

CHAPTER 4

Cost impacts and their consequences

Introduction

4.1 The Explanatory Memorandum states that the compliance cost impact for 'Australian enterprises' as a result of Schedule 3 is not expected to be significant. Although Schedule 3 targets rights and options supplied offshore by non-resident entities—specifically foreign tour operators (FTOs)—there has been no assessment of cost impacts on or connected with these entities.

4.2 Evidence to the Committee suggests that the cost impacts for FTOs, whether registered or becoming registered under the proposed legislation, will be substantial, the main concerns being that:

- the 10 February 2005 starting date for Schedule 3 and the failure to provide a transition period, will deny many FTOs the opportunity to pass on GST charges to consumers;
- registration could expose FTOs to GST liabilities on the accommodation components of tours sold since 1 July 2000;
- compliance costs for FTOs will be substantial; and
- the Australian packaged tour industry and Australian tourism generally will see tourists and FTOs abandon the Australian market for other, less expensive destinations.

4.3 The Committee will examine the evidence regarding these cost impacts and their potential wider implications in this chapter.

Lack of a transitional period

4.4 The retrospective application of Schedule 3 and the lack of a transitional period attracted particularly virulent opposition. The principal objection was that, in an industry where forward pricing was the norm and tour prices had been published as far ahead as March 2006, FTOs would be forced to bear the GST as a business cost until new, GST-inclusive prices could be charged.

4.5 Mr Nick Hill, appearing with the Australian Tourism Export Council (ATEC), said in this regard that:

This bill, if passed, becomes effective from 10 February, but the brochures that were distributed globally for the tourism period 1 April 2005 through to 31 March 2006 were published back in November and distributed in

December and January. The brochures are already out there with their pricing in them.¹

4.6 Yon Sha Kai² said that its members had published prices up to March 2006 and that even where it might be possible to raise prices, the 'market reality' was that the competitive nature of the industry ruled out such an option.³

4.7 The Interactive Travel Services Association (ITSA) argued that the imposition of GST liabilities without allowing for their recovery was inconsistent with the 'design and intent of a GST/VAT system that GST should not be a cost to business'. In this regard, ITSA referred to the principles espoused by the OECD in its publication, *The Application of Consumption Taxes to the International Trade in Services and Intangibles*.⁴

4.8 Similarly, a representative of the Institute of Chartered Accountants in Australia (ICAA) told the Committee:

We see it as absolutely inappropriate that these businesses...will not be in a position to recover this GST. They are locked into their existing contracts without the opportunity to change them and they will have to put in systems and processes just to accommodate the Australian tax obligation.⁵

4.9 It is clear that the design and intent of the *A New Tax System (Goods and Services Tax Transition) Act 1999* (GST Act) recognises that the GST should not be an impost on business. For this reason, the Act allows businesses to claim input tax credits on previously taxed supplies to ensure that business is not taxed but, rather, the final consumer of the supply.

4.10 Furthermore, as Deloitte contended, transitional periods have been granted in the past specifically to enable businesses to revise long-term contract prices in the light of GST changes. Deloitte referred to the 5-year GST-free concession granted to Australian business to revise long-term contract pricing when the GST regime was first introduced. It added that, following the Australian Tax Office's ruling in November 2003 regarding the GST treatment of Inbound Tour Operators' (ITO) margins, a 15-month transitional period was granted so that tourist operators could

1 *Proof Committee Hansard*, 26 April 2005, p. E8.

2 Yon Shai Kai describes itself as an 'association of the four largest Japanese inbound operators in Australia: JALPAK, Kintetsu International Express, Nippon Travel Agency and JTB Australia. *Submission 5*, p. [1].

3 *Submission 5*, p. [2].

4 *Submission 8* (made by PricewaterhouseCoopers on behalf of the Interactive Travel Services Association), p. 4.

5 Mr Adrian Firmstone, *Proof Committee Hansard*, 26 April 2005, p. 23.

'align the commencement of the ruling with the tourism calendar, which is 1 April to 31 March'.⁶

4.11 The justification for the immediate commencement of the provisions was that they were an 'integrity measure' to adjust competitive inequities and also to correct a deficiency whereby registered FTOs could claim input tax credits without bearing any GST liabilities.⁷

4.12 Witnesses disagreed with this characterisation and argued that the scope of the provisions extended far beyond merely correcting an unintended consequence of the GST legislation. Mr Adrian Firmstone, representing the ICAA, said in this regard that:

[Schedule 3] goes beyond fixing the problem. It is more than an integrity measure—it goes to imposing a new liability on a class of people who are not in Australia. It is much more than an integrity measure. As to the way in which it has been dealt with, if it were just an integrity measure, the legislation would have focused just on the availability of import tax credits to the foreign tour operators. This has gone much further than that.⁸

Retrospective cost impact for newly registered FTOs

4.13 In addition to their concerns that FTOs would incur GST liabilities that could not be recovered by raising prices for published tours or by claiming input tax credits, witnesses argued that compliance requirements to accommodate Schedule 3 would generate significant costs.

4.14 At the hearing, the Department of the Treasury explained that, in assessing compliance cost impacts:

...We did not look at the aspect of those not in the system now that should be in the system. Rather, we looked at the existing law and asked, 'What are we imposing above that?' The answer was: 'Above that we are imposing a tax on a few extra items.'⁹

4.15 Certainly, with international airfares and connected domestic flights being GST-free and accommodation provided by registered tour operators presently attracting GST, the 'few extra items' would generally not constitute the major GST

6 *Submission 4*, pp. 11-12 and Mr Nick Hill, *Proof Committee Hansard*, 26 April 2005, p. E29.

7 See, for example, statements by the Hon. Mal Brough MP, Minister for Revenue and Assistant Treasurer, *House Hansard*, 10 February 2005, p. 1. At the Committee's hearing, a representative of the Department of the Treasury told the Committee that the fundamental objective of Schedule 3 had been to correct a 'leakage of the revenue' although its coverage might have gone further than this. Mr Raphael Cicchini, *Proof Committee Hansard*, 26 April 2005, pp. E53-4 and 63.

8 *Proof Committee Hansard*, 26 April 2005, p. E

9 Mr Raphael Cicchini, Department of the Treasury, *Proof Committee Hansard*, 26 April 2005, p. E58.

expense in a packaged holiday. These items would include coach fares; hire car costs; meals; admission prices to venues; and so on.¹⁰

4.16 Consequently, Treasury's approach would appear to be reasonable especially in view of Schedule 3's envisaged application to those registered entities which presently pay GST on the accommodation component of packaged tours. However, as a representative of Deloitte stated, some FTOs are not presently registered because they are not required to be. Should they become registered to meet the new requirements of Schedule 3, it is possible that they will find themselves with GST liabilities on the accommodation components of tours sold as far back as 1 July 2000. The circumstances giving rise to this are explained thus:

...there is a wholesale market that occurs offshore. One foreign tour operator sells to another foreign tour operator. So you have got a foreign tour operator that only buys off other foreign tour operators. The first foreign tour operator was registered for GST and was claiming the credits approved by the tax office. The ones that were not making acquisitions from Australian suppliers were not registered because the commissioner had ruled that those suppliers were out of scope. So, when the tax office introduced the ruling on 28 November, all of those that were claiming the credits were protected retrospectively against any adjustment, but their customers—the other FTOs that bought from them—immediately had a retrospective liability for four years.¹¹

4.17 For these FTOs, the cost impact from GST liabilities alone, without taking into account the start-up compliance costs involved, could be significant.

Compliance costs

4.18 Much of the opposition to Schedule 3 was founded on the premise that compliance with the new provisions would require substantial modifications to existing systems and, for newly registered entities, the installation of new systems.

4.19 Yon Sha Kai referred to some of the practical 'complications' involved—presumably for FTOs not already registered:

...how to handle foreign exchange, cash flow issues such as timing of the GST liability versus receipt of payments from the customer and claiming input tax credits from suppliers, substantial costs in changing systems to record the GST liability, particularly where the system would then have to handle the consumption tax in Japan and GST in Australia, and education of staff in Japan to name a few.¹²

10 In the discussion on tourism later on in this chapter, a study by Econtech Pty Ltd assesses the GST-free and accommodation components to constitute about 90 per cent of total tour costs. However, ATEC contended that the components could vary so that 90 per cent would not necessarily be an accurate figure.

11 Mr Nick Hill, Deloitte Touche Tohmatsu, *Proof Committee Hansard*, 26 April 2005, p. E35.

12 *Submission 5*, p. 3.

4.20 ATEC argued that where an FTO entered the GST system by becoming registered, there would be additional compliance costs not only for the FTO but also for 'consolidators and ITOs' having business dealings with the FTO:

Application of the GST on FTOs will...necessitate FTOs reworking their business systems so that they can handle the preparation of the Business Activity Statements...that go hand-in-hand with the application of the new tax. This in turn will mean that the invoicing procedures for consolidators and ITOs will also need to change.¹³

4.21 PriceWaterhouseCoopers, representing ITSA, argued that compliance costs for FTOs would be 'considerable' given the many and varied tasks involved in compliance:

...Non-residents will have to invest significant resources in understanding their Australian GST obligations. They will have to train their own staff—in other words, non-resident staff—in the nuances of the Australian GST and other taxation obligations. They will need to develop or reprogram systems in order to account for output tax. They will need to implement a process to identify and claim appropriate amounts of input tax credits and to obtain and ensure they obtain valid tax invoices in order to claim credits. They will need to design, prepare and produce valid tax invoices or compliant tax invoices. They will need to prepare a monthly or quarterly business activity statement, establish an Australian bank account and implement a process in order to deal with the ATO remotely.¹⁴

4.22 Deloitte claimed that compliance costs for FTOs whether already registered or outside the present GST system, would be 'of a magnitude greater than those faced by all Australian businesses in the lead up to the introduction of GST in July 2000'.¹⁵ For FTOs whose Australian tours constituted only a minimal portion of their overall business, compliance would constitute a 'particular burden'.¹⁶

4.23 Deloitte said that, in the absence of Australian Tax Office guidance, FTOs were exposed to particular difficulties in calculating GST on any given tour price which depended on, and varied according to, the different components of a tour package and the circumstances of acquisition and supply. Deloitte referred to travel insurance; domestic airfares; input-taxed accommodation; supplies from unregistered vendors and tour incidentals as among the package components which posed GST difficulties and commented that:

...Even adopting a case by case approach will not assist the FTO in fulfilling their GST obligations as the GST liability is payable to the ATO before the taxable ratio can be determined. The 'attribution rules' under the

13 *Submission 3*, p. 6.

14 Mr Denis McCarthy, *Proof Committee Hansard*, 26 April 2005, p. E38.

15 *Submission 4*, p. 22.

16 *Submission 4*, p. 7.

GST law require the FTO to pay GST at the time of sale but the taxable ratio cannot be determined until after the conclusion of the tour when the actual AUD\$ costs of the tour are determined by the FTO.¹⁷

4.24 In a supplementary submission, Deloitte took issue with the Department of the Treasury's position that compliance costs for registered entities would not be high, the basis for which a Treasury representative explained at the hearing:

...there is an existing obligation under the law for foreign tour operators that make supplies of \$50,000 or more that are connected with Australia to be registered, to claim their input tax credits and to remit GST. The amendments would apply to 10 per cent, by value, of additional amounts of Australian tourism packages. So, under the existing law, we did not feel that there would be a significant impact on registered businesses, although there would be some impact on the businesses that are not registered.¹⁸

4.25 Deloitte argued that FTOs already within the system would have to make a 'total change in compliance approach' to accommodate their change in status from a net GST refund to a net liability position. Deloitte referred to several adjustments which it considered would be required:

Booking systems will need to be linked to accounting systems, methodology for the projection of GST liabilities will need to be developed and aligned with pricing models and accounting systems, instalment payment arrangements will need to be recorded within the income recognition modules in the accounting systems and parallel clearing accounts introduced.¹⁹

4.26 While cost impacts of themselves might be pertinent to the selection of one regulatory approach over another, evidence to this inquiry claimed that GST cost impacts would have wider, adverse implications for the Australian packaged tour industry.

Impact on tourism

4.27 Even for FTOs already in the system, the prevailing view was that the cost impacts arising from Schedule 3 would also be significant—not only because FTOs would incur retrospective GST liabilities which they might not be able to recoup but also because of the complexities and expense involved in complying with the new requirements.

4.28 Arguments were raised that these cost impacts would produce competitive inequities and make Australia a less profitable destination for FTOs and a more expensive place to visit for foreign tourists. This outcome, in turn, would threaten the

17 *Submission 4*, p. 15.

18 Mr Philip Bignell, *Proof Committee Hansard*, 26 April 2005, p. E58.

19 Deloitte Touche Tohmatsu, *supplementary submission 4A*, pp. 2-3.

viability of the Australian packaged tour industry at a time when it was just recovering from a number of setbacks.

4.29 Most witnesses took the view that FTOs would respond to higher business costs ensuing from the proposed amendments by raising tour prices or otherwise abandoning the Australian packaged tour market for other, more profitable destinations.

4.30 The Association of British Travel Agents Ltd (ABTA) was one proponent of this view but also argued that higher costs could encourage tour operators to offer inferior products to consumers:

The effect would be felt particularly by the bonded tour operating sector which compared to the DIY or self-packaging market requires a level of margin sufficient to cover this relatively high cost as well as other consumer protection that such operators are obliged to give customers, i.e. the proposed regime could likely result in more UK tourists visiting Australia without proper financial protection, a consequence which we could not support.²⁰

4.31 Similarly, ATEC predicted that the quality of the Australian tourism product would suffer as suppliers sought to cut costs by dealing with 'unrealistically cheap and unethical ITOs [inbound tour operators] and product suppliers, many of them engaged in allegedly illegal consumer practices'. ATEC said this was 'a very real current threat' and had prompted the Queensland Government to pass the *Tourism Services Act 2003* to enable it to deal with this problem.²¹

4.32 Yon Sha Kai commented that Australia had to compete with other comparable destinations for the tourist dollar in an environment where price and value for money were major determinants of choice. Yon Sha Kai said that a rising cost base in Australia and the difficulties for tour operators in staying price competitive with other destinations had already translated into a drop in bookings of approximately 30 to 40 per cent for the 2005 April and June quarters. In what Yon Sha Kai described as an 'already contracting Australian market', it predicted that costs arising from the proposed amendments would force tour operators to increase their prices or abandon the Australian market altogether.²²

20 *Submission 2*, p. 2.

21 *Submission 3*, p. 13. The *Tourism Services Act 2003* regulates the conduct of inbound tour operators in Queensland and gives the Government power to ban 'rogue' operators from conducting their business in Queensland. Targeted conduct includes grossly inflating the prices of goods and services (restaurant meals; tickets to events) or charging for goods and services that are otherwise available at no charge to the general public. Media Release by Queensland Tourism and Fair Trading Minister, 'Rogue tour operators to be banned' 7 October 2003 at <http://www.fairtrading.qld.gov.au/oft/oftweb.nsf/AllDocs/RWPD78E84FE3B59F00E4A256DB9001A2343?OpenDocument&L1=News>.

22 *Submission 5*, p. 2.

4.33 A representative of the Hotel Motel Accommodation Association Victoria also predicted FTOs' abandonment of the Australian market, arguing that the financial and procedural burden entailed in GST compliance provided 'every incentive for [FTOs] to simply substitute in their packages alternative destinations that do not have these higher compliance and transaction costs'.²³

4.34 While much of the opposition to the proposed amendments was based on the argument that the GST would result in increased business costs which, in turn, would lead to price rises and ultimately threaten the viability of the Australian packaged tour industry, evidence of price impacts was limited.

4.35 ATEC initially estimated price increases of between 4 and 4.5 per cent but revised this estimate to between 3 and 7 per cent. Five worked examples for tour packages offered in ATEC's USA, UK and Japanese markets were provided in support of the revised estimates.²⁴

4.36 In contrast to ATEC's estimates and the views expressed in much of the evidence that cost increases would be significant enough to cause a downturn in the Australian packaged tour industry, modelling conducted by Econtech Pty Ltd suggested only very minor impacts on price and inbound tourism.

4.37 The Econtech study, commissioned by the Department of Industry, Tourism and Resources and presented with the Department's submission, modelled the likely impacts of the proposed legislation on the tourism sector and, among other things, concluded that:

- the cost of tourists' purchases through FTOs would rise by 1 per cent with an overall cost impact per tourist visit of 0.2 per cent; and
- the cost of organised tours would rise by 1.4 per cent.²⁵

4.38 In the following excerpt, Econtech explains how these figures were arrived at:

Because airfares and accommodation are estimated to contribute to around 90 per cent of the total cost of purchases made through FTOs, adding a 10 per cent GST to the remaining 10 per cent of purchases adds only 1 per cent to the overall price of purchases from FTOs by intending visitors to Australia.

In addition, purchases made through FTOs contribute to less than 20 per cent of total expenditure by foreign tourists (80 per cent is made directly with ITOs or on-shore). This further dilutes the impact of the amended

23 Mr Chris Cudsi, *Proof Committee Hansard*, 26 April 2005, p. E15.

24 *Supplementary submission 3A*, p. [2] and attachments 1-5.

25 *Submission 7*, pp. 13-14 of Econtech Pty Ltd study, *The Impact of Legislative Changes (2005) to GST on Australian Holidays purchased through Foreign Tour Operators*, 11 April 2005.

legislation on the price of a visit to Australia from 1 per cent to 0.2 per cent.²⁶

4.39 Drawing on these figures, Econtech estimated that the volume of tourist numbers would fall by 0.7 per cent [around 35,000 inbound tourists and expenditure of \$150 million annually], which it predicted would flow through to 'modest losses' in tourism-related industries. However, when assessing the overall economic impact, Econtech predicted a fall in production in tourism-related industries, an accompanying small depreciation in the Australian dollar and an 'offsetting increase' in other 'trade-exposed' industries such as agriculture, mining and manufacturing.²⁷

4.40 Econtech said that the more competitive markets for tourist services such as the United States of America and the United Kingdom would be less able to absorb price impacts. In addition, tourist numbers from long-haul markets were expected to fall given the higher likelihood that FTOs would arrange this travel.²⁸

4.41 The following comments made by a representative of the Department of Industry, Tourism and Resources suggest that a downturn in the long-haul segment could have adverse, longer-term implications:

[FTOs] are 'quite important for first-time travellers'. Through doing this research we have found that it is often the case that people's first experience of travelling overseas is through a foreign tour operator. Once they gain confidence in travelling to another country then they are more likely to use the internet or other means to source their holidays.²⁹

4.42 While Econtech did not envisage 'any significant compliance cost...in terms of FTOs registering for GST', it proposed that additional costs might be associated with pricing of tour packages. In this regard, it said:

Rather than simply identifying the accommodation component of packages, the amended legislation requires FTOs to identify all items that are subject to GST. This may be time consuming given that some tourism products are not subject to GST. For example, international airfares are not subject to GST, but restaurant meals are subject to GST. Thus, the amendment may add to the time spent on administrative tasks. However, as part of this project, it was not possible to model or accurately quantify the compliance costs associated with the changes.³⁰

26 *Submission 7*, p. ii of Econtech Pty Ltd study, *The Impact of Legislative Changes (2005) to GST on Australian Holidays purchased through Foreign Tour Operators*, 11 April 2005.

27 *Submission 7*, pp. 15-18 of Econtech Pty Ltd study, *The Impact of Legislative Changes (2005) to GST on Australian Holidays purchased through Foreign Tour Operators*, 11 April 2005.

28 *Submission 7*, p. iv of Econtech Pty Ltd study, *The Impact of Legislative Changes (2005) to GST on Australian Holidays purchased through Foreign Tour Operators*, 11 April 2005.

29 Mr David Hughes, *Proof Committee Hansard*, 26 April 2005, p. E47.

30 *Submission 7*, p. iii of Econtech Pty Ltd study, *The Impact of Legislative Changes (2005) to GST on Australian Holidays purchased through Foreign Tour Operators*, 11 April 2005.

4.43 Certainly, Econtech's conclusions regarding the additional costs likely to be entailed in pricing are consistent with claims made by several witnesses. Deloitte, for example, referred to 'complex issues' associated with tour pricing such as variable taxable value of tour packages; variations in package profiles; impacts of currency fluctuations and adjustment events; and difficulties associated with the attribution of GST as expected to increase compliance costs.³¹ However, as reported earlier, Deloitte also contended that compliance costs for registered FTOs would increase as a result of the proposed legislation.

4.44 At the hearing, the Committee invited comment on Econtech's estimates in an attempt to reconcile their predictions of relatively negligible price impacts with concerns expressed in several submissions that price increases would threaten the viability of the Australian packaged tour industry in offshore markets.

4.45 Most responses were to the effect that Econtech's models of average impacts and impacts across the industry as a whole were not necessarily appropriate when looking at the Australian packaged tour industry. Arguments were raised that averaging did not factor in variables associated with tourist profiles; the content of packaged tours offered by FTOs; and timing or pricing, for example.

4.46 A representative of ATEC commented in this regard that:

I think we and Econtech are talking about different fruit here. Econtech is not talking about the price effect on tour packages; it is talking about the impact on FTOs on the basis of the totality of the FTOs' operations and on the export industry as a whole. What we are saying is that, within that whole, there are smaller segments of it and the tour package segment is a very important and high-yielding segment of the Australian tourism industry. For first-time travellers, the likelihood of a tour package being the way in which they would visit Australia is a lot higher than for travellers who have been here before. What we are saying is that the price effect on tour packages is of the order of magnitude that we have identified—between four and 4.5—but we have examples that run higher than that. That is not inconsistent with what Econtech is saying, in our analysis of the Econtech work.³²

4.47 Similarly, Deloitte told the Committee that:

...I do not really believe that average impact is the significant impact to examine. Each country has different impacts in terms of pricing and timing. If we look at a UK-to-Australia based tour, the low season cost of an airfare is £450 and the high season cost of an airfare is £1,350. So therefore, depending on what time of year it is, the non-taxable component is quite a different percentage than the taxable component...³³

31 *Submission 4*, pp. 14-19.

32 Mr David Mazitelli, ATEC, *Proof Committee Hansard*, 26 April 2005, p. E12.

33 Mr Nick Hill, *Proof Committee Hansard*, 26 April 2005, p. E33.

4.48 Tipping points, namely, the point at which price will drive tourists to other destinations, were raised as another factor that should be considered when assessing impacts on the tourist industry.

4.49 Deloitte said, for example, that 'market-by-market price impact plus tipping point...are instrumental in calculating impact on tourism numbers'.³⁴ ATEC said that price sensitivity was such in some markets that a tipping point, once reached, would produce a 'rapid fall off in demand'.³⁵

4.50 As far as variables within tour packages are concerned, ATEC commented that:

...a tour package comprises two or more travel components, such as airfares and ground services (hire cars, coach transport, meals etc) and other components such as accommodation, optional tours and insurances. ...increasingly, tour packages are purchased by international visitors without an airfare component being included since travellers are making use of frequent flyer points or special, low cost, airfare deals. To a lesser extent this also applies to the accommodation component. To the extent that this occurs, it results in a larger increase in the price of those packages that have a relatively higher non-accommodation component.³⁶

4.51 In addition to the more specific debate on price impacts and tourism numbers, much of the evidence to the inquiry referred to more general concerns about the proposed legislation and its impact on the Australian packaged tour industry.³⁷

4.52 ATEC predicted that smaller wholesalers and resellers concentrating on Australia's niche tourism market in rural and regional areas, would be particularly hard hit with the result that there would be 'much less differentiation in the international offering'. Such an outcome, ATEC claimed, ran counter to 'the stated aims of the Australian Government in its Tourism White Paper and in the *Tourism Australia Act 2004*'.

4.53 In addition, it was ATEC's view that Schedule 3 posed a threat to the viability of highly successful international marketing strategies such as the 'Aussie Specialists' program and the Australian Tourism Exchange trade show,³⁸ both developed by Tourism Australia.³⁹

34 Mr Nick Hill, *Proof Committee Hansard*, 26 April 2005, p. E33.

35 *Submission 3*, p. 6. In a supplementary submission lodged after the Committee's hearing, ATEC revised its estimated price increases to between 3 and 7 per cent depending on the structural profile of the tour package. *Submission 3A*, p. 3.

36 *Supplementary submission 3A*, p. 3.

37 *Submission 3*, p. 12, *Submission 4*, p. 29, *Submission 5*, p. 3; *Submission 6*, p. 1.

38 ATEC says that ATE is 'reputed to generate some \$2 billion in sales of Australian tourism product every year'. *Submission 3*, p. 12.

39 *Submission 3*, p. 14.

4.54 Witnesses argued that difficulties in securing compliance by all FTOs would amplify existing competitive distortions⁴⁰ in an industry 'barely recovering' after the 'negative shocks' generated by events such as September 11, the SARS outbreak, international terrorism and so on.⁴¹

4.55 Some witnesses argued that, from a policy perspective, tourism products sold to overseas tourists were essentially exports and, as such, should be GST free. A representative of the Hotel Model Accommodation Association of Victoria contended that the proposed legislation was discriminatory against all tourism exports, except air travel, with there being no explanation of the rationale provided for the differences in tax treatment.⁴²

4.56 The ICAA was unequivocal that there was no policy justification for Schedule 3 and said:

...it is most inappropriate from a policy perspective that the reach of the GST should extend to tax the margin derived by a non-resident of Australia on a transaction with other non-residents of Australia, which occurs outside Australia. Such a margin has no contractual or economic connection with Australia and should not be subject to the GST.⁴³

The Committee's views

4.57 The Committee accepts that the proposed legislation is likely to have undesirable cost impacts on FTOs by exposing them to immediate GST liabilities and high start-up and ongoing compliance costs.

4.58 The Committee also considers that the characterisation of Schedule 3 as an 'integrity measure' thereby providing justification for its application from 10 February 2005 cannot be supported. While it accepts and supports the initiative to correct what is a clear shortcoming in the GST legislation, the Committee does not consider that Schedule 3 can be described as just an integrity measure.

4.59 In these circumstances, the Committee believes that a more equitable commencement date should be negotiated with affected parties to ensure they will not have to bear GST liabilities as a business cost. A transitional period should also factor in the time required for establishment of the necessary compliance systems and the Australian Tax Office's formulation of guidance papers to ensure an orderly and consistent adoption of new requirements.

4.60 The Committee notes the comments from the relevant industry bodies that they were not consulted about the proposed legislation. Given the possible adverse

40 Mr David Mazitelli, ATEC, *Proof Committee Hansard*, 26 April 2005, p. E13.

41 Mr Chris Cudsi, *Proof Committee Hansard*, 26 April 2005, p. E15.

42 Mr Chris Cudsi, *Proof Committee Hansard*, 26 April 2005, p. E15.

43 *Submission 1*, p. 2.

implications for the Australian packaged tour industry and the importance of tourism to Australia's economy, the Committee believes an investigation of the potential impacts should have been conducted. Although the Department of Industry, Tourism and Resources commissioned a study into the likely impact of Schedule 3 on Australian tourism, this was done after introduction of the bill into Parliament.⁴⁴

4.61 As Ms Kerry Rooney advised the Committee, the Department of Industry, Tourism and Resources had not been consulted about the legislation nor had it conducted any analysis of witnesses' claims that its impacts would be inconsistent with the objectives of the Tourism White Paper.⁴⁵

4.62 The Committee has no reason to question the integrity of the Econtech report and, in fact, found it most useful in its assessment of the evidence regarding impacts on tourism. However, the Committee notes the comments of several witnesses that more specific analyses of the Australian tour package industry taking into account different market places; seasonal fluctuations; variations in tourist profiles; tipping points and so on would have produced different results.

4.63 On the basis of the evidence, the Committee concludes that, before Schedule 3 is re-considered by the Parliament, the Department of the Treasury, the Australian Taxation Office and the Department of Tourism, Industry and Resources should conduct a thorough analysis of its likely impact on the Australian packaged tour industry. In coming to this view, the Committee took into account the substantial contribution which Australian tourism makes to the national economy. Figures taken from the ABS Tourism Satellite Account cited in Econtech's report say, for example, that for the 2002-03 year:

- tourism for the year accounted for \$32 billion, or 4.2 per cent, of Australia's GDP;⁴⁶
- international visitors consumed nearly \$17 billion in goods and services⁴⁷, a contribution of 11.2 per cent to total exports of goods and services;⁴⁸ and
- tourism accounted for around 5.7 per cent of total employment equating to about 541,000 employed persons of whom about 26 per cent were in retail

44 Department of Tourism, Industry and Resources, *Proof Committee Hansard*, 26 April 2005, p. E44.

45 Department of Tourism, Industry and Resources, *Proof Committee Hansard*, 26 April 2005, p. E44.

46 Australian Bureau of Statistics, *Australian National Accounts: Tourism Satellite Account*, catalogue number 5249.0, 2002-03, table 1.

47 Australian Bureau of Statistics, *Australian National Accounts: Tourism Satellite Account*, catalogue number 5249.0, 2002-03, table 11.

48 Econtech says that only the mining and manufacturing industries made larger contributions to exports during 2002/03 based on Econtech's MM2 model data, updated January 2005.

trade; 18 per cent in accommodation and 10 per cent in cafe and restaurant industries.⁴⁹

4.64 In the next chapter, the Committee reviews the proposed legislation against claims that it will be unenforceable and, in effect, will not work.

49 Australian Bureau of Statistics, *Australian National Accounts: Tourism Satellite Account*, catalogue number 5249.0, 2002-03, table 16.