KAMLOOPS CHAMBER OF COMMERCE
We're your business!

August 12, 2011

The Clerk of the Standing Committee on Finance
Sixth Floor, 131 Queen Street
House of Commons
Ottawa, ON K1A 0A6

RE: PRE-BUDGET CONSULTATION

The Kamloops Chamber of Commerce represents more than 800 businesses, large and small, in the Kamloops area. As part of our advocacy program, we seek membership input through roundtable discussions and hold policy sessions with our members that develop advocacy policies based on our members' concerns.

The following is a summary of three items that we have identified as being concerns to our members in 2011. For more detailed information, please refer to www.kamloopschamber.ca/2011policies .

THE LOCKED-IN ESTATE TRUST - A RESPONSE TO CANADA'S COMING PENSION CRISIS (2011)
The Chamber recognizes the severity of the pension reform problem in Canada and in 2010 at their AGM adopted a policy entitled, "The Base Principals of Pension Reform". There looms a pension crisis for Canadians in the near future. The federal government will be unable to fund the pension requirements of the baby boomer retirees let alone the requirements of subsequent generations of retirees. A Locked-in Estate Trust (LIET) is one of the many required solutions that would allow for individuals to privately fund LIET's with the money being held in trust for the future benefit of the named beneficiaries of the LIET.

Background
Federal and provincial finance ministers are seeking solutions to protect older Canadians from income shortfalls during their retirement years, but there are few solutions on the horizon. At the same time, many older Canadians, through hard work and extraordinary windfalls in the housing market, find they have accumulated a great deal of wealth, but ironically, have little cash flow to supplement their own retirement.

It is estimated that as much as $1 trillion will pass to the next generation of Canadians through estate transfers. Acutely aware of the value of their estates, many older Canadians have concerns about the wisdom of passing on such large lump sum estates to children and grandchildren.

Creating a new financial instrument could provide seniors with income now from their valuable estates and at the same time allow them to utilize family wealth to ensure that their children and grandchildren are able to receive private pension income when they retire. This could be fashioned similar to the Charitable Remainder Trust which is widely used and promoted in the United States.

A LIET would provide a creative solution to our specific demographic quandary where the size of the retired population will soon far outweigh the working population. It also has the potential to remove some of the well documented and anxiously anticipated strain on the government's ability to provide Old Age Security and Guaranteed Income Supplement funding to Canadian seniors as the baby boomer bulge exits the workforce. Furthermore, a LIET would provide an investment vehicle that could ensure financial independence for subsequent generations of Canadians.

Recommendation:
That the Federal Government work with the Provincial Government to;

1. introduce an amendment to the Income Tax Act creating the "Locked In Estate Trust" as a step toward solving the Pension Reform problem in Canada and allowing a mechanism for business and Canadians to offer a more stable financial future for generations to come; and

2. amend relevant provincial legislation and regulation to allow for the implementation of a LIET

MARKETING CANADA AS AN INTERNATIONAL DESTINATION (2011)
Marketing Canada as an international travel and tourism destination is critically important to maximizing economic benefits for provinces but there is a downward trend in the level of core funding for the national tourism marketing agency, the Canadian Tourism Commission (CTC). This trend of declining core funding needs to be reversed to ensure Canada can effectively compete in the international marketplace and by extension drive incremental visitation to provinces.

Background
The global tourism market continues to increase and is forecasted by the World Tourism Organization to reach 1.6 billion international tourist arrivals worldwide by 2020[1]. Many jurisdictions are vying for market share because the sector '*provides significant potential for economic growth and development*[2]'.

In 2009, total tourism revenue for Canada was $69.5 billion. 80% (or $55.4 billion) came from tourism domestic demand and 20% ($14.1 billion) from tourism export revenue[3]. Over the last 10 years the contribution from international travelers to Canada's total tourism revenue has dropped from 35% in 2000 to 20% in 2010. Revenue generated from international travelers represents new dollars for the Canadian economy and this remains a primary focus of our national marketing strategies. According to the CTC's research, domestic travelers spend on average $91 per day while international travelers spend $129 per day on average[4]. Dependence on the domestic market is a concern with limited growth potential available from Canada's relatively small population base.

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[1] UN World Tourism Organization - Tourism 2020 Vision
[2] World Economic Forum, The Travel & Tourism Competitiveness Report 2009: Managing in a Time of Turbulence. https://members.weforum.org/pdf/TTCR09/TTCR09_FullReport.pdf
[3] Canadian Tourism Commission, 2009 Annual Report
[4] Statistics Canada, Travel Survey 2009: Residents of Canada and International Travel Survey (ITS).

In order to capture a significant portion of the tourism market, Canada must remain competitive with other destinations. Between 2002 and 2009, international tourist arrivals to Canada declined from 20.1 million to 15.8 million, a 21.5 percent decrease[5]. In 2002, Canada ranked 7th in the world for international arrivals but in 2009 Canada ranked 15th behind new competitors like Malaysia, Turkey, Ukraine and Russia. The global tourism marketplace is increasingly competitive.

Conclusion

- Canada faces increasing competition from existing and mature tourism markets and from exotic new market entrants.
- Canada's overall global market share has eroded in recent years as a result of competition from new entrants.
- The CTC, Canada's national tourism marketing agency, produces significant business results for the dollars invested.
- The tourism industry needs the CTC better resourced.

Recommendation:
That the Federal Government increase investment for tourism marketing efforts of the Canadian Tourism Commission by increasing their current A-Base funding levels to a minimum of $100 million annually.

INDEXING OF GST/HST NEW HOUSING REBATE (2011)
A number of organizations, including the Canadian Home Builders Association (CHBA), have identified the failure to adjust the new home GST/HST rebate to current housing prices as a major concern to home builders and associated businesses throughout Canada. It also poses a significant deterrent to housing affordability in Canada.

When the GST was introduced in 1991, the new home GST rebate threshold was set at $350,000 for a full rebate of 36% of the GST. Between $350,000 and $450,000 the rebate was progressively reduced. Over $450,000.00 no rebate was available. The federal government committed to reviewing the thresholds every two years to adjust for the likely upward change in home prices. Since then, Statistics Canada's new home price index shows a 54.78% increase between 1991 and 2010 and in some markets prices have increased well beyond that. Meanwhile the rebate thresholds have not changed.

The government's original intention was that 90% of new home buyers would receive the full GST rebate, and an additional 5 percent would receive a partial rebate. However, according to the CHBA only an average of 43% of new home buyers purchased homes at a price point that qualified them for the full GST rebate.

While market conditions are the primary driving force behind the sale of both new and used housing, the sale of entry level new housing is predominantly aimed at new home buyers who have very little equity and for whom the GST rebate plays a significant role in their decision to purchase. An increase in the thresholds could add up to $3500 to the purchasing power of a new home buyer. That addition to

[5] Statistics Canada International Travel Survey, December 2009

purchasing power is reflected in the business community by the concentric rings of home builders, subcontractors, suppliers and wholesalers all of whom would benefit by the addition of more buyers to the new home building market.

The failure to index the new home rebate is compounded by the introduction of HST in five provinces where now the federal government's failure to index the threshold has resulted in a two pronged calculation of rebates applied at the federal threshold (in relation to that portion of HST that represents the GST) and a different threshold to reflect the application to that portion of the HST that represents the provincial portion.

Reviewing the Rebate
In Vancouver, where the average price of a detached home is $760,000, less than 1% of new home buyers qualified for a new home GST rebate in 2009. Compare that to 1991, when 75% of buyers in Vancouver qualified.

If the rebate thresholds had been adjusted to accommodate the 54.78% increase in the cost of housing to the end of 2010, the lower and upper thresholds would have increased in 2011 to $545,000 and $700,000.

The economic contribution that new home construction brings to markets has been severely dampened due to failure to index of the thresholds.

THE CHAMBER RECOMMENDS

That the federal government;

1. in the next Budget act on an outstanding commitment to adjust the GST/HST rebate thresholds to reflect new housing price increases by reviewing the threshold every 2 years in relation to the Statistics Canada New House Price Index; and

2. acting in consultation with the provinces, that participate in HST, create a combined HST New Housing Rebate that is administered by the HST department and provides for a single rebate based on indexed thresholds that includes the GST portion of the HST and the provincial sales tax portion of the HST.

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