THE VOICE OF THE CANADIAN LODGING INDUSTRY

2017 Federal Budget Analysis
How it Impacts You

Today at 4pm, the Finance Minister Bill Morneau tabled the Federal Budget.

HAC President, Susie Grynol, was among a select group of stakeholders invited to the Finance Minister's Lock Up where attendees were given an advance copy of the Budget Document. This 2.5 hour closed-door meeting allowed HAC to review the Budget before it was released publicly and provided an opportunity to meet with senior officials from Finance concerning its contents.

Good News

- Permanent funding of $37.5 million per year provided to Destination Canada
- $8.6 million over four years, starting in 2017-18, to Indigenous and Northern Affairs Canada to support the development of Canada's unique and authentic Indigenous tourism industry
- $13.6 million over five years, starting in 2017-18, and $2.7 million per year thereafter, to Statistics Canada to broaden tourism data collection.

Bad News

- Elimination of the GST/HST Tourist Rebate for Accommodations Portion of Tour Packages
- The government did not move to apply federal or provincial tax to short term rental companies, like Airbnb, at the platform level.
- New 2% tax on alcohol effective immediately

Old News

- Temporary Foreign Worker Program reforms will allow hoteliers to access the TFWs up to 20% of total work force, as opposed to current 10% cap on other non-seasonal industries.

Interesting News

- GST/HST will now be charged to the ride-sharing economy.
- Some green measures were announced that could benefit sustainable-focused hotels

ANALYSIS

The Federal Budget presented a mix of good, bad and old news for the hotel sector - but the good news category far outweighs the bad and old news.

The permanent funding of $37.5 million per year will allow Destination Canada the sustained funding it needs to make strategic investments in marketing on behalf of the sector.

Increased funding for Statistics Canada to track and analyze tourism data will allow us to bolster our advocacy efforts with much needed data.

One of the most interesting developments in this Budget is the government's move to tax the ride-sharing economy by forcing Uber and its equivalents to collect GST/HST. This is significant for our sector because it is a clear and deliberate move to level the playing field between traditional businesses and the sharing economy.

HAC's President had the opportunity to discuss this significant step forward with officials during the lock up and it became clear that this policy move has opened the door for the hotel sector to push for the same tax application on the home-sharing economy in the next Federal Budget. There was a slight chance that the government might have included home-sharing in this Budget, but it is not surprising that the first step focused on the taxi industry. First, the ride-sharing industry has been under attack for a longer period of time; second, the tax application of HST is more straight forward; and third, the enforcement is less convoluted.

Notwithstanding the fact that tax application to the home-sharing economy is more challenging, an important precedent has been set, and we are clearly in alignment with the government on the need to clot tax leakage and establish a level playing field.

The budget also focused on the affordable housing crisis, which is exacerbated by the short term rental economy. This is another area of alignment for our strategy going forward.

DETAILS ON SPECIFIC MEASURES

ELIMINATION OF THE GST/HST TOURIST REBATE FOR ACCOMMODATIONS PORTION OF TOUR PACKAGES

In a section called "Eliminating Inefficient Tax Measures," the government repealed the Goods and Services Tax/Harmonized Sales Tax (GST/HST) rebate payable to non-resident tourists and non-resident tour operators in respect of the accommodation portion of tour packages. According to the Budget document, the rebate is complex and costly to administer, and benefits only a narrow segment of the Canadian tourism industry.

Details

A rebate is currently available to non-resident individuals and non-resident tour operators for the GST/HST that is payable in respect of the Canadian accommodation portion of eligible tour packages.

Budget 2017 proposes to repeal the GST/HST rebate available to non-residents for the GST/HST that is payable in respect of the accommodation portion of eligible tour packages.

This repeal will generally apply in respect of supplies of tour packages or accommodations made after Budget Day. As a transitional measure, the rebate will continue to be available in respect of a supply of a tour package or accommodations made after Budget Day but before January 1, 2018 if all of the consideration for the supply is paid before January 1, 2018.

The government cost of these rebates is around $15 million a year.

INCREASED DUTY ON ALCOHOL

Budget 2017 proposes that, to maintain their effectiveness, excise duty rates on alcohol products be increased by 2% effective the day after Budget Day 2017 and that rates be automatically adjusted to the Consumer Price Index on April 1 of every year starting in 2018.

TOURISM MEASURES

The Budget recognized the significance of the tourism sector, stating its percentage of GDP, and job numbers across Canada. It also acknowledged that Canada has become a destination of choice according to the New York Times and Lonely Planet.

To attract more international visitors to Canada, Budget 2017 proposes to make permanent the $37.5 million per year in temporary funding previously provided to Destination Canada starting in 2018-19. Stabilized funding will allow Destination Canada to continue its strong collaboration with industry partners to maximize the impact of its marketing campaigns to draw in more tourists from abroad and increase economic activity.

To complement Destination Canada's activities, Budget 2017 also proposes to provide $8.6 million over four years, starting in 2017-18, to Indigenous and Northern Affairs Canada to support the development of Canada's unique and authentic Indigenous tourism industry, including contributing to the implementation of the Aboriginal Tourism Association of Canada's five-year Indigenous Tourism Strategy.

To ensure that tourism operators and governments make the most of their efforts and investments, Budget 2017 proposes to provide $13.6 million over five years, starting in 2017-18, and $2.7 million per year thereafter, to Statistics Canada to broaden tourism data collection. The International Travel Survey Program would be enhanced, resulting in better data at more detailed geographic levels, while the Tourism Satellite Account would be expanded to include data at the provincial and territorial level.

Celebrating and Protecting Our Natural Heritage

2017 marks the 150th anniversary of Confederation and is a chance for all Canadian families to get out, explore and discover the rich natural heritage that Canada has to offer. To make it more affordable for more Canadian families to visit and appreciate the outdoors, **in 2017, admission to all national parks, national marine conservation areas and national historic sites will be free.**

To ensure that visitors are able to enjoy Canada's national parks for years to come, Budget 2017 proposes to provide up to $364 million over two years on a cash basis, starting in 2018-19, to the Parks Canada Agency to continue its management of national parks, national marine conservation areas and national historic sites. A medium- and long-term plan is under development to ensure ongoing support to these highly valued areas.

Completing the Trans Canada Trail

To complete, enhance and maintain the Trans Canada Trail, in partnership with the provinces and individual Canadians, Budget 2017 proposes to invest $30 million over five years, starting in 2017-18, to be delivered through the Parks Canada Agency

Connecting Communities by Rail and Water

To ensure VIA Rail's continued operations, Budget 2017 proposes to provide VIA Rail with $867.3 million over three years on a cash basis, starting in 2017-18, to support its operations and capital requirements.

Marine Atlantic Inc. operates two marine routes connecting Newfoundland and Labrador to the rest of Canada: a year-round route between North Sydney, Nova Scotia, and Channel-Port aux Basques, Newfoundland and Labrador, and a seasonal route from North Sydney to Argentia, Newfoundland and Labrador. To support the continued operations of Marine Atlantic Inc., Budget 2017 proposes to provide funding of up to $445.3 million over three years on a cash basis, starting in 2017-18, including existing resources.

In addition to the services offered by Marine Atlantic Inc., the federal government provides financial support to ferry routes between Îles de la Madeleine, Quebec, and Souris, Prince Edward Island; between Saint John, New Brunswick, and Digby, Nova Scotia; and between Wood Islands, Prince Edward Island, and Caribou, Nova Scotia. Budget 2017 proposes to provide $278.3 million over five years on a cash basis, starting in 2017-18, including existing resources, for the continued safe and reliable operations of these ferry services.

Strengthening Cultural and Recreational Infrastructure

To help promote arts and culture in Canada, Budget 2016 invested $1.9 billion over five years to support key national cultural institutions. This funding also included $168.2 million over two years for the Canada Cultural Spaces Fund.

Budget 2017 also proposes to build on this commitment, with a further investment of $1.8 billion over 10 years starting in 2018-19. Of this amount, more than $1.3 billion will be provided to provinces and territories through integrated bilateral agreements, on a base plus per capita allocation basis. This investment will be delivered through the second phase of social infrastructure funding.

GREEN MEASURES THAT COULD APPLY TO HOTELS

Clean Energy

To encourage greater use of geothermal energy, Budget 2017 proposes to:

- Extend accelerated capital cost allowance to a broader range of geothermal projects and expenses.
- Expand the range of geothermal energy project expenses that are eligible as Canadian renewable and conservation expenses, which can be fully deducted in the year incurred.

Clean Growth Economy

2017 Budget proposes to assist industries to move away from products and services that create carbon pollution.

$2.8 billion will be invested over the next 11 years through a series of national programs, including:

- $120 million to deploy infrastructure for electric vehicle charging and natural gas and hydrogen refuelling stations, as well as to support technology demonstration projects.

- $182 million to develop and implement new building codes to retrofit existing buildings and build new net-zero energy consumption buildings across Canada.

ENABLING ACCESSIBILITY FUND

The Enabling Accessibility Fund supports the construction and renovation of public spaces to make them more accessible, making it possible for Canadians with disabilities to participate more fully in their community and the economy. Since its creation in 2007, the program has provided funding to over 2,300 projects across the country, leading to significant improvements in the lives of Canadians.

Budget 2017 proposes to provide $77 million over 10 years to expand the activities of the Enabling Accessibility Fund. Eligible projects will include constructing and renovating infrastructure (e.g., adding ramps, automatic door openers and accessible washrooms), providing accessible information and communication technologies and retrofitting vehicles.

SKILLS AND LABOUR

Temporary Foreign Worker Program

Building on funding announced in the 2016 Fall Economic Statement, Budget 2017 proposes to provide an additional $7.8 million over two years, starting in 2017-18, to implement a new Global Talent Stream under the Temporary Foreign Worker Program, as part of the Global Skills Strategy.

Budget 2017 also proposes to amend the Immigration and Refugee Protection Act to ensure that the Express Entry system-the system that manages Canada's economic permanent residence programs-is responsive to the needs of the Canadian labour market, and that the candidates most likely to succeed in Canada are selected. Budget 2017 also proposes to amend the Immigration and Refugee Protection Act to allow the Government to set relevant fees in a timely manner.

The Budget also re-iterated its previously announced changes to the TFW program. To recap, these changes will:

- Introduce stronger recruitment requirements for low-wage employers, where appropriate, so that Canadian workers that are traditionally underrepresented in the labour market have better access to available job opportunities.
- Eliminate the four-year cumulative duration rule, which has caused unnecessary hardship and instability for both temporary foreign workers and their employers.
- Extend the exemption to the cap on the number of low-wage temporary foreign workers employed by firms in seasonal industries for 2017.
- Include further work on developing pathways to permanent residency for temporary foreign workers.

The HAC is pleased that an exemption from the 10% cap on TFWs has been extended to the industry.

Skills Innovation

As recommended by the Advisory Council on Economic Growth and the Forum of Labour Market Ministers, new approaches are needed to address skills gaps and support lifelong learning throughout Canadians' working lives. To that end, Budget 2017 proposes to provide $225 million over four years, starting in 2018-19, and $75 million per year thereafter, to establish a new organization to support skills development and measurement in Canada.

Working in partnership with willing provinces and territories, the private sector, educational institutions and not-for-profit organizations, this organization will:

- Identify the skills sought and required by Canadian employers.
- Explore new and innovative approaches to skills development.
- Share information and analysis to help inform future skills investments and programming.

Expanding the Youth Employment Strategy

Last year, the Government announced new investments in the Youth Employment Strategy and the Canada Summer Jobs program, which help to create short-term job opportunities for students between the ages of 15 and 30.

These investments are supporting the creation of:

- Over 5,000 opportunities for young Canadians under the Skills Link stream, which helps vulnerable youth overcome barriers to employment.
- **Nearly 2,500 new green jobs that help young Canadians learn about their natural environment and contribute to** economic growth in the environmental sectors.
- Additional job opportunities for young Canadians to work in the heritage sector through the Young Canada Works program.

To further expand employment opportunities for young Canadians, Budget 2017 proposes to provide an additional $395.5 million over three years, starting in 2017-18, for the Youth Employment Strategy. Combined with Budget 2016 measures, these investments will help more than 33,000 vulnerable youth develop the skills they need to find work or go back to school; create 15,000 new green jobs for young Canadians; and provide over 1,600 new employment opportunities for youth in the heritage sector.

If you have any questions about this analysis or any of the Federal Budget measures, feel free to contact Susie Grynol, President, Hotel Association of Canada at sgrynol@hotelassociation.ca or 613-265-9448 (cell).

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