



**Government Briefing:  
Proposed digital Tax Free  
Shopping model for Canada**

December 2020

# Government Briefing: Proposed digital Tax Free Shopping model for Canada

**Purpose:** The purpose of this Briefing Paper is to inform about our proposed digital Tax Free Shopping model for Canada.

## 1. Tax Free Shopping and the value proposition

Tax Free Shopping (TFS) enables international shoppers to reclaim VAT on the purchases they take with them at the end of their trip. VAT refunds for international shoppers are accepted in a growing number of countries (currently around 73 out of the 180 that apply VAT) including all OECD countries except in Canada and Chile.

TFS enhances the international competitiveness of the domestic tourism industry and retailers, and increases retail sales and exports from the country leading to a range of macro-economic benefits. The policy objective of a refund system is to ensure neutrality of tax treatment between tourist expenditure on exported goods and other exports. The procedure follows three steps as per below;



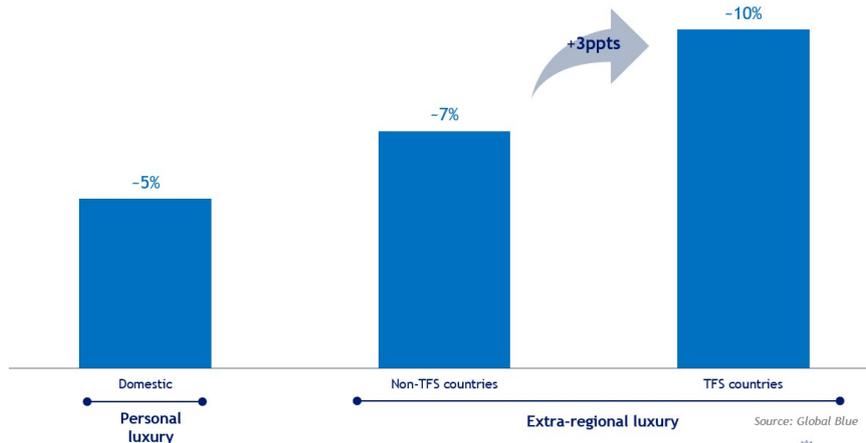
The value proposition for each stakeholder is listed below;



We have also seen that countries with a refund system in place outperform both domestic markets and countries without a refund system when it comes to luxury sales.

### VAT REFUND COUNTRIES EXHIBIT HIGHER LUXURY SALES GROWTH

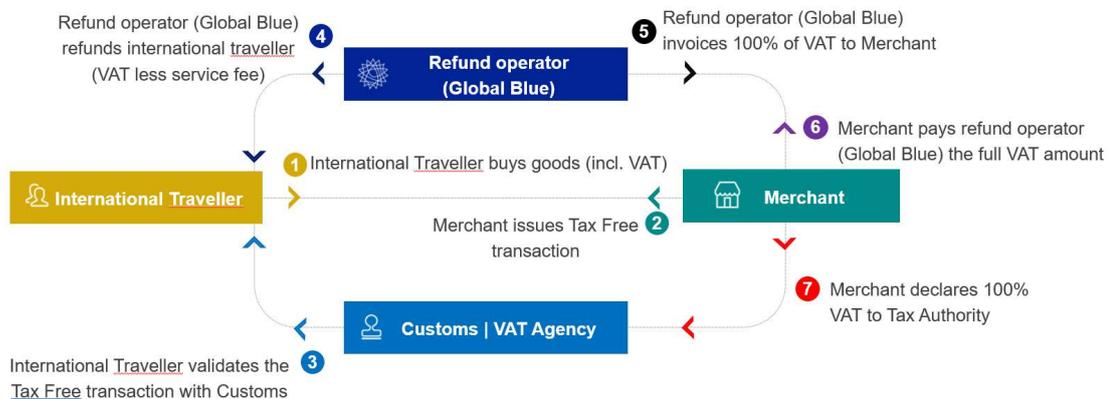
Luxury market growth (CAGR 2009/10 - 2018/19)



## 2. The retailer model

There are different models of a VAT refund system of which the retailer model (RM) is the world's best practice and used by the majority of countries. The key of the RM is that it's retailer centric. This means that the retailer is in focus when offering the VAT refund to international shoppers. Below is a flowchart and description of the RM.

Global Blue facilitates the VAT refund process between Merchants, International Travellers & Government Authorities



The RM can be described in words as follows;

1. Traveller makes a purchase at an affiliated merchant
2. Merchant issues a TFS transaction and together with it, handles the goods and the invoice
3. Before leaving the country, the traveller presents the goods and the documentation for customs validations (eligibility and proof of export checks)
4. If transaction is validated, the traveller requests the refund amount to refund operator (Global Blue)
5. Refund operator (Global Blue) pays the refund to the traveller
6. Refund operator (Global Blue) invoices 100% VAT to Merchant
7. Merchant pays refund operator (Global Blue) and declares VAT to Tax Authorities

### 3. About Tax Free Shopping and Corona virus

Governments, Tax Free Shoppers and retailers are looking for more digital solutions complying with the « New Normal » due to the Corona virus. Our proposal addresses the top requested new functionalities being;



### 4. The importance of Chinese travellers for tourism shopping

The Government has a strategic plan for the Chinese market and is working with Destination Canada to augment its marketing programs. In 2018 the Canada-China Year of Tourism was celebrated and the plan was to double the number of tourists from China by 2021.

This is for good reasons as economically there is no doubt that the surging numbers of Chinese travellers abroad are changing the world. Over the past ten to fifteen years, China has laid the road for tourist spending. There is a correlation between Chinese tourism arrivals and an increase in retail sales. As a result, many shopping destinations focus on this market, accepting Chinese payment methods, offering Asian cuisine, employing Chinese speaking staff and ensuring their product mix is attractive to the Chinese consumer.

Most conspicuously, Chinese are becoming the main props of luxury brands. According to the UN's World Tourism Organisation, in 2016 they spent a total of more than \$260bn, more than double the amount forked out by Americans abroad and about one-fifth of all global spending by international tourists. Only a decade earlier Chinese tourist spending had accounted for a mere 3% of the world's total.

The Chinese are price-sensitive and like a deal. This is well reflected in the dramatic increase of tax-free shopping by Chinese travellers in the last 10 years which have driven the tax-free shopping growth in the World. From not having appeared on the top 10 nationality list in 2008 they are now the most important customers representing more than 40% of the sales in store value.

### 5. Global Blue's proposed model

Our proposal is a turn-key solution that covers all aspects of TFS and is the result of 40 years of experience in VAT refunds for tourists operating in 44 countries. There are no costs to the Government or retailers as the refund operator will charge a fee to the international traveller, i.e. a user pay service which is world's best practice. Our long and unique experience in implementing TFS services and our proven systems will guarantee a smooth, fast and low risk implementation.

We propose a state of the art fully end-to-end digital TFS system which aims to be one of the most modern and advanced in the world, supporting the efforts to position Canada as a top world class shopping destination. Our digital system is made secure to prevent that incorrect VAT refunds are being made. Global Blue's (GB) system is considered best in class having the most advanced risk engine in the world, which produces the optimal mix of best traveller experience and maximum fraud control.

GB's digital assets are designed to guide and support the traveller through the entire TFS process by taking maximum advantage of modern technology such as apps, geofencing, QR codes and risk engine. Retailers want a fast and precise technical solution that allows them to close the sales and offer a

seamless TFS service to the international traveller. There is a wide range of options the retailer can chose from designed to support both the smallest retailer and the large global brands

No other system on the market serves travellers, retailers and authorities all around the world like GB's, the world's most recognized tax-free brand. By taking advantage of the world's largest organization in the industry, Canada not only gets a top-class system but can also enjoys a long-term relationship with continuous development and innovations ensuring Canada remains on the leading edge. We will also work closely with tourism authorities to promote foreign shopping in Canada.

Our proposed model contains the following:

- ✓ Retailer model
- ✓ State of the art Tax Free Shopping services including end to end digital turn-key solution covering all aspects of Tax Free Shopping including;
  - All related technology (with updates, maintenance and support)
  - All commercial related aspects
  - Marketing & promotion
  - Training
  - Reporting, and
  - Security & fraud prevention aspects.

## 6. Description of Global Blue's proposed model

GB has found that the critical success factor for retailers and travellers lies in the service delivery and the provision of a seamless experience for all involved. As such, it is constantly developing new programs that offer an inclusive suite of products and services, going above and beyond a simple VAT refund at departure points. In the below section we describe these products and services.

### Instore experience

*On-line issuing solutions for issuing TFS transactions in store:* GB's family of soft and hardware solutions include web/PC-based systems, mobile solutions, point-of-sale integration, terminals, and all-in-one kiosks. They are designed according to each retailer's needs, while speeding up the customer handling and ensuring that the TFS transaction is completed correctly.



*Retailer staff training:* We make sure the staff becomes TFS experts, and fully master the systems, with as little disruption as possible in their day to day job. The Global Blue Academy offers comprehensive sales, refund procedure and cultural training to retail staff on the TFS process and systems face to face, in group and online.

*Store visits:* Our sell-out team visit the stores to train the staff & provide discussion guides allowing cross-selling and upselling, including GB's solutions and services.

*Promote Tax Free Shopping with in-store material:* To recognize that the store offers TFS, is a key element for travellers. This highly recognized VAT refund brand will be displayed on each affiliated outlet's store door, store window and cash counter; this will ensure that traveller, who for most of them have already visited other countries and are familiar with our brand, will be elicited to use the service.



We offer a set of free-of-charge traveller leaflets, both digital and printed, to inform about TFS opportunity and the procedure.



Supporting the traveller

**Guiding the traveller:** The more the travellers know about TFS before reaching the store, the smoother it is for the staff to offer it. By leveraging our daily relationship with travellers and proprietary and third party channels through offline & online touchpoints along their shopping journey, allows us to amplify our reach with travellers.



**Digital:** A fully digital solution means traveller doesn't need to carry any paper. Instead they get messages through email, SMS or WeChat that guides them through the process and displays status and options (Mobile Customer Care, see below). We also list all needed information about TFS in our website, in the Traveller section [www.globalblue.com](http://www.globalblue.com).

**App:** The frequent traveller is recommended to download the GB app. Through the app, the traveller is guided using maps, store listing, promotions, export validation and selection of refund method. Frequent shoppers can enroll for a digital Shop Tax Free card. Traveller scans credit card to profile, saves digital membership card to Wallet and traveller receives personalised offers via eDM or in the App

**Mobile Customer Care:** This is a traveller-facing solution from GB that delivers live status updates on tax free shopping refunds and real-time & contextual notifications to shoppers, guiding them step-by-step to the successful completion of the refund process. This is particularly helpful to the less frequent traveller.



**Customer service:** We have the most extensive support channels, to answer any questions from travellers, no matter their location. We have Toll-free Helplines for all our operating countries, Customer website section in English, Chinese and Russia and Shop Tax Free App. 6 languages supported by our customer service team and special tools available on website such as Store Locator, Customs & Refund Point Locator, & Refund Tracker.

Validating the export

To claim the VAT back, goods must be exported out from Canada. Typically at the exit points, goods are validated for export. We have developed our own efficient digital validation system, called Customs Approval System (CAS) in order to make the process fast, reliable and simple. We provide it to Customs authorities around the world, and currently there are 10 countries using it (Argentina, Cyprus, Denmark, Estonia, Finland, Lebanon, Serbia, Singapore, Sweden and Uruguay).

CAS offers Tax and Customs Authorities an off-the-shelf product supporting a robust, secure and cost-effective digital validation flow, with a sophisticated risk management engine, self-service options and centralised reporting features. CAS facilitates authorities in achieving a controlled shift of low-risk transactions away from Customs Counters and towards self-service validation options. Only high-risk transactions/travellers are directed to the Customs for visual inspection either at a Customs counter or remotely. International travellers benefit from an easy, fast, transparent self-service digital validation experience, avoiding queues and delays at Customs and refund desks whilst minimising physical contact.

A concept of self-service combined with a sophisticated risk engine makes the process fast, easy and efficient. GB offers two methods of self-service validation: kiosk and mobile phone. The mobile phone validation is either app- or web-based and uses the traveller's own mobile phone.

CAS functionalities are;

- All transactions: ability to process all tax free transactions
- Customisable: fully adaptable to legal requirements and roles & processes

- Validation rules: customs can create rules to highlight risk (red-green channel) or allow auto approval for export validation
- CAS database: standardised reports to access and analyze all transactions details
- CAS audit server: ability to forward all transactions details to a 3rd party server to be used as independent audit resource
- Connection to external data mining tools: risk management of fraud protection and rules engine input
- CAS support: in case of issues or maintenance tasks
- Self-validation options are available (mobile or kiosk)
- All our in-store issuing solutions are compatible to CAS.

### Receiving the refund

Shoppers from different countries have different payment habits and preferences, so we give the shoppers the largest choice of refund targets to suit their preferences. We offer all major credit cards, mobile wallets and bank transfers and cheques. GB offers the biggest offering for Chinese shopper refund targets.



Through the traveller's mobile phone it is possible to select the preferred refund target and request a refund. An advanced security layer ensures the payment is made to the correct traveller. The traveller will be able to track the payment for peace of mind.

We also give the shoppers the largest choice of refund locations. We ensure shoppers can get their refund, in ~700 locations, at the most convenient time for them.

### Value added services

To maximise our TFS services we also offer value-added services such as;

**Marketing:** GB collects data across a variety of touch points with the international shopper. Thanks to data analytics and marketing insights, GB has created a large range of multi-channel marketing products with unique content for shoppers who are looking to shop Tax Free.

Adding Canada to the world map of tax free shopping, will bring awareness of shopping opportunities in Canada by using all of GB's wide range of marketing services. We work with tourism authorities to develop joint tax free shopping campaigns on their websites, at international tourism conferences etc and with our partners to develop campaigns on their platforms. We have a dedicated Chinese marketing team focusing on attracting this important customer group.

**Drive to store campaigns:** GB has the ability to co-build with merchants and authorities effective end-to-end marketing communication programs based on data collected throughout the entire TFS journey. Through detailed insights of the international shoppers' spend behaviors, GB's digital marketing assets drive travellers to the right store by promoting tailored propositions.



**Business intelligence:** We can help the Government & merchants understand through data the international shopper opportunity. We have a dedicated 'Intelligence' team in charge of providing Government and merchants with a complete overview of their performance with international travellers every month & via several tools. There is a set of pre-defined reports but also customized ones. Examples of pre-defined reports are Merchant Insights, Share of Wallet and Shoppers' profile.



Security aspects

GB has great respect in dealing with tax money and takes security extremely seriously. We are the only TFS company investing in a team of both local and central experts not only to detect fraud but also to collaborate with merchants and authorities in actively fighting fraud attempts.

Fraud prevention actions are managed centrally. Central actions are supported by local subsidiaries & embraced by multi-functional departments. Efficient & fast communication is ensured by clear action and communication plan. In order to clarify suspicions, GB gets in contact with local authorities, like customs or police. We take advantage of the latest technology such as;

**Risk management:** World's most sophisticated risk engine supports Customs in screening the validation claims. The risk engine is programmed to detect fraudulent behavior and collusions of different types.

**Sourcing information from the authority:** The risk engine can take advantage of external information such as databases on local residents and holders of employment passes.

**IT security and PCI DSS compliance:** All GB IT systems hold the highest security classes including encrypted communication lines, digital stamps based on certificates and all payment services are PCI DSS certified.

**Advanced analysis:** As an optional feature, the system offers support for external third party analysis software for advanced offline data-mining tasks.

In conclusion, we are proposing a state-of-the art end to end digital turn-key solution which will cover all aspects of TFS. There are no costs to the Government or retailers as the refund operator will charge a fee to the international traveller, i.e. a user pay service which is world's best practice. The range of services provided per stakeholder are summarised below;

 AUTHORITIES	 TRAVELLERS	 MERCHANTS
Full Support to Canadian Authorities: <ul style="list-style-type: none"> <li>✓ Export validation system</li> <li>✓ Comprehensive reporting and dashboards, including real time reporting and data transfer</li> <li>✓ Implementation of fraud prevention technologies, processes and routines, including automated eligibility controls</li> <li>✓ Promotional activities</li> <li>✓ Consultancy services</li> </ul>	Full Support to Travellers, including: <ul style="list-style-type: none"> <li>✓ Mobile Customer Care</li> <li>✓ Global Blue app</li> <li>✓ Global Blue Card</li> <li>✓ Global Blue Website</li> <li>✓ Promotional and marketing activities</li> <li>✓ 2 multi-language customer services centers</li> <li>✓ Refund payments</li> </ul>	Full support to merchants, including: <ul style="list-style-type: none"> <li>✓ Affiliation to the Tax Free Shopping scheme</li> <li>✓ Provision of issuing solutions</li> <li>✓ Training of shop staff</li> <li>✓ Business intelligence tools &amp; consultancy services</li> <li>✓ Marketing and promotional activities and point of sales materials</li> <li>✓ Fully dedicated sales team</li> </ul>

## 7. About Global Blue

Global Blue pioneered the concept of Tax Free Shopping 40 years ago. Through continuous innovation, it has become the leading strategic technology and payments partner, empowering merchants to capture the growth of international shoppers.

The Group connects all stakeholders involved in the international shopping ecosystem, helping:

- \* More than 29 million international shoppers receive a seamless and personalised shopping experience, enabling them to claim back the VAT on their eligible purchases when they shop abroad and to pay in their home currency at a guaranteed best rate,

- \* More than 300,000 points of sale, including leading department stores and luxury brands, identify growth opportunities through smart data and intelligence solutions, increase footfall through data-driven marketing solutions and convert traffic into merchant revenue through innovative in-store technologies,

- \* More than 50 acquirers, at around 130,000 points of interaction, benefit from additional revenue streams and offer merchants and travellers Dynamic Currency Conversion options and other Added-Value Payment Solutions,

- \* Customs & authorities in more than 40 countries increase country attractiveness and ensure a secure and compliant Tax Free Shopping scheme.

In the financial year ending 31 March 2020, Global Blue processed 35 million Tax Free Shopping transactions with a total value of €18.5 billion sales in store, and 31 million Added-Value Payment Solutions transactions with a total value of €4.4 billion sales in store.

Global Blue has over 2,000 employees in more than 50 countries.

For more information, visit <http://www.globalblue.com/corporate/> or contact Ms Birgitta Falk, Vice President New Markets, email: [bfalk@globalblue.com](mailto:bfalk@globalblue.com) or mobile +46-731 565683.