HOTEL ASSOCIATION OF CANADA
ASSOCIATION DES HÔTELS DU CANADA

Hotel Association of Canada (HAC)

Pre-Budget Consultations in Advance of the 2018 Budget

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Hotel Association of Canada
Submission to the Standing Committee on Finance
Pre-Budget Consultations in advance of the 2018 Budget

Thank you for the opportunity to participate in the Finance Committee's pre-budget consultations process, in advance of the 2018 federal budget.

The Committee has expressed interest in receiving written submissions on the topic of productivity and competitiveness, consistent with last year's theme of economic growth. As such, HAC's recommendations support the question "What federal measures would help Canadian businesses to be more productive and competitive"?

HAC is calling on the federal government to act on the following two recommendations:

1. **Amend the Excise Tax Act to create a more level playing field for hotels, in relation to the short-term rental industry. As is the case in many other countries, Airbnb and similar services should be required to charge and remit HST on the service fee they levy on hosts and guests. They should also be compelled to pay income tax on their Canadian activity.**

2. **That the Finance Committee, Finance Canada and the Canada Revenue Agency work collaboratively with the HAC on a focussed review of tax policies for the short-term rental industry. The goal would be to develop solutions to the current inequities that impact government revenues and the competitiveness of the hotel industry.**

About HAC

The Hotel Association of Canada is the voice of the Canadian Hotel & Lodging industry. For over 100 years, it has worked to enhance the competitiveness and health of the industry through member engagement, advocacy and the provision of value-added programs and services.

We represent more than 8,178 hotels, motels and resorts that encompass the $18.4 billion Canadian hotel industry which employs 304,000 people across Canada.

Our members are an important part of a network that encompasses hotel companies, hotels, resorts, provincial and international lodging associations, industry suppliers, educators and students.

The Short-Term Rental Industry

Recent years have seen an abundance of accommodation-sharing platforms and short-term rentals serving Canada and the world – the most popular of these being Airbnb. These accommodation-sharing platforms compete directly with Canada's established hotel and lodging providers, and have taken an increased market share since their establishment in Canada.

In Canada, the average number of active Airbnb units has almost doubled in the past 2 years, rising from 10% of total accommodation supply in 2015 to 18% in 2016.[1]

This growth has given rise to a number of unintended consequences:

- Affordable housing is lost, as Airbnb and similar platforms convert long-term rental units into short term rentals. This has decreased the supply of affordable housing units, which has exacerbated an already acute housing shortage in many of Canada's largest cities.
- Governments and cities are losing tax revenue and local hotel jobs are being lost
- Communities are being impacted, as nuisance, disruption and crime are increasingly reported against short-term rental hosts located in residentially zoned areas.
- Guests are at risk, as there are no health and safety standards or inspections in place, no insurance and they rarely have personnel on site to handle issues.

Commercial Activity

What started as true home sharing – where the owner is present during the guest's stay – has expanded into a growing trend: people using these platforms to become commercial operators. A "commercial operator" is an unofficial term we are using to describe the phenomenon that is occurring in which multiple-units or whole homes – outside of the owner's primary residence - are being rented out on a consistent basis, year-round. Effectively, these operators are running illegal hotels within existing residential housing. Health and safety standards are not being adhered to, and rules and regulations around licensing, insurance and taxation are not being followed.

Approximately 7-in-every-10 units on the Airbnb distribution platform are entire-home rentals, with guests having complete and sole access of the entire unit during their stay. In 2016/17, entire-home rentals comprised 83% of total Airbnb revenues in Canada.

Over the past 2 years, entire-home multi-unit hosts have increased at a much faster pace than single entire-home hosts, with revenues from this segment more than doubling from $71 million to $167 million – a 134% increase. These multi-unit hosts account for over 30% of all revenue generated on Airbnb in Canada.

Finally, hosts who rent out their properties for more than 90 days per year represent 1 in every 3 units in Canada and generate 71% of total revenue.

These figures demonstrate that a large proportion of Airbnb's revenue is generated through actively managed businesses - ones that do not resemble the original concept of home-sharing.

Lost Government Revenues

Although commercial operators that run their inventory through the Airbnb platform are hugely profitable, most operate underground. While they may pretend to be hobby-like operations, many are substantial businesses that are escaping sales tax and income tax.

[1] Study: An Overview of Airbnb and the Hotel Sector, July 2017, CBRE – To be Publicly Released in October 2017.

The way the short-term rental industry functions today violates fundamental tax principles:

Broad tax base: Existing tax policies artificially narrows the base of taxation for a burgeoning industry.

Minimal distortion: The existing system affords incentives that have led to dramatic growth for an industry where a key competitive advantage is a preferential tax structure.

Equity: Not all entities in the accommodations industry are treated similarly with regard to tax policy and by tax authorities.

Efficiency and simplicity: The taxation rules around accommodations are vague and complex.

Voluntary compliance: The current system encourages non-compliance with both sales and income tax legislation.

The international trend in tax policy has been to move towards the promotion and achievement of these fundamental tax principles. The introduction of Airbnb into the marketplace takes Canada in the opposite direction. This unfair taxation model does not allow for fair competition and diminishes the incentives for legitimate hotel operators to expand their operations or otherwise invest in Canada.

Canada's lodging sector is a central part of the Canadian economy, generating revenues of $18.4 billion in 2015. More than 300,000 individuals are employed within our industry, which functions as a key pillar of Canada's vibrant tourism sector. Perhaps most important to note, our industry generated revenues estimated at $8.1 billion for all three levels of government.

In 2016, guests of Canada's legitimate hotel properties contributed an estimated $2.2 billion in consumer taxes based on room revenues alone. If the same consumer tax rates were to be applied to Airbnb revenues, Canada's Airbnb sector has the potential to contribute $85 million in consumer taxes to the Canadian economy. An even larger amount of income tax revenue is likely lost to the government. Given the explosive growth rates of Airbnb it would not take many years before the revenue leakage could approach $1 billion.

Other countries have responded to Airbnb by modernizing their tax policies. In some locations, Airbnb collects and remits certain local taxes. Airbnb is now required to collect VAT on its service fees in the EU, Switzerland, Norway, Iceland, South Africa, Japan, China and Albania. Airbnb also automatically collects taxes for a significant number of American cities. Canada should follow suit.

The traditional lodging industry welcomes competition and is prepared to compete in the marketplace based on price, brand and quality. However, the industry is being asked to compete on an uneven playing field. Hotels have high corporate standards and make important contributions to the Canadian economy, produce high value jobs and pay their fair share in taxation for the benefit of local communities.

To be clear, we are not opposed to an individual using a home-sharing platform to rent out a room in his or her home to help make ends meet. What we are against, is the continued allowance of commercial operators to act like hotels without the same responsibilities to taxation, health & safety standards, business licenses, insurance and accessibility. These laws and regulations should be upheld by anyone running a commercial operation. What is occurring here is not home sharing – this is the operation of a business.

Recommendation #1

The existing laws and regulations are not designed for the 21st century sharing economy and, in turn, have allowed new entrants such as Airbnb to exploit tax loopholes.

The Airbnb corporate office is headquartered abroad and is recognized as a digitally-owned foreign business, with no bricks and mortars in Canada. This arrangement shrouds the reality that they are effectively operating a business in Canada and are actively and directly competing with Canadian-owned businesses. Airbnb should not be given an unfair advantage by Canadian laws that excuse them from excise and income tax.

At a minimum, Airbnb and similar services should be required to charge and remit HST on the service fee charged to hosts and guests. They should also be compelled to pay income tax on their Canadian profits.

Recommendation #2

There is a larger and more complex set of questions that involve those who rent out accommodations through Airbnb. **While there are many outstanding issues around the health and safety and general regulation of this burgeoning industry, we recommend a focused review of the overall taxation of all those involved in the temporary accommodation sector.**

The Hotel Association of Canada is prepared to work collaboratively in a working group with any members of the Finance Committee, Finance Canada and the Canada Revenue Agency to better understand the issues and develop solutions to the current inequities that impact both government and the hotel industry. Among the questions and options that this review could examine are the following:

1. How much revenue is lost to governments under the current tax and regulatory structure because of non-compliance?

2. How much revenue is lost to governments under the current tax and regulatory structure because of tax loopholes?

3. Can the small-supplier threshold be eliminated for the accommodation industry? (i.e. follow the precedent set in the taxi industry to help create a more neutral tax environment).

4. Could sales tax be applied universally at the point when an accommodation is booked? (This would allow local operators to claim input tax credits to recover the tax paid on relevant expenses. This works best if the small-supplier threshold is eliminated).

5. Is a new category required under the Quick Method of accounting for GST/HST for the small operators?

6. How should federal tax policy best mesh with various provincial fees and taxes on accommodation?

7. Should Airbnb be required to regularly disclose the nature and extent of the activity and of its operators to ensure CRA has the data it needs to pursue what is owed for sales and income tax?

Conclusion:

The Finance Committee has asked "What federal measures would help Canadian businesses to be more productive and competitive"? The answer is simple: ensure tax fairness so that Canada's lodging sector can compete on a level playing field. If Canada is to embrace digital technologies, it must bring the digital economy players into full transparent light. It is critical that the sharing economy not lead to the growth of the underground economy. Legitimate Canadian businesses should not be placed at a competitive disadvantage.

The Hotel Association of Canada welcomes the opportunity to work with the federal government to review the various options available to resolve this situation and work towards a sustainable solution.

Funding for Destination Marketing

We wish to thank the Government for its commitment in the last Federal Budget to bolster Destination Canada's funding to $95.5M. This brings stability to Canada's marketing strategy and will allow for continued maintenance of Canada's current market share. In order to capitalize on this momentum, and build towards the fulfillment of the Government's New Tourism Vision target of being one of the Top Ten most visited countries in the world by 2025, Canada will need a more competitive investment. **The Hotel Association of Canada believes that a performance-based funding mechanism will best achieve this goal.**

On behalf of Canada's hotel and lodging sector, HAC wishes to thank the Finance Committee for the opportunity to present its views.