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Visitor Rebate Program

Building tourism and retail together through a new Visitors’ Tax Rebate

Developed by

Contents

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This note and its accompanying studies are provided in support of Retail Council of Canada's (RCC) proposal to the Government of Canada to reinstate a visitors' tax rebate on goods purchased in Canada and subsequently exported when those visitors return to their countries of residence. RCC believes that a visitors' rebate program (VRP) would substantially benefit retailers, the tourism sector, and the Canadian economy more broadly.

RCC sought out experts in the economic and operational spheres when it comes to visitors' rebate programs globally. The attached studies: Understanding the Potential of Tax-Free Shopping in Destination Economies: Canada Study and Proposed Digital Tax-Free Shopping Model for Canada were conducted by international experts. The UK-based Centre for Economics and Business Research (Cebr) has extensive experience in modelling outcomes on visitors' rebate programs and Switzerland-based Global Blue is a leading operator of tax-free shopping, VAT refund products, and dynamic currency conversion.

The data, methodology, and conclusions drawn in these studies were identified and modelled independently of RCC and are based on realistic and supportable assumptions. Global Blue's first-hand experience in operating tax-free sales in a variety of value-added tax (VAT) regimes worldwide has allowed for the design of a model that best fits the Canadian GST/HST system and the multiple air, sea, and land border points in Canada.

The main takeaways from both studies include:

1. Tax-free shopping could boost the number of visitors to Canada by 193,000 and lead to an increase in visitor spend of $407 million.
2. There would be a positive effect on GDP (+$810) million and a net tax revenue gain of $127 million at all levels of government.
3. Operationalizing a VRP would provide for an end-to-end solution including digital export validation, comprehensive reporting and assurance on security and fraud-prevention aspects, at no significant cost in terms of government resources.

Current Situation

The tourism sector in Canada is in the direst shape in its history, with international borders being effectively closed and domestic tourism being severely constrained by the impact of COVID-19.

In a pre-COVID environment, the tourism sector was valued at some 2% of GDP, with three-quarters of a million Canadian jobs being generated by tourism. Those numbers have plummeted this year, with employment down by more than 300 thousand jobs at the end of Q2 2020 – all of this without knowing the impact of further attrition from the second and subsequent waves of COVID-19 and associated business failures.

While public health is the first priority for the moment, the devastation of the tourism industry will call for a strong public policy response as the public health situation begins to normalize. Every reasonable and cost-effective lever should be used to lift the tourism sector out of its current circumstance and renew its important contribution to the Canadian economy.

Role of Retail

The tourism sector might be thought of as being primarily about travel and accommodation but is considerably more complex and involves multiple sectors in Canada. Aside from the transportation and accommodation sectors, tourism is also a major contributor to revenues in food and beverage, recreation and entertainment, live events, travel agencies, and conference facilities and operations.

The tourism industry is also important to the success of much of the retail sector, especially in major centres like Vancouver, Toronto, and Montreal, but also in favoured scenic and recreational locations such as Whistler, Jasper, Banff, Niagara, Quebec City, PEI, or Cape Breton.

Not all parts of the retail sector are equally affected. There is little tourist interest in goods sold by hardware stores, furniture, or appliance dealers, for example. By contrast, luxury goods retailers, those selling iconic Canadiana like HBC and Roots, merchants selling travel goods, camera equipment, electronics, apparel, and accessories are all significant potential vendors for travellers to Canada.

Many retailers have been adversely affected by the collapse of the Canadian tourism industry in 2020, but in truth, this year has sharply exacerbated an ongoing decline in per capita tourist spending that has been in evidence since the previous visitors' rebate program was cancelled by the government of Canada in 2007. Measured by spend-per-tourist, the industry has seen a decline of 5% over the past seven years. This is in marked contrast to other competing jurisdictions, like Japan, which has seen an increase of over 23% in tourist spend per capita since they launched a new VRP in 2012. Or the Bahamas who have seen an increase of over 19% since they launched a VRP in 2017.

Diagnosing the Problem

Decisions by international travellers to visit a particular location has been studied at length by bodies like Destinations Canada and is affected by attractiveness of venue, ease and cost of travel, perceptions of safety, language facility, and many other factors. Among these is a common intention to purchase goods while abroad, whether for initial use during the visit, as mementos of the trip, or other wants or needs that can be found at better prices or in a wider selection than within the traveller's country of residence. Cost is a major factor in purchase decisions and the tax treatment of those goods is central to

> In total, 56 countries provide for a visitor's rebate program, including all of Canada's G7, G10 and G20 partners with a VAT except Brazil.

the competitiveness of pricing in Canada versus other jurisdictions.

Canada levies sales taxes ranging from 5% to 15% of the shelf price (>11% on average), whereas most other competing jurisdictions exempt tourists' purchases from their respective VATs. Overall, this means that Canada does not offer competitive pricing on goods when compared to other jurisdictions. Several other places including the European Union, Australia, South Africa, Russia, Israel, Japan, China, and most of Southeast Asia provide visitors' tax rebates on their VATs.

Canadian policymakers frequently look to compare our systems to those south of the border. While the United States does not have a federal visitors' tax rebate, it also does not have a federal sales tax that would need to be rebated and indeed some of its jurisdictions (Texas, for example) do provide on departure for a visitors' rebate on state sales taxes.

Not only does this lack of tax competitiveness depress the spending level on goods that would otherwise have taken place in Canada had there been a VRP in place, but it also deters a significant class of high-spend tourists who will potentially avoid Canada as a destination given that they are motivated to make sizeable purchases of goods while abroad. This aversion affects not only retailers of course, but also the other purveyors of tourism services who lose out when tourists decide to spend money elsewhere.

How Did We Get Here?

In the wake of the introduction of the Goods and Services Tax in 1991, the government of Canada introduced a visitors' rebate program, recognizing the GST's potential impact on the competitiveness of the tourism and retail sectors. In doing so, the government was being entirely consistent with its overall promotion of the GST as a tax that would be stripped out of all exports, thereby making purchases from Canada more attractive.

For all purchases, other than goods bought by visitors to Canada, that remains the case. Goods exported for commercial purposes are exempt from GST, as are goods bought by individual consumers in other countries and shipped from Canada by post or courier. Even for tourists visiting Canada in person, there is a limited tax and duty exemption in duty-free shops at airports and border crossings. Goods purchased in Canada (outside of the duty-free stores' exception) and then exported with the visitor are thus the only form of export that leaves Canada without being relieved of GST.

In this sense, Canada is not only anomalous among international peers with a VAT in not having a visitors' rebate program, but the lack thereof is also inconsistent with the design of the rest of Canada's GST system as applied to exports.

Why was the decision made in late 2006 to do away with the then-existing VRP? There was minimal explanation in the 2006 fiscal update and 2007 budget documents other than to describe the move as a deficit-fighting measure. RCC's experience with the issue suggests that the compliance burden was also a factor, in that the system was then paper-based, fiddly, and challenging to ensure integrity. Fast forward and what we have seen is declining tourism spend per capita in Canada at a time when other countries have been moving in the opposite direction and reaping the benefits in terms of visitor numbers and spend. That intervening period has also seen the development elsewhere of digital VRP systems that can readily address and compliance or integrity concerns.

Criteria for Success of a VRP

RCC recognizes that there is a challenge in persuading policymakers to revisit this issue and restore a VRP having in the past decided to cancel it. That why we have sought out to address these four key questions in the attached studies:

1. Is there a strong economic case to be made for a VRP, whether in boosting economic activity in Canada, growing employment, or in the overall attractiveness of Canada as a tourist destination?
2. In that government currently derives some sales tax revenue from tourist purchases of goods in Canada, what would be the fiscal impact of removing the GST from those goods?
3. Can a system be developed that minimizes the expectation of government resources as regards compliance and is it one that would be easily comprehended and used by visitors and vendors?
4. Can a VRP system provide the government with assurance that the integrity of the tax system would be maintained through proof of export and that there would not be leakage into domestic purchases of goods by Canadian residents?

Next Steps

RCC hopes that you will find the attached studies informative and looks forward to following up with you to discuss our proposal for a new Canadian Visitors' Rebate Program. Pending that outreach, please feel free to contact us with any questions that may arise.

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