)
Statistics Canada. Table 24-10-0043-02 One or more nights trips by non-residents to Canada

It is more challenging to compare per-trip spending numbers in the international context. Over time, it is much simpler to compare the total tourism exports by country, by year. Therefore, understanding how Canada's tourism exports have grown relative to other countries is very useful.

In the graph below, we can observe the total tourism exports as reported by the World Travel & Tourism Council for France, the United Kingdom, Japan, Australia, and Canada. In Appendix III, a more detailed list shows the ranking of all OECD countries by their real average tourism growth rates from 1995 to 2017. Out of the 36 OECD member-countries, Canada is ranked 32. This means for the past 22 years, Canada has been the fifth-slowest-growing OECD country in terms of tourism. In fact, Canada's low year-over-year average growth rate comes in at 1.29% on an adjusted real basis from 1995 to 2017.



Source: World Travel & Tourism Council. Visitor Exports (Foreign spending). Retrieved from: https://tool.wttc.org/

On the road to economic recovery, the Canadian tourism industry and retailers will need financial stability after suffering major financial losses. This is especially true for those that rely solely on tourist spending for revenues. The tourism industry in Canada is also essential to the success of the retail sector, especially in major cities such as Vancouver, Toronto, and Montreal, in addition to favoured scenic and recreational locations such as Whistler, Jasper, Banff, Niagara, Quebec City, Prince Edward Island and Cape Breton. Those industries will need to see the implementation of key regulatory, policy and legislative changes by the Government of Canada.

4. The importance of tourism shopping and VAT refunds arrangements around the world

International tourists travel to destinations for varied reasons. For some destinations, shopping can be the deciding factor in the choices of travellers. Singapore is a good example. Tourists shop wherever they travel. According to the tourism data of many countries, tourism shopping ranks among the three most popular tourism activities. For some nationalities, like China, it is the most popular activity.

The World Tourism Organization is the United Nations (UNWTO) agency responsible for the promotion of responsible, sustainable and universally accessible tourism. It states that "Shopping Tourism is becoming an increasingly relevant component of the tourism value chain. Shopping has converted into a determinant factor affecting destination choice, an important component of the overall travel experience and, in some cases the prime travel motivation […]

More importantly, shopping is one of the major categories of tourists' expenditure, representing a significant source of income for national economies both directly and through the many linkages to other sectors in the economy."

This market is highly valuable to the retail and tourism industries. The average tourist purchase is worth far more than that of domestic shoppers.

The policy and legal objectives of a VAT refund scheme is to ensure neutrality of tax treatment between tourist expenditure on exported goods and other exports. According to the OECD VAT guidelines, exports should not be subject to tax. Canada is one of only four OECD countries with a federal sales tax that does not have a VAT refund arrangement for tourists.

Tourist refund arrangements enhance international competitiveness of the domestic tourism industry and retailers while increasing exports from the country. Data shows that countries with such arrangements are now outperforming luxury spend countries without the same refund arrangements. In 2019, a research study by Bain[1] showed that during the 2009-2019 period, the annual luxury sales growth coming from domestic shoppers was on average 5%. In the same period, the annual luxury sales growth was 10% for countries offering Tax Free Shopping to their international shoppers.

[1] Bain Study on Tax Free Shopping, 2019.

Another study recently published by Bain & Company[2] showed that in 2019, 40% of the revenue of European Union (EU) luxury goods merchants came from non-EU shoppers. This figure exceeded 70% in department stores across Europe.

International shoppers are equally important for non-luxury merchants. Tax Free Shopping is an indispensable tool for diverse types of merchants, including merchants located at international borders. Such merchants are highly dependent on shoppers who regularly cross the border to shop because they are encouraged by the possibility of recovering the VAT.

5. Macro-economic benefits of VAT refund arrangements in Canada

The VAT refund arrangement also brings increased tourism shopping yield and macro-economic benefits. International consulting firms have found that the resulting increase in the price competitiveness of a country's tourism industry leads to an increase in tourists and volume of tourist shopping, relative to a scenario without a tax-free shopping arrangement. This is due to the price-sensitive nature of tourism and the highly competitive global market for attracting tourists. The general equilibrium modelling of the reduction in the price of tourism exports indicates that it drives additional economic activity. In fact, it increases real GDP, in addition to employment.

The AFVTR reached out to experts in the economic and operational spheres when discussing the visitors' refund programs globally. The UK-based Centre for Economics and Business Research (Cebr) has experience in modelling outcomes of VTR programs. Switzerland-based Global Blue is a leading operator of tax-free shopping, VAT/GST refund products and payment services.

The data, methodology and conclusions drawn in studies conducted were identified and modelled independently. They are based on realistic and supportable assumptions. Global Blue has first-hand experience in operating tax-free sales in a variety of VAT regimes worldwide. thereby allowing for the design of a model that best fits the Canadian GST/Harmonized Sales Tax (HST) system and the multiple air, sea, and land border points in Canada. This is explained in Section 6 of the submission entitled Visitor Tax Refund – the new system.

The economic stimulus from a VTR program is based on two effects: The existence of a tax refund arrangement that would stimulate the number of tourists coming to Canada and the amount of money each tourist spends in the country.

[2] ECCIA Bain Study on Tourism in Europe, 2022.

The main takeaways from Cebr's macro-economic study include:

1. Tax-free shopping could boost the number of tourists to Canada by 193,000. This would lead to an increase in visitor spend of $407 M.

2. It would support **an additional 32,100 jobs** in the travel and tourism industry and its supply chains.

3. There would be a positive effect on GDP of more than $810 M and a net tax revenue gain of $127 M for all levels of government.

6. Visitor Tax Refund – the new system

The AFVTR proposes a state-of-the art **fully end-to-end digital VTR to bring Canada in competition with other OECD countries.**

This innovative system aims to be one of the most modern and advanced in the world. It will support the efforts to position Canada as a leading global class shopping destination. The new digital VTR system is simple, secure and efficient, and offers the best traveller experience with little intervention and **at no cost to the Government of Canada** or retailers.

Digital VAT refund arrangements increase the number of international travellers who shop tax free by simplifying the process for everyone. Digital countries continue to out-perform non-digital countries in the number of completed transactions. The successful tourism shopping countries in Europe and Asia have a digital refund scheme. The main countries using this new system are France, Italy, Spain and Singapore.

The digital refund system follows the three simple steps detailed below.

Digitalization improves the international shopper experience by providing a seamless experience. It supports shoppers at every step of the tax refund process. Shoppers have a wide range of mobile digital solutions to enhance their shopping experience and keep them up to date with all relevant information.

This new and enhanced model involves the retailers. The involvement of the retailer is a key element to minimize fraud. The role played by retailers and refund operators, like Global Blue, helps ensure robust verification and documentation of purchases. It ensures that: a) travellers are well informed about the tax-free shopping opportunity; b) they are eligible for a tax refund; and c) the sale is genuine and from a physical store.

It also gives the retailer the opportunity to sell more to the traveller. The retailer has an issuing solution provided by the refund operator to issue the tax-free shopping transaction digitally in the store. Paper forms are no longer required in such transactions. The refund operator also provides a range of other services to the retailer, such a sales support and training, business intelligence, point of sale material and marketing opportunities for their brands, both locally and overseas.

The digital export validation system is highly efficient and very secure. It comes with a risk engine that approves most transactions automatically according to pre-set rules by Customs, i.e., the green channel. The remaining cases are reviewed by a Customs officer (or someone assigned by Customs), i.e., the red channel. Certain types of goods, sales amounts or traveller origins can trigger a closer review and hence be directed to the red channel. Only Customs defines the rules for the green & red channels. More importantly, this key feature can be changed or turned on or off at any time.

The traveller can choose either cash or non-cash refund payments, which are provided by the refund operator. There is a range of options of digital non-cash refunds to choose from such as credit cards, mobile wallets, and bank transfers.

Refund operators constantly invest a significant part of the commission charged to the traveller in technology, infrastructure, promotion and fraud prevention. Promoting tax-free shopping in the country to travellers before and while visiting their destination ensures a good take-up of the refund arrangements. Refund operators extensively promote Tax-Free Shopping to new merchants. As a result, Tax-Free Shopping has an ever-increasing number of merchants, is accessible in more cities, and is available to more shoppers buying a wide range of products, including luxury and non-luxury items.

The Government of Canada could consider an accreditation system listing minimum requirement for refund operators as an option to dissuade non-serious refund operators. With the model the AFVTR is proposing to the Government of Canada, the risk is minimal.

In addition to a digital, secure, efficient and well marketed VTR, the Government of Canada and retailers would also receive valuable tourism shopping data leading to insights and well-informed decisions by senior government officials, authorities, and retailers.

7. Conclusion

There are policy and legal objectives to having VAT refund arrangements for tourists. Exports should not be subject to tax according to the OECD VAT guidelines. In addition, the VAT refund arrangements bring increased tourism shopping yields and macro-economic benefits, while providing a net tax revenue gain for all governments.

The AFVTR recommends the implementation of a state-of-the art end-to-end fully digital VTR. It is simple, secure, efficient and offers the best traveller experience with little intervention and at no cost to the Government of Canada or retailers. There is strong support for this innovative proposal from both the tourism and retailing industries.

The Government of Canada should look at the needs of the tourism and retail industries as the country embarks on the economic recovery phase after the COVID--19 pandemic and beyond.

Recommended Action: The Alliance for Visitors Tax Refund recommends to the government of Canada to **implement a Visitor Tax Refund program**

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Triple Five

APPENDICES

THE ALLIANCE FOR VISITORS TAX REFUND

APPENDIX I:
Visitor Rebate Program – the old system

Today's VAT refund arrangements are very different to the old VRP that was in place previously in Canada. The AFVTR proposes a state-of-the art fully end-to-end digital VTR which would solve the issues from the old system and bring Canada in competition with other tourism countries.

The VRP was put in place January of 1991. At that time, the Government of the day pointed out that tourism was functionally an export industry – like lumber, or vehicles. Thus, by providing visitors with a refund, Canada was functionally treating tourism goods and services just like any other export.

On April 1st, 2007, the Government of Canada became the first member country of the OECD to cancel its VRP. To date, Canada, Chile, Costa Rica (recent OECD member) and the United Kingdom (UK) are the only OECD countries with a federal sales tax to not provide a refund to visitors.

The design of the old VRP was complex and labor intensive to administer, confusing for travellers, inadequately promoted, and open to manipulation by questionable operators. Consequently, it was significantly underutilized. Furthermore, it was also the subject of numerous complaints by international travellers.

Back then, the VRP was a completely manual system, and the retailers were not involved in informing and guiding the traveller on how to use the then system. Instead, the program relied on the traveller to do all the groundwork to complete the required extensive documentation while at the same time providing it to refund operators or mailing it to the Canada Revenue Agency (CRA). Consequently, the rejection level of refund claims was high i.e. in the range of approximately 25% of all claims.

The poor process of the old system meant that it was fully paper based and as such was very labor intensive for CRA to review refund claims and monitor refund operators. Furthermore, the rejection level also resulted in many travellers complaining to the Government of Canada for the non-payments of their refund.

The government did not adequately promote the old VRP and as result was not granted an annual budget to highlight its value in the public. The lack of knowledge about the VRP caused an extremely low take-up rate and dissatisfaction with travellers who realized once they had returned home that they had missed out on the opportunity to shop tax free in Canada.

In summary, the old system had little chance to survive. The reason for the failure wasn't because of the GST refund arrangements per se but instead because of the poor design and heavy administration.

APPENDIX II:
G20 Countries: Select Travel and Tourism Indicators

Figure 6: G20 Countries: Select Travel & Tourism Indicators

		T&T contribution to GDP (US$ BN)		T&T % of GDP		T&T GDP change (%)	Share of Total T&T Spending 2020		T&T Spending Change 2020 (%)	
		2020	(2019)	2020	(2019)	2020	Domestic	International	Domestic	International
1	United States	1,103.7	1869.7	5.3	8.6	-41.0	93.9	6.1	-37.1	-76.7
2	China	667.2	1665.6	4.5	11.6	-59.9	88.0	12.0	-60.8	-66.3
3	Japan	234.9	373.0	4.7	7.1	-37.0	94.6	5.4	-30.3	-82.9
4	Germany	208.8	393.1	5.5	9.8	-46.9	88.4	11.6	-47.3	-57.9
5	Italy	132.2	269.8	7.0	13.1	-51.0	80.6	19.4	-49.6	-62.0
6	France	123.2	240.5	4.7	8.5	-48.8	67.1	32.9	-49.8	-52.9
7	India	121.9	191.3	4.7	6.9	-36.3	89.0	11.0	-30.7	-61.0
8	United Kingdom	115.0	305.0	4.2	10.1	-62.3	85.4	14.6	-63.2	-71.6
9	Mexico	91.2	175.6	8.5	15.0	-48.1	85.0	15.0	-48.0	-49.3
10	Australia	81.4	149.1	6.0	10.7	-45.4	91.0	9.0	-41.0	-77.2
11	Brazil	78.0	115.7	5.5	7.7	-32.6	94.4	5.6	-35.6	-39.1
12	Spain*	75.4	202.1	5.9	14.1	-62.7	63.2	36.8	-50.7	-78.2
13	Canada	52.4	111.6	3.2	6.4	-53.0	81.2	18.8	-51.0	-71.1
14	Saudi Arabia	48.5	79.2	7.1	9.8	-38.8	66.2	33.8	-30.9	-80.4
15	Russia	40.1	75.5	2.7	4.9	-47.0	82.5	17.5	-43.9	-69.6
16	South Korea	39.9	73.2	2.4	4.4	-45.5	67.9	32.1	-34.0	-68.0
17	Turkey	35.5	77.6	5.0	11.0	-54.2	47.2	52.8	-41.8	-65.2
18	Indonesia	34.5	64.7	3.2	5.9	-46.6	78.4	21.6	-35.2	-78.4
19	Argentina	24.3	38.9	6.5	9.4	-37.5	91.7	8.3	-35.1	-66.7
20	South Africa	11.1	22.1	3.7	6.9	-49.8	66.7	33.3	-42.8	-66.0

* Spain is included here as it is invited to G20 events as a permanent guest.

APPENDIX III:
Rank of OECD Countries by Average Visitor Export Growth, 1995 to 2017

Appendix A: Rank of OECD Countries by Average Visitor Export Growth, 1995 to 2017

	Visitor Exports	Avg % Increase	1995	2000	2005	2010	2011	2012	2013	2014	2015	2016	2017
1	Latvia	25.76%	0.09	0.44	0.64	0.96	0.96	0.99	1.03	1.09	1.29	1.28	1.27
2	Lithuania	13.68%	0.18	0.78	1.23	0.98	1.26	1.33	1.32	1.32	1.28	1.37	1.38
3	Japan	13.55%	3.35	4.87	13.41	11.19	8.24	11.05	14.29	19.02	28.32	31.14	35.27
4	Iceland	10.44%	0.50	0.64	0.69	1.20	1.42	1.69	1.96	2.32	2.83	3.72	4.06
5	Turkey	8.46%	6.77	11.39	18.95	18.44	21.84	22.70	26.00	29.76	31.41	24.34	31.31
6	Ireland	6.22%	3.63	5.31	6.33	7.58	6.52	8.62	8.70	10.14	11.03	11.70	12.95
7	South Korea	6.06%	7.38	12.20	9.35	16.29	18.54	20.26	20.32	22.44	19.74	22.00	16.78
8	Slovakia	6.01%	0.94	0.69	1.20	1.90	1.92	1.92	2.12	2.05	2.30	2.62	2.71
9	Sweden	5.69%	5.25	6.48	8.38	10.09	10.58	10.60	11.02	12.37	13.99	15.41	16.52
10	Greece	5.22%	7.93	17.19	17.71	14.46	15.02	14.51	16.36	17.87	18.53	17.77	19.46
11	Chile	5.09%	1.79	2.12	2.31	2.25	2.45	2.83	2.84	3.13	3.66	3.95	4.82
12	Portugal	4.59%	8.02	10.27	9.66	11.84	12.97	13.81	14.53	15.75	16.49	17.71	20.60
13	Germany	3.71%	23.44	33.98	38.91	42.36	43.59	45.06	46.60	48.33	47.89	48.87	50.45
14	Spain	3.47%	36.57	53.89	55.08	52.22	56.83	57.48	59.49	62.36	63.96	68.41	75.42
15	Mexico	3.35%	12.02	10.59	12.86	11.34	10.41	11.29	11.59	13.47	17.61	21.68	22.39
16	New Zealand	2.66%	6.17	7.12	8.32	7.05	7.07	6.70	6.72	7.12	8.90	9.64	10.04
17	Belgium	2.49%	8.64	13.56	11.93	12.03	12.50	12.91	13.10	13.62	13.82	13.35	13.49
18	Denmark	2.41%	4.71	6.33	6.40	6.00	6.58	6.63	6.88	7.28	7.35	7.54	7.58
19	France	2.34%	31.89	53.18	48.69	45.14	50.93	52.85	53.56	54.22	49.23	47.27	50.31
20	United States	2.32%	129.90	153.24	133.30	164.86	181.01	189.94	202.79	213.77	218.67	209.07	200.67
21	Israel	2.32%	5.42	7.03	5.85	6.47	6.36	6.97	6.84	6.67	7.06	6.83	7.25
22	Estonia	2.01%	1.34	1.67	1.80	1.43	1.55	1.59	1.83	1.99	1.94	1.96	2.00
23	Luxembourg	1.82%	1.01	1.55	1.57	1.34	1.34	1.35	1.34	1.45	1.34	1.33	1.36
24	Norway	1.80%	4.50	4.41	4.60	4.35	4.68	4.85	5.09	5.70	6.36	6.52	6.41
25	Netherlands	1.80%	13.04	17.54	14.01	14.92	15.32	14.94	15.64	15.84	16.22	16.82	18.53
26	Finland	1.79%	2.73	3.06	3.22	4.09	4.75	4.80	4.76	4.37	3.28	3.47	3.69
27	Poland	1.74%	10.42	9.74	7.57	8.46	9.36	10.21	10.29	10.50	10.87	12.02	13.03
28	Australia	1.59%	16.97	21.54	18.44	17.03	16.47	16.94	17.37	18.25	20.40	21.77	23.41
29	Czech Republic	1.50%	5.85	6.39	6.94	6.94	7.13	7.19	6.73	6.83	7.12	7.27	7.53
30	Switzerland	1.39%	14.99	16.76	15.95	18.32	18.21	18.25	18.77	19.65	19.02	19.16	19.82
31	United Kingdom	1.37%	27.04	27.75	26.90	26.83	28.72	29.13	32.33	32.72	32.91	33.02	35.63
32	Canada	1.29%	13.79	19.70	16.26	13.13	13.07	13.26	13.36	13.87	14.87	16.24	17.22
33	Slovenia	1.20%	2.26	1.97	2.10	2.47	2.52	2.51	2.54	2.56	2.60	2.68	2.83
34	Austria	1.15%	17.33	18.44	20.37	19.67	19.60	19.91	20.11	20.62	20.92	21.74	22.02
35	Italy	0.78%	38.92	45.60	39.33	35.35	37.56	37.96	39.13	40.51	41.34	42.17	44.91
36	Hungary	0.57%	6.97	5.10	4.05	4.50	4.71	4.46	4.73	5.58	6.38	6.90	7.14

APPENDIX IV:
OECD countries with a VAT refund for tourists

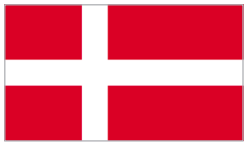

Austria


Australia


Belgium


Colombia


Czech Republic


Denmark


Estonia


Finland


France


Germany


Greece


Hungary


Iceland


Ireland


Israel


Italy


Japan


Korea


Latvia


Lithuania


Lukembourg


Mexico


the Netherlands


New Zealand


Norway


Poland


Portugal


Slovak Republic


Slovenia


Spain


Sweden


Switzerland


Turkey

The United States has no federal sales tax, but it instead is up to each state to implement a VAT refund for tourists. Texas and Louisiana have done so.

APPENDIX V:
AFVTR and supporters

ALDO Group Inc.

Birks Group Inc.

Cadillac Fairview

Global Blue

Harry Rosen Inc.

Hudson's Bay

QuadReal Property Group

Retail Council of Canada

Triple Five