Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

Hotel Association of Canada
Association des hôtels du Canada

August 2018

Recommendations

Recommendation 1: That the government require corporations that operate in Canada through a digital presence to pay corporate income tax on Canadian earnings.

Recommendation 2: That the government amend the Excise Tax Act to require offshore short-term rental platform companies operating in Canada to charge GST/HST to hosts and guests on all fees.

Recommendation 3: That the government amend the Excise Tax Act to parallel the treatment for ride-sharing by eliminating the use of the small-supplier threshold for short-term rental accommodations.

Recommendation 4: That the government amend the Income Tax Act to require short-term rental platform companies to issue an annual information slip on gross earnings to hosts with a copy sent to the Canada Revenue Agency. The information slip could also note any fees paid to the platform companies by hosts.

Recommendation 5: That the Canada Revenue Agency develop and implement an information and enforcement program to encourage voluntary compliance for the short-term rental industry.

Recommendation 6: That the government provide sustainable, long-term investment to support a program focused on connecting unemployed Canadian youth to available jobs in the accommodations sector.

Recommendation 7: That the government provide sustainable, long-term investment to support a program focused on connecting unemployed Indigenous peoples to available jobs in the accommodations sector.

Recommendation 8: That the government, in collaboration with the Hotel Association of Canada, develop and implement a program to address the seasonal shortages in the accommodation sector through intra-brand employee exchanges, or bilateral agreements with suitable countries.

Recommendation 9: That the government make Destination Canada a more competitive tourism marketing organization and ensure long-term sustainable funding by establishing a hybrid funding model with strong base funding at a minimum of $95.5 M plus incremental annual performance increases of 10% of the base funding.

About HAC

The Hotel Association of Canada represents more than 8,200 hotels, motels and resorts that employ 304,000 people across Canada. Our industry generated revenues estimated at $8.6 billion for all three levels of government.

The Transformation of the Short-Term Rental Industry

The growth of Airbnb to nearly 160 million guest arrivals in 2018 tells us that platform companies for short-term rental accommodations are here to stay. Yet the revolution in the short-term rental industry has given rise to unintended consequences.

What started as true home sharing – where the owner is present during the guest's stay – has expanded into growing commercial operations in which entire homes and multiple units are being rented out. Many operators are exploiting a lack of regulation and are running illegal hotels. Community life is being impacted as noise, guest traffic and crime are increasingly reported when short-term rentals are located in residentially zoned areas. Health and safety standards are not being adhered to, regulations around licensing are being ignored, and taxation rules are either antiquated or not being followed.

Long-term rental units are being repurposed for short-term rentals, exacerbating a shortage of affordable housing while also driving up rental rates. In some communities, the housing shortage has meant that employers are struggling to find local workers.

Many of the commercial short-term rental "hosts" are operating in the underground. While they may pretend to be hobby-like operations, many are substantial businesses that are escaping sales tax and income tax. 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. Multi-unit hosts account for over 30% of all revenue generated on Airbnb in Canada.

While many countries have modernized their tax policies in response to the unintended consequences of the 21st-century sharing economy, Canada's federal government has fallen behind. Within Canada, provincial and municipal governments have begun to fill the regulatory and taxation void.

The Finance Committee has asked about the federal measures that would help Canadian businesses be more productive and competitive. The answer is simple: ensure tax fairness so that Canada's lodging sector can invest in a market with a level playing field. If Canada is to embrace digital technologies, it must modernize its tax policies while ensuring the sharing economy does not lead to growth in the underground economy.

Recommendation #1 - Platform Providers to pay Corporate Income Tax on Canadian Profits

Canadian employers pay income tax on their profits while digital companies operating in Canada without employees and a permanent establishment legally pay nothing. The accountants, lawyers and foreign operators win while Canadian taxpayers and employees lose.

Because the corporate offices of digital platform companies are located abroad, this shrouds the reality that they are operating a business in Canada and are competing with Canadian employers. The Airbnb website features many references about how to do business in Canada and they certainly have no shortage of Canadian lobbyists advocating on their behalf to protect their privileged status and unfair advantages. Yet, they get a pass on income tax.

Unlike Canada, other countries and jurisdictions (Australia, Japan, South Korea and the European Union) impose income tax on some digital service providers.

It is not the Canadian "hosts" that the government is shielding from paying tax. Airbnb operates in 191 countries and has a company value in excess of $30 billion. Another platform behemoth, Homeaway Inc. (owned by Expedia), operates in 190 countries with over 2 million listed properties. It functions as a conglomerate of over 25 companies, including such well-known names as VRBO and Booking.com. These are not entities who should be given a break on taxes that Canadian employers are obliged to pay.

Recommendation #2 – Platform Companies to Charge HST/GST on Service Fees

The same antiquated regime that exists on corporate income tax also applies to sales tax. Because platform companies have no permanent establishment in Canada, they are excused from levying the GST/HST on the fees charged to hosts and guests. A Canadian company operating a reservation system enjoys no such benefit.

According to the Airbnb website, it charges consumption taxes on its service fees for customers from countries such as Albania, Belarus, Iceland, Norway, Russia, Saudi Arabia, Serbia, South Africa, Switzerland, Taiwan, the Bahamas, Japan, the United Arab Emirates and the European Union. It should do the same in Canada.

Recommendation #3 – Charge GST/HST for Hosts at the Platform Level

It is the responsibility of businesses to collect tax on behalf of the government and yet short-term rental platforms and hosts are not doing so consistently, transparently, or in some cases, at all.

Today, it's almost impossible to tell at the time of booking on Airbnb whether a host is registered to collect GST or not. Surprisingly, there is no mechanism on the Airbnb booking system for property owners to assess the tax. Thus, a host that is registered for the GST/HST is likely to bury the tax in the list price of the accommodation and guests would have no idea that tax is being charged. Further, it makes GST remittances challenging to track and administer for hosts, hinders transparency for guests and has other unintended consequences like posing problems for business travelers who may not have the information needed to claim an input tax credit.

To alleviate concerns that rectifying this would be complicated for small operators, one only needs to look at the precedent set in 2017 for ride sharing services and taxis. Similar to taxis, the easiest solution for the short-term rental industry would be for platform companies to assess the GST/HST at the time of booking on all reservations. Doing so would be straightforward for the platform companies and would make the system consistent for hosts and guests. The tax would also be visible to consumers and give business travelers the information needed to meet their tax obligations.

Most hosts would end up with more money in their pockets. That's because, hosts could use a modified form of the Quick Method of Accounting. In Ontario, for example, the platform companies would charge the 13 percent HST but only remit 8.8 percent to the government. The remaining 4.2 percent would be returned to the hosts to cover the taxes paid on expenses.

Some provinces have moved to capture tax from short-term rental platforms for their provincial portions, and we believe the Federal Government should do the same.

Our recommended change would be easy to administer and would complement the efforts of provincial and municipal governments who have already implemented tax changes as a means of reducing tax leakage.

Recommendation #4 – Require Platform Companies to Issue Tax Information Slips to Hosts

Airbnb states that in many jurisdictions it sends reminder notices to its hosts about tax issues, but it does not routinely share this data with government authorities. This makes it difficult to detect non-compliance.

Some American jurisdictions (Massachusetts and Vermont) obligate rental platform companies to issue official tax information slips to any host with revenues above $600. Airbnb is also required to share its data with Danish tax authorities.

The data is readily available and tax authorities can always compel disclosure on a selected basis. But an industry-wide reporting requirement would not only be an effective and inexpensive tool to achieve voluntary tax compliance; it would also simplify the accounting for hosts.

Recommendation #5 – Implement Information and Compliance Program for Short-Term Rental Industry

The introduction of tax information slips would provide the Canada Revenue Agency with a simple tool to determine if rental income is being reported on individual tax returns. There is also information becoming available from municipal registries of those who are renting out their home and investment properties. Some non-compliance may be unintentional, so an information campaign would be beneficial in this period of transition. Nowhere on the Canada Revenue Agency website is there a section that deals specifically with home sharing.

Recommendation #6, #7 and #8 – Addressing Labour Shortages

Hotels across Canada continue to face critical labour shortages, both year-round and during peak periods. This shortage will become more acute as the available pool of employees continues to steadily decline. Over the next 17 years, we anticipate a labour shortage of over

10,000 employees. The ability of Canada's hotel industry to promote economic growth and remain competitive will be threatened if this downward trend continues.

Hoteliers are committed to hiring Canadians first and have gone to great lengths with recruitment efforts, including its recent partnership with IRCC to mobilize new Canadians into available hotel jobs. However, further mechanisms and resources are needed to help attract, support and retain under-represented groups. We therefore recommend that the government develop and implement industry specific programs to connect Canadian youth and Indigenous peoples with vacant jobs in the accommodations sector.

The above efforts will assist with the chronic, year-round labour shortage, but will not address the seasonal periods where additional workers are required on a temporary basis. We are encouraging the government to recognize this seasonal aspect and develop a program focused on mobility, or exchange with suitable foreign countries. This could be achieved through intra-brand hotel companies who operate world-wide, or bilaterally with other countries.

Recommendation #9 – Improve Tourism Marketing

Canada's hotel sector was pleased to see funding for Destination Canada set to $95.5 million on an annual basis, as announced in Budget 2017. However, in order for Canada to remain competitive and attract more visitors to our country, base funding should be supplemented by incremental performance-based annual increases of 10%. This will put Canada at a more competitive advantage and ensure that Destination Canada remains innovative and competitive in its approach to marketing performance.

Conclusion

The Government of Canada can encourage investment, growth and employment in the tourism and hospitality sectors —while also sustaining the digital economy for short-term rental accommodations — by modernizing its tax policies, supporting programs to address critical labour shortages and providing continued support for tourism marketing funding.

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