



Australian Government

**Department of Industry
Tourism and Resources**

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Mr Peter Hallahan
Secretary
Senate Economics Legislation Committee
Suite SG.64 Parliament House
CANBERRA ACT 2600

Dear Mr Hallahan

Submission to Inquiry into Tax Laws Amendment (2005 Measures No 1) Bill 2005

This letter and accompanying report are provided as the formal Department of Industry Tourism and Resources' submission to the Senate Economics and Legislation Committee Inquiry into Tax Laws (2005 Measures No 1) Bill 2005.

The submission relates to Schedule 3 of the Bill, which extends the application of GST to non-resident suppliers of rights or option to goods, services or other things that are for consumption in Australia, a measure that would primarily impact on what are termed Foreign Tour Operators (FTOs), who sell Australian holidays overseas.

The Department contracted Econtech Pty Ltd, to assess the likely effects of the proposed legislation on the tourism sector. They were asked to assess: the likely effect of the proposed legislation on prices and inbound tourism; the compliance impact; the effect on the foreign distribution system; and how systems in other countries with a GST or Value Added Tax operate. The Econtech report is provided as part of this submission at Attachment A.

The report's key findings on the effect on prices and international visitors are that:

- There would be an overall increase of 1 per cent in the price of holidays sold through FTOs and an increase of 0.2 per cent for all purchases made by inbound tourists.
- There would be a marginal fall in the number of inbound tourists - 34,000 or 0.715 per cent of total inbound tourists (4,758,000 in year ending September 2004-source TRA).
- The reduction in expenditure would be around \$150m or 0.726 per cent of total expenditure by inbound tourists (\$20,670 million in year ended September 2004 – source Tourism Research Australia).

Econtech found that cost of compliance would have a greater effect than price on the operation of FTOs, including the effect of complexities associated with varying tax treatment of items (GST, GST exempt, input taxed) and exchange rate movements.

They found that countries with a GST or Value Added Tax (VAT) treat the purchase of holidays through FTOs differently than the proposed Australian model. In other countries supplies are generally classified as input taxed or GST free.

The Econtech report highlights the fact that under input tax arrangements, FTOs are not required to calculate, collect or remit GST or VAT on the on-sale of holiday items to foreign tourists, leading to reduced compliance costs in comparison to the situation in which GST is applied. In addition, under input tax arrangements, FTOs are restricted from claiming input tax credits.

This arrangement appears to be very similar to what has been occurring in Australia, but with the application of an added restriction on claiming input tax credits.

I trust that the information we have provided will assist and be given due consideration by the Committee.

Yours sincerely

Janet Murphy
Head of Division
Tourism Division

19 April 2005