



# Understanding the potential of tax-free shopping in destination economies

Canada Study

October 2020

Cebr

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**Authorship and acknowledgements**

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London, October 2020

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# Foreword

## Tax-free Shopping Impact Research

Cebr was commissioned to undertake research into the value of tax-free shopping to the economy of Canada.

The research shows a clear benefit to both the Canadian economy and public finances from a potential tax-free shopping scheme.

We believe tax-free shopping will provide similar benefits as in other countries, although the extent of the benefit will vary due to specific economic conditions.

### Cebr

Cebr – the Centre for Economics and Business Research – is one of the UK’s leading economics consultancies. Our research spans the globe. We produced the award-winning [Arcadis Sustainable Cities Index](#) and the [Lloyds Underinsurance Reports](#). Our annual [World Economic League Table](#) garners thousands of media hits every year.

We are experts in producing economic impact studies and regularly use innovative methodologies to quantify the economic contribution of new technologies and other aspects of the economy that are difficult to quantify. Examples include research for Arts Council England on the economic impact of arts and culture, research into the economic impact of tidal lagoon power and the economic impact of big data, as well as a [report for Pinsent Masons on the impact of Chinese infrastructure investment in the UK](#). We are also the leading economics expert on UK retail, running the ASDA Income Tracker and the YouGov/Cebr Consumer Confidence Index.

## Executive Summary

- **This is a study of the economic impact of a hypothetical tax-free shopping scheme in Canada.** Tax-free shopping refers to a scheme which enables international visitors to reclaim VAT paid on certain eligible purchases. Canada's visitor rebate programme was suspended in 2007 meaning that unlike many other regions and countries across the globe, such as the European Union or Japan, Canada does not currently operate a tax-free shopping (TFS) scheme. The aim of this report is to examine the potential impact on the economy, if such a scheme was introduced.
- In order to estimate the potential size of a TFS scheme in Canada, we draw on the most recent data on total tourism spending in the country as well as our previous research on tax-free shopping schemes worldwide. **The resulting estimate puts the potential market size of TFS in Canada at CAD 1.5 billion in 2019, equivalent to 7.4% of total tourism spending in that year.**
- The associated VAT refunds are estimated at CAD 140 million.
- Tax-free shopping is directly linked to the wider tourism sector, which accounts for roughly 6.2% of Canada's GDP.
- Our estimates show that the introduction of a **TFS scheme could have increased 2019 GDP by CAD 810 million.**
- In terms of labour market benefits, our estimates show that **the boost to visitor spending would support an additional 32,100 jobs in the travel and tourism industry and its supply chains.**
- Meanwhile, the activity stimulated by a TFS scheme would significantly outweigh the cost of lost tax revenue from sales tax specifically. **This would bring a potential net gain of CAD 127 million in overall tax revenue.**
- **Equivalently, for each dollar lost through lack of VAT, CAD 1.90 would be recouped in other taxes.**
- The economic stimulus from a TFS scheme is based on two effects. **The existence of a VAT refund scheme would stimulate both the number of visitors coming to Canada as well as the amount of money each visitor spends.**
- We estimate that **tax-free shopping could boost the number of visitors to Canada by 0.87%.** This equates to 193,000 potential extra visitors in 2019.
- Assuming these **additional visitors have the same spending profile as current tourists, this would increase total tourist spending by CAD 182 million.**
- Our calculations further show that tax-free shopping would reduce the total cost of a visit for travellers by 0.67% on average. **As an effective cost reduction for tourists, this effect would lead to an increase in per capita spending for all tourists. As such, the scheme could have stimulated additional spending of CAD 225 million in 2019.**
- The sum the spending increases, both from additional visitors (CAD 182 million) and from the increase in per capita spend (CAD 225 million), gives the **total figure of potential additional tourist spending due to tax-free shopping at CAD 407 million.**

# 1 Establishing a tax-free shopping system in Canada

International tourism has played an important role in the Canadian economy for many years. The country provides a diverse offering to visitors, ranging from captivating cities to areas of outstanding natural beauty. Geographical features further play into Canada's tourist offering. The country's mountain ranges are among the most attractive winter sports regions in the world.

Visitor numbers have seen a considerable rise in recent years. A record 22 million foreign tourists visited Canada in 2019, up from just over 16 million in 2010.<sup>1</sup> This represents an increase of some 37% over that time period. Expenditure levels have risen too, with total revenue from tourism reaching CAD 20.9 billion in 2019, representing another record value. Unlike many other countries in the region, Canada does not currently offer a tax-free shopping (TFS) scheme to attract further visitors and stimulate spending among tourists, after opting to suspend that scheme from 2007. This is despite the relatively high per capita spending levels among visitors and the large number of visitors to cosmopolitan cities, such as Toronto, Montreal and Vancouver, which offer excellent shopping opportunities.

This report examines the potential scope and benefits of a tax-free shopping system to the Canadian economy. To support our assumptions regarding market size and uptake of such a scheme, we make use of in-depth knowledge of other successful TFS markets, drawing on previous Cebr research. This allows us to estimate the impacts on tourism numbers, revenues and the associated benefits to the economy. Our analysis therefore aims to inform the discussion about potential future tax arrangements and the role of tax-free shopping in the country.

## 1.1 How it could work

Many developed economies offer tax-free shopping to their visitors from around the world. In drawing up a hypothetical system for Canada, we assume that the TFS scheme would be modelled along international best practices. Eligibility for the scheme is usually extended to all visitors with permanent residency outside the country in question. This might even include citizens of said country who reside abroad. After making their purchase, customers usually need to obtain validation from customs at the border crossing point, port or airport from which they leave the country. The purchase value also usually needs to exceed a pre-determined amount to be eligible for a tax refund. The minimum purchase value does vary by country, the global average stands in the range of USD 50 to USD 60 (approximately CAD 65 to CAD 79 at the current exchange rate).

## 1.2 The potential scale of the scheme

Estimating the potential scale of a tax-free shopping system in Canada requires some assumptions regarding the take-up rates of such a scheme by visitors. There is considerable variation in such rates between countries. Japan exhibits the highest take-up rate at 25.4%, while the corresponding figure for Uruguay stands at just 1.2%. Based on our experience in the sector and knowledge of various international markets, we suggest that the figure for Canada would lie at the lower end of this scale. As such, we assume that 7.4% of all visitor spending in Canada would go towards tax-free shopping, higher than the Czech Republic's 6.8% but slightly below Spain's 8.9%.

<sup>1</sup> Statistics Canada

Combining this with the latest data on visitor exports from the World Tourism and Travel Council allows us to estimate the potential market size of a TFS scheme in Canada. As shown in Figure 1, we estimate that VAT refund eligible sales could have reached CAD 1,548 million in 2019, up from CAD 1,186 million in 2012. We further estimate that the associated VAT refunds could have reached CAD 140 million in 2019 up from CAD 108 million in 2012.

One intricacy when considering the potential impact of a tax-free shopping scheme on Canada's economy concerns the country's existing tax landscape. Sales tax in Canada varies between different provinces and, as such, so too do the potential price reductions for international visitors, depending on the location of their trip. The tax rates vary from a low of 5% in Alberta, the Northwest Territories and Yukon, to highs of 15% for New-Brunswick, Newfoundland and Labrador, Nova Scotia and Prince Edward Island.

In light of this, when considering country-wide impacts, we adopt a weighted average sales tax rate taking into account visitor numbers by province. For instance, Ontario sees more tourist visits than any other Canadian province. It also has a higher sales tax rate (13%) than many other provinces. Ontario's greater weight in the calculation of the average sales tax rate illustrates the potentially higher cost savings for tourists and more sizeable economic impacts that would stem from tax-free shopping in the province relative to provinces with fewer tourist arrivals. Applying this analysis to all Canadian provinces produces a tourist arrivals weighted sales tax value of 9.1%.

It should further be noted that in practice the amount refunded to the traveller will be less than the tax paid on the eligible products. This is because refund providers, who act as intermediaries between the consumer and the merchant, charge a fee for their services. As the exact rate of the service fee depends on various factors, we have not included any service fee in our modelling. Generally, experience shows that in terms of maximising the take-up rate and service provision, private refund providers are more efficient than the public sector, suggesting that opening up tax-free shopping schemes to the private sector is beneficial.

Figure 1: Estimated sales eligible for VAT refund, CAD million

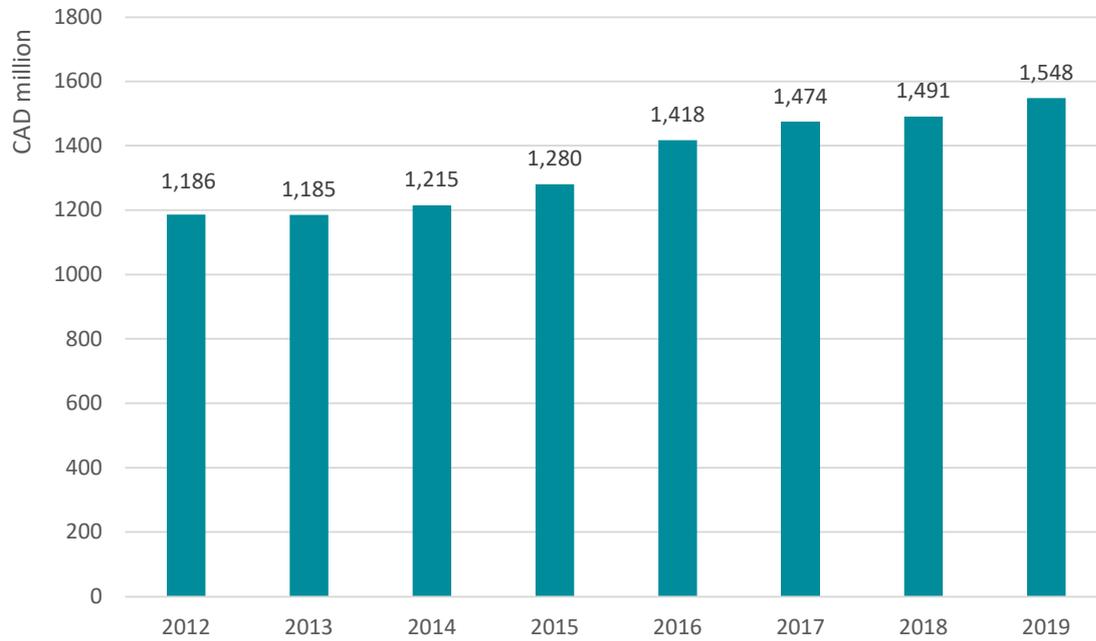
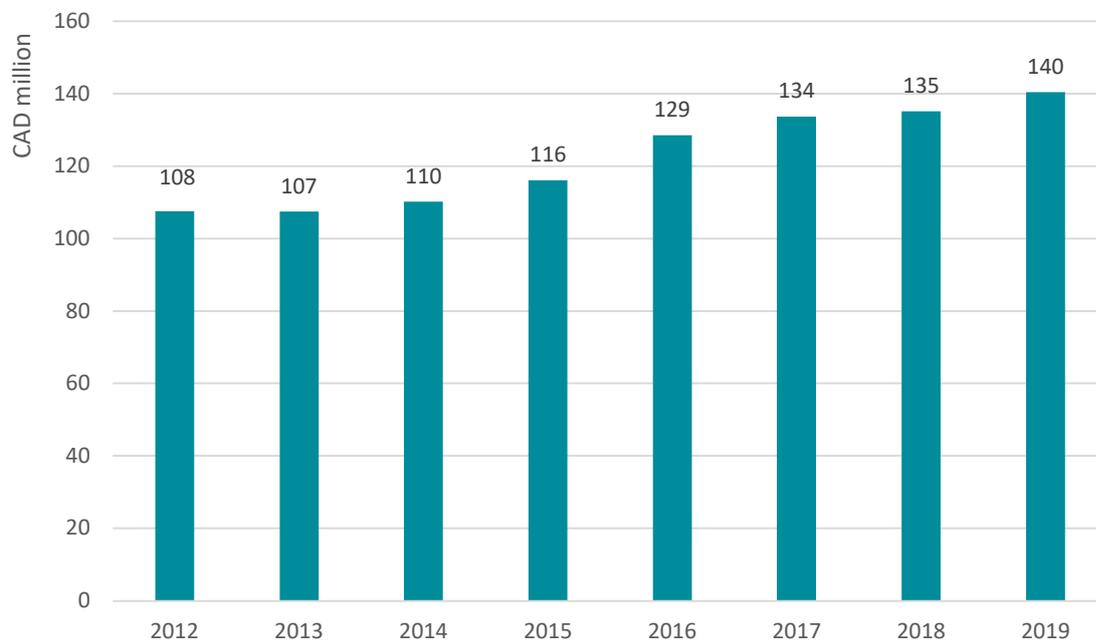


Figure 2: Estimated VAT reclaimed, CAD million



Source: WTTC, Statistics Canada, Cebr analysis

## 2 Methodology

This section describes how Cebr has calculated the economic impact of the hypothetical VAT reclaim scheme in Canada. Our analysis treats the scheme and the resulting impacts as if the system has already been implemented. The results therefore show the expected changes to visitor numbers and tourism spending under this hypothetical scenario.

Tax-free shopping is a global phenomenon and has enjoyed increasing popularity over recent years. Globally, tax-free shopping transactions have shown double digit growth over the past decade. From a policy and legal point of view, the objective of a tax-free shopping scheme is to ensure neutrality of tax treatment between tourist expenditure on exported goods and other exports. This is because, according to OECD VAT guidelines, exports should generally not be subject to tax.

Apart from these policy considerations, countries which implement a tax-free shopping scheme enjoy a range of other benefits. A TFS system means that merchants are encouraged to issue invoices and declare their sales to tax authorities, thereby reducing the scale of the grey economy in a country. From a revenue perspective, research has found that the cost of implementing a TFS scheme is more than offset by the benefits to the wider economy. In particular, a TFS system encourages foreign tourist spending and stimulates retail sales.

This chapter analyses the channels through which a TFS system can boost economic activity in a country. Our aim is to quantify the following effects:

- 1) Impact of tax-free shopping on the number of inbound tourists to Canada
- 2) Impact of tax-free shopping on average spend per tourist
- 3) Impact of tax-free shopping on economic output and employment

We start by measuring the likely effect of tax-free shopping on tourist numbers, given that a lower cost of shopping should attract a higher number of visitors to Canada. The effect on tourist spending is twofold: on the one hand, there is an increase on the 'extensive margin' meaning each additional tourist coming to Canada as a result of tax-free shopping increases the total spending in the tourism sector. In addition, we will also analyse the increase on the 'intensive margin'. This represents the extent to which the average spend per tourist changes due to the VAT refund scheme. We will conclude by looking at the importance of tax-free shopping for output and employment, based on the GDP contribution of the wider tourism sector as well as giving an estimate on the fiscal implications of a potential scheme.

### 2.1 Impact on the number of tourists

We measure the impact on the number of tourists by translating the impact of tax-free shopping into an impact on the average cost of a visit to Canada. We then multiply this by the elasticity of travel with respect to price. We have used an elasticity of -1.3 for tourist numbers with respect to the average cost of a visit.<sup>2</sup> An elasticity describes the percentage change in one variable as a result of a change in another variable. In our case, a price elasticity of -1.3 with regards to tourist numbers implies that for each percentage point

<sup>2</sup> Source: UK Tourism Statistics 2016, The Tourism Alliance Section 7, [http://www.tourismalliance.com/downloads/TA\\_390\\_415.pdf](http://www.tourismalliance.com/downloads/TA_390_415.pdf)

decrease in costs, the number of tourists increases by 1.3%. This is a conventional elasticity used for tourism and is the official elasticity quoted by the UK's Tourism Alliance.

## **2.2 Impact on the amount of spending per tourist**

The impact on average spend is reflective of how tourist expenditure reacts to a change in the price, for example stemming from an effective change in the tax rate. This can be calculated using a suitable elasticity, which relates changes in prices to changes in consumption expenditure. We surveyed the body of academic literature in this field and have found suitable elasticities that explain how tourism expenditure changes with respect to a change in the price.

## **2.3 Impact on GDP, employment and tax revenues**

Having calculated the direct impacts on tourism and spending, we then put the tax-free shopping scheme into the wider context of the Canadian tourism sector. We start by examining the direct and indirect economic benefits tourism brings to the economy of Canada in terms of employment and additional output generated. Based on the economic contribution of the Canadian tourism sector, we calculate the potential marginal effect of a Canadian TFS scheme on GDP and employment. Lastly, we consider the fiscal implications of the introduction of a TFS scheme. As any increase in economic activity usually also leads to a rise in revenue collection, TFS schemes are often a net benefit to public finances.

### 3 Results – the impact of tax-free shopping in Canada

This section describes the direct impacts of tax-free shopping on tourism and spending.

Data from Statistics Canada, shown in Figure 3, reveal that the number of tourists to Canada has increased from 16.2 million in 2010 to over 22.1 million in 2019. The fastest year-on-year growth rate was witnessed between 2015 and 2016, when visitor numbers picked up by 11%. The year-on-year growth rate then moderated somewhat for the following two years, before picking up once more in 2019 to 5%.

In terms of visitors' country of origin, the number of visitors from the US significantly outweighs the aggregate figure across all other countries combined. Of the 22 million visitors to Canada in 2019, just over 15 million were resident in the US. Of the remaining 7 million visitors, the most significant contribution stemmed from the UK, with British residents making up 15.2% of this figure. Visitors from France were also numerous, making up 12.5% of non-US-based tourists in Canada in 2019. Meanwhile, Canada also welcomes large numbers of Asian tourists. China, India, South Korea, and Japan all placed in the top ten countries in terms of the number of visitors to Canada in 2019.

Figure 3: Number of tourists (LHS) and annual change (RHS), Canada, 2010-2019



Source: Statistics Canada

Canada's vast geographical size means that there is considerable disparity in tourist numbers across different regions. The vast majority of tourist visits are concentrated in the provinces of Ontario and British Columbia, welcoming in 32.3% and 31.4% of all visitors to Canada in 2019, respectively.<sup>3</sup> This comes as no surprise given that the provinces are home to some of the country's largest cities, including Toronto and Vancouver. They also offer other famous tourist attractions, such as the Whistler Ski Resort in British Columbia and Niagara Falls in Ontario. At the other end of the spectrum, extremely low population density lends itself to much smaller tourist numbers in many of Canada's provinces. When excluding the country's

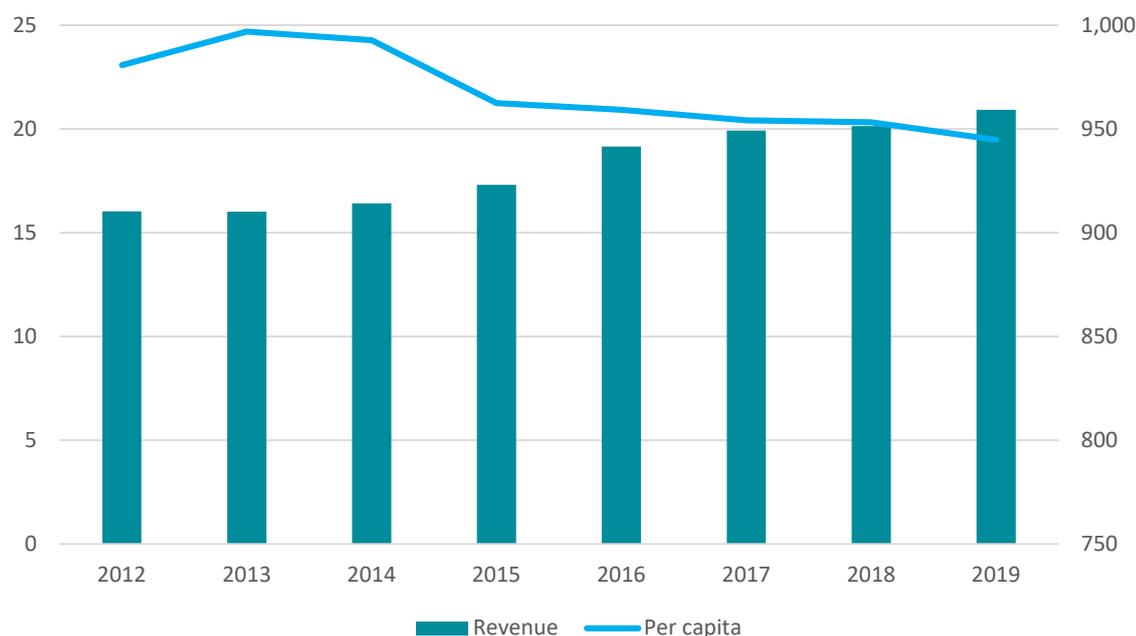
<sup>3</sup> Source: Statistics Canada

four most populous provinces<sup>4</sup>, the remaining nine provinces welcome just 5.3% of tourists based on 2019 data. This comes in spite of making up more than half of the country in terms of land mass.

### 3.1 Tourism spending in Canada

Figure 4 shows that total tourism expenditure has been subject to a steady increase between 2012 and 2019, rising from CAD 16.0 billion to CAD 20.9 billion over that period. This has not been matched by the trend in spending per head, however, which has instead been subject to a largely downward trajectory since 2013. Spending per tourist had reached almost CAD 1,000 in 2013, with this since falling to below CAD 950 in 2019. This is largely because of visitor numbers increasing at a faster rate than aggregate visitor spending. While visitor numbers in 2019 were 35.5% higher than those witnessed in 2012, the equivalent growth rate for aggregate spending was slightly lower, at 30.5%. While any change in per capita spending levels can have a multitude of underlying drivers, including exchange rates and the economic situation in tourism source markets, a continuous and steady decline is a worrying trend for the contribution of the Canadian tourism sector. If, for example, 2013 per capita spending levels would have remained stable, incoming tourist to Canada in 2019 would have spent CAD 22.1 billion rather than CAD 20.9 billion, a difference of CAD 1.2 billion.

Figure 4: Total tourism spending (LHS, in CAD billion) and per capita spending (RHS, in CAD)



Source: Statistics Canada, Cebr analysis

### 3.2 Impact on the number of visitors

Using the above numbers, we calculate that average savings realised via VAT refunds would have decreased the cost of travelling to Canada by around 0.67% for visitors in 2019. Using the price elasticity

<sup>4</sup> The four most populous provinces being Ontario, Quebec, British Columbia, and Alberta.

for incoming tourists from Section 2.1, this yields an increase of 0.87% in the number of tourists coming to Canada, equivalent to a potential 193,000 additional visitors in 2019.

### 3.3 Increase in spending due to additional visitors

Assuming that these additional visitors have the same spending profile as the average current tourist to Canada, this translates into potential additional spending of around CAD 182 million in 2019.

### 3.4 Impact on visitors' spending

The aim here is to estimate the extent to which the availability of VAT refunds would change consumer behaviour. Given that VAT refunds reflect a cost reduction for visitors shopping in Canada, one would expect that this leads to higher consumption expenditure. In order to quantify this effect we refer to academic literature, which has found that a 2% decrease in the price of tourists' consumption basket leads to a 3.2% rise in total expenditure.<sup>5</sup> Our review of a meta-study of tourist spending elasticities finds this value to be well within the range of reasonable estimates.<sup>6</sup> Combining this with our findings from above, which show that VAT refunds could reduce the overall cost of travel for tourists by 0.67%, we find that the VAT refund scheme would stimulate an increase in consumption of 1.07% among visitors to Canada. This is equivalent to CAD 225 million in 2019.

### 3.5 Total increase in spending

The total potential increase in spending resulting from a VAT refund scheme is therefore the aggregation of the impact on the number of visitors and the increase in the spending per visitor. Based on 2019 data, we find these separate effects to be CAD 182 million and CAD 225 million, respectively, yielding a total effect of CAD 407 million.

5 Gago et al (2006, FEM Working Paper 40.2006) – Taxing Tourism in Spain: Results and Recommendations

6 Peng, Song, Witt - A Meta-Analysis of International Tourism Demand Elasticities, Journal of Travel Research, 2014, retrieved at [https://www.researchgate.net/publication/270710840\\_A\\_MetaAnalysis\\_of\\_International\\_Tourism\\_Demand\\_Elasticities](https://www.researchgate.net/publication/270710840_A_MetaAnalysis_of_International_Tourism_Demand_Elasticities)

## 4 Results – The boost to the economy of Canada

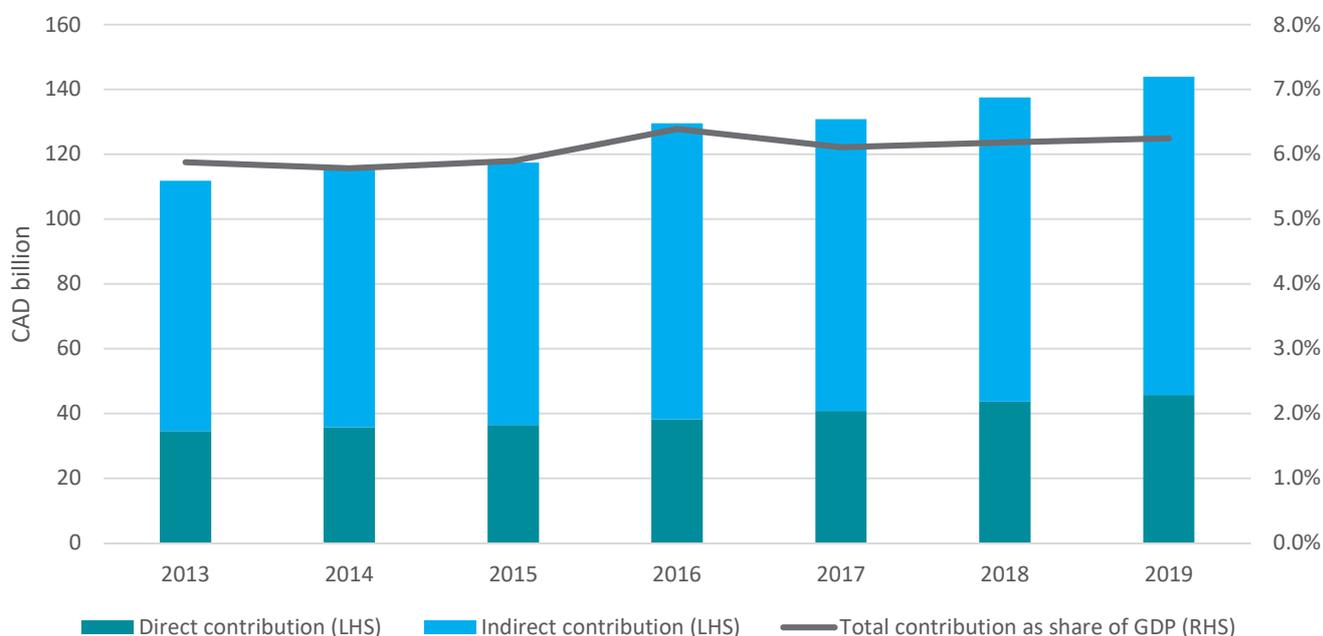
### 4.1 The economic contribution of the tourism sector

This section looks at the potential impact of tax-free shopping on the wider Canadian economy. To put this into context, we will first look at the current impact of the tourism sector on the economy. The analysis is based on data from the World Travel & Tourism Council and shows both the direct and indirect contribution of the tourism industry to the Canadian economy.

The direct contribution of the sector arises from visitor exports and domestic expenditure on tourism, as well as government spending on tourism services, such as museums and national parks. The indirect contribution further considers effects along the supply chains of businesses providing goods and services to the tourism industry. The data presented in Figure 5 show that the total contribution of the tourism sector rose consistently between 2013 and 2019, from CAD 111.8 billion to CAD 143.9 billion. As a share of GDP, the total contribution from tourism stood at 6.2% in 2019, unchanged from 2018 but up from the 5.9% in 2013.

This indicates that over the past seven years the contribution of the travel and tourism sector has increased at a slightly faster rate than the economy as a whole. Indeed, across that time period, the contribution of travel and tourism to GDP grew by 28.7%, with nominal GDP picking up by just 21.1%, underlining the increasing importance of the sector.

Figure 5: Tourism contribution to GDP, in CAD billion (LHS) and as share of total GDP (RHS)

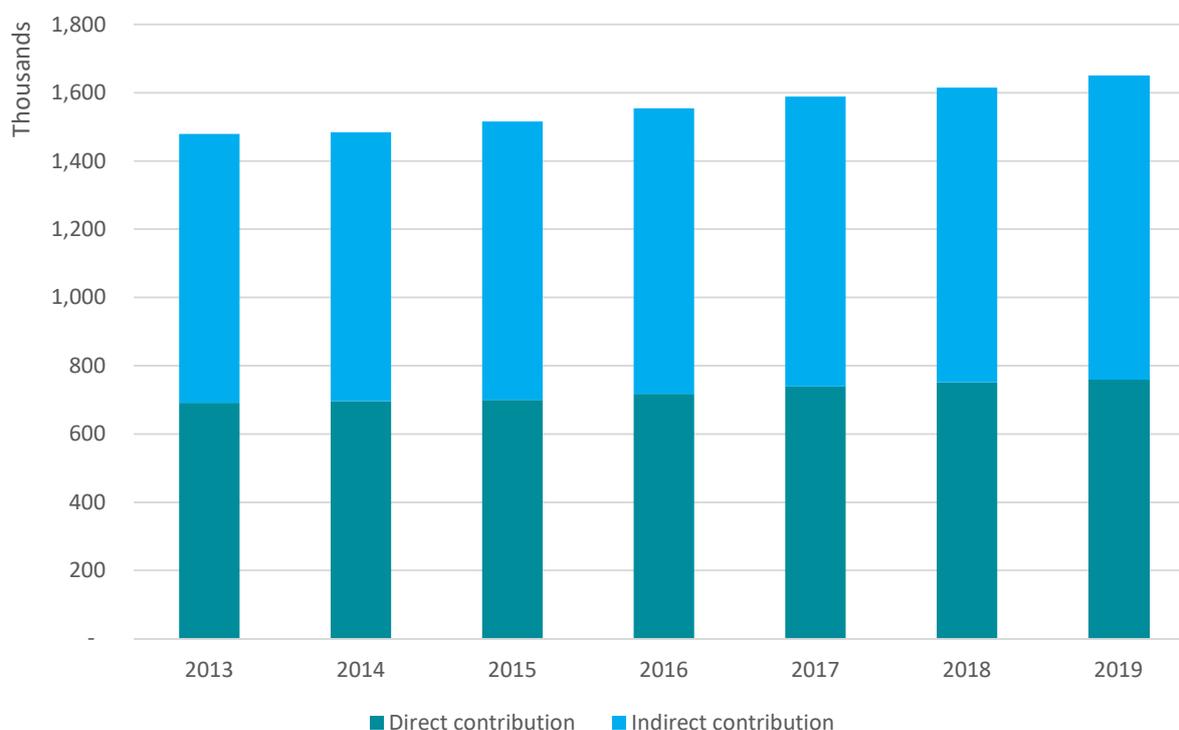


Source: WTTC, IMF, Cebr analysis

In terms of employment, the tourism sector in Canada supported around 1.65 million jobs in 2019. This is equivalent to around 8.6% of the 19.1 million people in employment in Canada. Figure 6 further shows the split between the direct and indirect contribution of the tourism sector to the Canadian labour market. The share of jobs linked to tourism through businesses operating in supply chains, consistently stood

around 53% between 2013 and 2019. The remaining 47% of jobs are those directly within the tourism sector.

Figure 6: Employment in the tourism industry, in thousands



Source: WTTC, Cebr analysis

## 4.2 The gross GDP impact of tax-free shopping

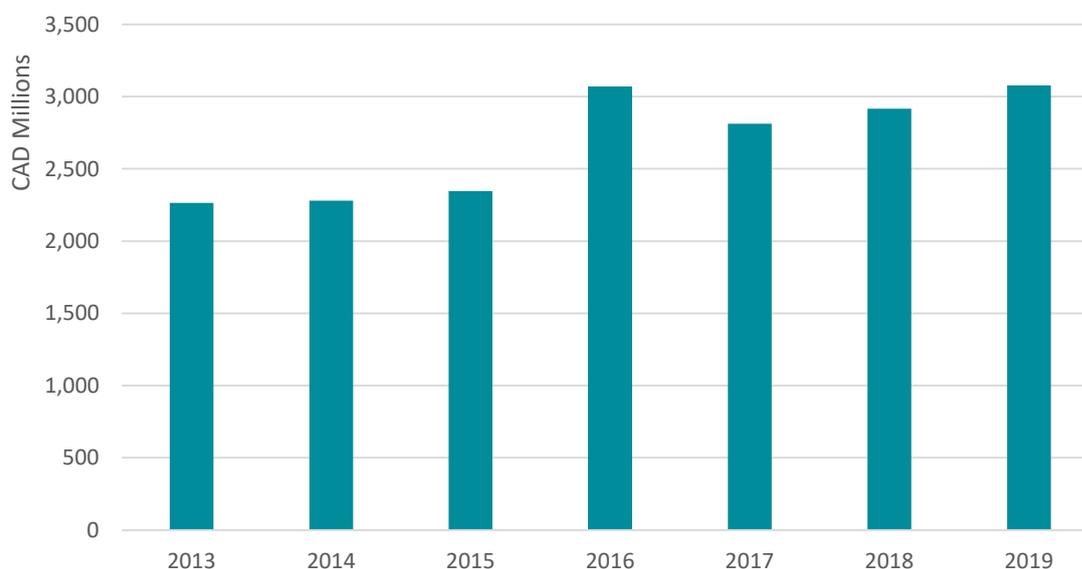
Tax-free shopping is one of the many considerations that tourists keep in mind when choosing their travel destinations. While the preceding analysis covers a wide range of activities and sectors related to tourism, tax-free shopping has a separate effect on the economy with supply chain effects concentrated in retail as well as transport, storage and sales services. As an approximation of the potential economic contribution of tax-free shopping to the Canadian economy, we calculate the 'tourist spending multiplier' by dividing the total contribution of tourism to GDP by total visitor spending.<sup>7</sup> The resulting multiplier shows how much economic activity is stimulated for each dollar spent by tourists. Our calculations show that each Canadian dollar spent by tourists supported around CAD 1.99 in economic activity in 2019, up from a multiplier of CAD 1.96 in 2018 and CAD 1.91 in 2017.

We then apply these multipliers to our estimate of the aggregate sum of eligible tourist shopping under a hypothetical TFS scheme. This allows us to calculate the economic output supported by tax-free shopping for a given year. Given an estimate of CAD 1,548 million of tax-free shopping for 2019, the potential contribution of TFS to the economy stands at CAD 3,078 million, as presented in Figure 7. This is up from

<sup>7</sup> The total contribution being the aggregate effects of direct and indirect contributions.

CAD 2,916 million in 2018. This suggests that tax-free shopping could have supported economic activity worth around 0.13% of GDP, a ratio that has remained constant across 2017, 2018 and 2019.

Figure 7: Gross contribution of tax-free shopping to Canadian economy, in CAD millions



Source: WTTC, Cebr analysis

### 4.3 The marginal impact of tax-free shopping on GDP

The preceding section considers the gross effect of a hypothetical tax-free shopping scheme on the economy of Canada. Given our calculations we can also analyse the potential marginal effects of tax-free shopping on the economy, that is, by how much Canadian GDP would be increased through a tax-free shopping scheme.

To do so, we repeat the above calculation using the marginal increase in tourist spending. As calculated in Section 3.5, this potential increase in spending stood at CAD 407 million in 2019, consisting of the extra spending from additional visitors (CAD 182 million) and higher per capita consumption expenditure due to the tax-free shopping scheme (CAD 225 million).

Multiplying this amount with the tourist spending multiplier of 1.99, we calculate that a tax-free shopping system could have a marginal GDP effect of CAD 810 million. This is the potential additional output generated from the extra spending due to the tax-free shopping scheme.

### 4.4 Employment impacts of tax-free shopping

Employment effects can be calculated similarly to the marginal GDP impacts above. To that end, we first calculate the employment multiplier by dividing the total employment contribution from travel and tourism (i.e. the sum of direct and indirect employment contributions in Figure 6) by the sum of total visitor spending. The resulting figure tells us that in 2019, for each CAD 1 billion in visitor export spending, 78,900 jobs were supported in the travel and tourism industry and its supply chains. Accordingly, the potential CAD 407 million increase in visitor spending following the introduction of a TFS scheme, consisting of the extra spending from additional visitors (CAD 182 million) and higher per capita consumption expenditure due to the tax-free shopping scheme (CAD 225 million), is estimated to support an additional 32,100 jobs in Canada. This is up slightly from a figure of around 28,900 in 2014.

## 4.5 The fiscal impact

The most recent data from the Organisation for Economic Co-operation and Development (OECD) show that tax revenue generated in Canada was equivalent to 33.0% of annual GDP in 2018.<sup>8</sup> Applying this tax-to-GDP ratio to the marginal GDP effect calculated in the previous section suggests that the potential increase to tax revenues resulting from the introduction of a tax-free shopping scheme could reach CAD 267 million.

This potential gain considerably outweighs the loss associated with VAT refunds on eligible purchases, which we estimated to amount to CAD 140 million. As such, the introduction of a tax-free shopping scheme represents a potential net gain of around CAD 127 million to Canada's public finances.<sup>9</sup> Equivalently, for each dollar lost in sales tax revenue, governments stands to gain CAD 1.90 from other taxes. In other words, the additional activity stimulated by tax-free shopping, and the associated increase to tax revenues from such activity, significantly outweigh the corresponding loss of revenue from sales tax specifically. It is worthwhile pointing out here that the tax figures above refer to the combined tax revenues for federal and provincial treasuries.

<sup>8</sup> OECD Revenue Statistics 2019 - Canada

<sup>9</sup> Difference due to rounding.

## 5 Conclusions

Tourism is an important aspect of the Canadian economy. Activities related to tourism account for over 6% of GDP and nearly 9% of employment. This report shows that the reintroduction of a tax-free shopping scheme would further stimulate the tourism sector in the country, through the dual channels of increasing both visitor numbers and average spending per visitor.

The analysis in the report is based on the assumption that a TFS scheme would achieve similar take-up rates as successful schemes in other countries in the region. Such assumptions are grounded in our experience in the sector and knowledge of the international markets operating similar tax-free shopping schemes. Under these assumptions, we estimate that the total amount spent on tax-free shopping in Canada would have reached CAD 1.5 billion in 2019, with CAD 140 million in VAT refunded to visitors.

Expressing the VAT refund as a travel cost reduction shows that visitors could have saved on average 0.67% per visit. Applying the appropriate elasticity reveals that the VAT refund scheme could have attracted up to 193,000 additional visitors to Canada in 2019. These additional visitors in turn would have spent around CAD 182 million on their trips. But the existence of the VAT refund scheme would also have an effect on the per capita amount spent by visitors. As an effective tax reduction for tourists, the scheme would have stimulated additional spending of CAD 225 million in 2019, placing the total figure of additional spending stimulated from the introduction of a tax-free shopping scheme at CAD 407 million.

Tax-free shopping should be seen in the wider context of a tourism strategy for Canada in aiming to attract more visitors and increase business revenue. Our analysis of figures by the World Travel & Tourism Council shows that the GDP contribution of the tourism sector is significant and, indeed, that this contribution has exhibited reasonable growth in recent years.

The marginal effect of the scheme can be calculated by applying the tourism spending multiplier, expressed as the ratio of spending on tax-free shopping to total tourism expenditure, to the additional spending that would be generated by the tax-free scheme. We find that CAD 810 million would be added to economic output as a result of the tax-free scheme and its impacts on visitor numbers and per visitor spending. In terms of labour market benefits, our estimates show that the boost to visitor spending would support an additional 32,100 jobs in the travel and tourism industry and its supply chains. Importantly, the introduction of such a scheme would represent a net gain to the Canadian public finances in fiscal terms, with a potential net increase in tax revenue of CAD 127 million.