



HOTEL ASSOCIATION OF CANADA
ASSOCIATION DES HÔTELS DU CANADA

WRITTEN SUBMISSION FOR THE

Pre-Budget Consultations

IN ADVANCE OF THE
2021 BUDGET

AUGUST 2020



5 Recommendations

Recommendation 1: Amend the CEWS legislation to include the Safe Harbour principle for periods 7, 8, 9 and 10 for businesses with a sustained revenue decline of 50% or more.

Recommendation 2: Provide an immediate, adequate and accessible liquidity program for hotels that includes streamlined access, 100% loan guarantees, a component equivalent to the commercial-rent assistance program to cover three months of fixed mortgage payments, low/market interest, long repayment terms, reduced bank fees and no personal guarantees.

Recommendation 3: That Government support industry-led Health and Safety Programs through refundable tax credits, that it consider financial support for the development of clean certification programs and employee training, as well as provide a safety capital fund to support additional cleaning measures.

Recommendation 4: Require short-term rental platforms to pay corporate income tax through a 3% tax on revenues, impose sales tax on the fee charged by international digital operators in the short-term rental industry, charge sales tax at the platform level from dollar one with a major portion to be remitted to the government and the remainder to hosts to offset the GST/HST paid on purchased supplies, services and utilities. Require short-term rental platforms to issue annual tax information slips to hosts with a copy to CRA.

Recommendation 5: When travel restrictions are lifted and mass gatherings allowed, stimulate Canada's tourism and hospitality sector by introducing federal tax incentives or credits to encourage domestic travel, and provide incentives to stimulate the events and meetings business.

About the Hotel Association of Canada

The Hotel Association of Canada (HAC) represents more than 8,000 hotels, motels and resorts that employ 300,000 people across Canada. Pre-COVID our industry generated \$22 billion and contributed revenues estimated at \$10 billion for all three levels of government.

Bridging the Hotel Industry Through COVID-19

After years of strong performance, the hotel sector in Canada was hit first by COVID, hit hardest, and it will be the last to recover. With borders closed, travel restricted, and isolation measures imposed across Canada and around the world, the hotel sector experienced unprecedented revenue declines of between 70-90%.

Most hotels in Canada are owned locally by a family or a small business in the community. These are not big American chains with deep pockets. These small entrepreneurs have invested their livelihood into their local inn or hotel, and are at risk today of foreclosure.

The hotel industry answered the call of public health officials during the pandemic. Whether it was serving as quarantine facilities for repatriated Canadians, providing a safe place for front line workers to self-isolate, offering shelter to the vulnerable, or converting properties into hospitals to house post-surgical patients, we were there for Canadians.

The recovery of this sector will be entirely dependant on when travel bans are lifted and limits on mass gatherings are allowed. We understand why these measures are in place, but as the Government considers its response and support measures, it must acknowledge that some businesses will recover quickly while others will not. The following are HAC's recommendations to help Canada's hotel sector survive, recover, and grow.

1. Protecting Employment

Employees are the backbone of the hotel industry. Canadian hotels employ over 300,000 workers, whose full-time employees make an average annual salary of \$42,000.¹

Our workforce composition is 60% women, 38% millennials, 31% immigrants, and 29% visible minorities - all groups which have been disproportionately impacted by the pandemic.² Our employees are vulnerable, scared and anxious about their future employment prospects as many face limited retraining options due to language skill barriers.

The Government's Canadian Emergency Wage Subsidy (CEWS) program has been a critical lifeline for hotels to keep employees on staff during the pandemic. The recent extension and addition of the top-up for hardest-hit businesses was in line with HAC's recommendations during the CEWS consultation process. We also appreciate that certain program design flaws, such as the exclusion of businesses using third-party payroll providers and the 14-day exclusion of employees transitioning from CERB to CEWS, were addressed.

However, the drastic phase-out of the program beginning in September is devastating for hotels and its employees. While the phase-out of the program makes sense for most other sectors as they advance into recovery, the planned decrease in September corresponds with the end of the summer tourism season and the exact moment when hotels will face a seasonal drop in domestic tourist demand. Under normal circumstances, hotels would be full with business travel, weddings, sport tournaments and conventions, but with limits on mass gatherings this business will not be returning this Fall.

The hotel industry will be worse off under the new rules than it was under the previous model that targeted support to businesses with a substantial revenue loss. The "top-up" is appreciated but it is insufficient when combined with a significant decline in the base subsidy for hotels to retain employees when occupancy rates are declining this fall.

A continued, sustained 75% wage subsidy for the hardest hit businesses will be critical keep our employees in the workforce until we have recovered.

In order to protect our workers, HAC is proposing the following recommendation:

Recommendation: Amend the CEWS legislation to include the Safe Harbour principle for periods 7, 8, 9 and 10 for businesses with a sustained revenue decline of 50% or more.

¹ *Canada's Lodging Sector 2019, CBRE Hotels*

² *Statistics Canada, Customized Tabulations, Census 2016*

2. Access to Liquidity

The Government's Business Credit Availability Program (BCAP) has been inaccessible to hotels. With uncertainty around when travelers will return to Canada and when bans on mass gatherings will be lifted, there is no line of sight on when cash flow will turn from negative to positive. Banks are not willing to take the risk without visibility on when loans will be repaid.

BCAP, while well-intentioned and possibly a good option for other sectors, suffers from several fatal design flaws. It was assumed that the 80% Government backing would be enough to encourage generous lending practices. It was assumed that the pre-COVID underwriting process would work in a pandemic and it was assumed that the financial institutions would lend to new clients, even if they no history with them. The reality has proven that none of these assumptions were correct. According to our latest member survey, only 6% have been successful and most are being told not to apply because banks are unwilling to lend to hotels.

To resolve the problem, the Government must offer a 100% loan guarantee, eliminate the need for personal guarantees, simplify the application process, and offer repayment and interest rates that hotels can afford.

The hotel industry experienced historic highs for the 3-year period prior to COVID, hitting record overnight arrivals in 2019.³ When travel bans are lifted and mass gatherings are allowed, the industry will recover quickly. History has proven this to be the case. In past global crises, such as 9/11, the 2003 SARS epidemic, and the 2009 global financial crisis, hotels recovered quickly once travel resumed.

Hotels are a good investment, but we will need support from Government to get to the other side of this crisis.

Recommendation: Provide an immediate, adequate and accessible liquidity program for hotels that includes streamlined access, 100% loan guarantees, a component equivalent to the commercial-rent assistance program to cover three months of fixed mortgage payments, low/market interest, long repayment terms, reduced bank fees and no personal guarantees.

³ CBRE Hotels' Trends in the Hotel Industry National Market

3. Health and Safety Measures

The health and safety of our guests and workers has always been a core value for Canada's hotel industry. That is why we acted swiftly to develop and launch an industry-wide enhanced cleaning protocol called Safe Stay. The Safe Stay program, which is fully supported and endorsed by every major brand, has helped our hotel owners quickly integrate recommended public health protocols into daily hotel operations.

These investments in elevated health and safety standards have come at great cost to the hotel industry in the face of crippling losses in revenue.

We recommend that the Government support businesses' unprecedented health and safety costs.

Recommendation: That Government support industry-led Health and Safety Programs through refundable tax credits, that it consider financial support for the development of clean certification programs and employee training, as well as provide a safety capital fund to support additional cleaning measures.

4. Reduce Use of Risky Short-Term Rentals

Unregulated short-term rentals providers, like Airbnb, are not required to meet provincial health and safety regulations and do not pay tax of any kind. They remove affordable housing from local markets, are associated with crime in communities, and employ very few Canadian workers. In 2019, Airbnb removed 31,000 homes from Canada's housing market and the Government lost nearly \$100 million dollars in tax revenue.⁴

It is fundamentally unfair that our industry plays by the rules, employs more than 300,000 Canadians, pays its taxes, drives economic activity in every region in Canada, develops leading safety protocols and systems, works hand and glove with public health to support front line workers, hospitals and shelters; and our competitors are not held to that same standard. If we start to lose hotels in communities across this country, our competitors will proliferate, and travelers will be forced into the hands of an underground, unsafe, unregulated accommodation provider.

While some of these issues are provincial, the Federal Government does have jurisdiction over federal taxation. It must at least level this playing field in Budget 2021. Companies like Airbnb have no permanent establishment in Canada, and therefore they pay no corporate income tax. They are also exempt from charging sales tax (GST/HST) on the fee it charges to Canadian commercial operators, hosts and guests. Further, they refuse to issue tax information slips to hosts, which would allow Canada Revenue Agency to monitor and ensure compliance.

In order to create a level playing field, HAC recommends the following:

Recommendation: Require short-term rental platforms to pay a revenue tax at 3% in lieu of corporate income tax, impose sales tax on the fee charged by to Canadian operators in the short-term rental industry, charge sales tax at the platform level from dollar one with a major portion to be remitted to the government, and the remainder to hosts to offset the GST/HST paid on purchased supplies, services and utilities. Require short-term rental platforms to issue annual tax information slips to hosts with a copy to CRA.

⁴ CBRE Hotels' Trends in the Hotel Industry National Market review, McGill University

5. Stimulate Canada's Hotel Sector

The 8,300 hotels in this country serve as critical infrastructure in every riding and community from coast to coast. This infrastructure not only supports communities in times of need, it generates revenue for all three levels of government. In 2019, hotels contributed \$10 billion dollars to the economy.⁵ Hotels support meetings, events and festivals, sports at all levels, and pivotal life moments such as proms, graduations, and weddings.

When travel restrictions are lifted, it will be important for the Government to invest in a stimulus package to bring back both domestic and international travellers. Attracting large meetings and conventions to Canada will be a critical element of our recovery path.

Recommendation: When travel restrictions are lifted and mass gatherings allowed, stimulate Canada's tourism and hospitality sector by introducing federal tax incentives or credits to encourage domestic travel, and provide incentives to stimulate the events and meetings business.

⁵ *Canada's Lodging Sector 2019, CBRE Hotels*

Conclusion

The hotel industry in Canada provides employment to hundreds of thousands of Canadians and it serves as critical infrastructure in every community in Canada. In order to protect this important industry and allow it to bridge to the other side of the pandemic, we are asking the Government of Canada to implement our 5 recommendations.