

Restructuring the FCTIP for Increased Tourism Competitiveness

Tourism is a \$74.9 billion industry in Canada. In 2008, more than 1.8 million people in Canada were employed in tourism jobs. Keeping the industry healthy and competitive requires that governments address a number of concerns that pressure its viability.

One such concern is the way in which Canada exercises its value added tax (VAT) rebate program. Value added tax rebates are common internationally in the tourism industry. These programs allow for out of country visitors to be rebated the value added taxes for purchases during their visits to the country. VAT rebates are used as a competitive factor in the marketing efforts of tourism organizations.

VAT rebates are common because international tourism is seen as an export industry, the same as manufacturing. Export industries are rarely able to pass on consumption taxes to overseas consumers since those consumers will simply divert their consumption to another source. Spending on international tourism is highly subject to this sort of consumer elasticity, which in Canada is 2.7-2.8 percent. An effective VAT rebate system in Canada is needed to remain competitive.

Up to 2007 Canada's VAT rebate program was called the Visitor Rebate Program, which applied to both individual travelers as well as tour and convention travelers. That program was cancelled in 2007 and the government of Canada introduced a new program called the Foreign Convention and Tour Incentive Program (FCTIP). The primary reason for the cancellation of the former program was due to administrative cost inefficiencies and concerns from government about accountability.

The new FCTIP has different rules for rebate application and applies only to tour organizers and conventions. A limited number or type of group tours are eligible for a 50 percent GST/HST rebate. It does not apply to individual travelers. It is meant to keep tourist packages competitive with other countries and encourage foreign tour operators to sell Canada as a tourism destination. It is also meant to be delivered in a more cost effective manner while at the same time increasing the accountability of government tax rebate expenditures.

However, the changes in process have resulted in a program that is too cumbersome to benefit the industry. Despite best intentions, the FCTIP is not meeting its objectives due to the program complexities, and the administrative burden it places on international tour operators. The Tourism Industry Association of Canada (TIAC) has found through a commissioned survey of US tour operating companies that "those who regard the rebate process as burdensome outnumber those who do not by a ratio of more than 7:1." Further one in four operators claim that they will simply absorb the GST and adjust their price of Canadian tours upwards to recoup the GST costs rather than be bothered with the rebate process. This makes Canadian tour options less competitive.

The tendency to price in a further 5 percent on the tour cost to avoid the rebate process is significantly concerning, and especially so as the introduction of a Harmonized Sales Tax (HST) will be introduced to two of the country's major tourism destination provinces in the summer of 2010. There is concern that a move from 5 percent tax to 12 percent and 13 percent respectively in British Columbia and Ontario will have an immediate negative effect on a system that is already not being embraced by users. The concern of industry is that, upon introduction of the HST, tour packages to British Columbia and Ontario will essentially increase as operators "cost in" the additional tax, making BC and Ontario even less competitive in the international tourism market.

A second concern of the industry is that the new FCTIP program does not apply to individual visitors to Canada, rather only to convention and tour travelers and operators. The industry asserts that in disqualifying individual visitors from the Canadian VAT rebate program, Canada is placing itself at a considerable disadvantage to other attractive locations across Europe and South America that offer tax rebate programs to their independent travelling visitors. Independent travelers are a growing segment of the travel market. The substantial increase in the price of tourism goods and services to this market with

the introduction of the HST will reduce independent travel to Canada, and negatively impact on the sale of retail goods such as accommodation, meals, attractions, and recreational activities.

A study by CRA International in 2007 on the estimated impacts of the cancellation of the GST rebate to individual visitors projected the following:

- an estimated decline in tourism spending of \$213 million per year
- a decline in GDP of \$114 million per year
- the loss of 1,900 jobs

Using similar elasticity estimates, one could assume a similar loss in revenues and jobs with the increase in cost of tourism product and services by 7 percent and 8 percent respectively in BC and Ontario.

A tourism industry coalition called the Visitor Rebate Program Coalition has outlined an industry led approach to a revised program. It is proposed that the new program become a self-regulated and financed industry program subject to certification and regular audit by the appropriate federal agencies. The documentation and rebate processing system would be secure from fraud, transparent and simple to use. Operationally, the federal government would license one reputable, national not-for-profit organization to oversee operation of the new program. The main licensee would be responsible for submitting a summary statement of eligible VRP claims to the federal government and receiving funds for allocation to the claimants. The main licensee would work with a controlled list of sub-licensees, such as CBSA, who would act as the point of contact for visitors. This model would create a viable rebate program and would incent foreign visitors to spend dollars in Canada while removing the overhead expense to government of processing the rebates.

The Canadian Chamber acknowledges the importance of the tourism industry to Canada's economy. Adjusting Canada's GST/HST rebate system for foreign travelers is imperative to attracting a higher share of the global tourism market and placing international inbound tourism on equal footing with other Canadian export markets.

Recommendations

That the federal government:

1. Eliminate the excessive administrative burden on international tour operators that hampers the uptake of the FCTIP program.
2. Develop an individual traveler GST/HST rebate program.