

The Impact of Sales Tax Harmonization on the British Columbia Tourism Industry



Council of Tourism Associations (COTA)

October 19, 2009



1.0 INTRODUCTION

On July 23, 2009 the Government of British Columbia announced its intention to harmonize the provincial sales tax (PST) with the federal Goods and Services Tax (GST), effective July 1, 2010. Harmonization will have a significant impact on the price structure of tourism-related businesses in B.C.

In response to this unexpected announcement, on September 2, 2009 the COTA Council voted unanimously in support of the following resolution:

Whereas the full impacts of the HST are not yet understood by government and the industry.

Whereas the Government of British Columbia in its Throne Speech of August 25, 2009 appears steadfast in its determination to implement the HST, but willing to work with negatively-impacted sectors.

The COTA Council therefore recommends:

That COTA be directed to advise the Province of BC on the costs and impacts of the HST on the tourism industry in a manner that is based on factual information on the scale and nature of negative impacts of the HST on the BC tourism industry

That COTA be directed to negotiate meaningful mitigation based on the facts brought forward.

In response to the COTA Council resolution, this report sets out to:

- Estimate the rough impacts and implications of the HST on tourism-related businesses in British Columbia.
- Identify mitigation options to ease the transition to HST for one of B.C.'s most critical economic sectors.

This analysis should be considered a work in progress aimed at understanding the scale of impacts at an order of magnitude level. The analysis is significantly challenged by the short decision-making timeline of governments, complexity of the HST for the tourism industry, uncertainty of specific HST implementation mechanisms, and the lack of HST-related analysis undertaken and/or shared by provincial and federal authorities.



2.0 B.C. TOURISM INDUSTRY COMPOSITION

The tourism industry is the second largest vertical sector in British Columbia, generating \$13.8 billion in economic activity in 2008.¹ Tourism revenues grew rapidly in the late 1990s, from \$6.8 billion in 1994 to more than \$9.5 billion in 2000, and has had more moderate growth over the past ten years to present revenue levels.²

Tourism Product Sectors

Specific tourism product sectors (also defined as sectors or sub-sectors) cover a wide variety of inter-related products and services. The major tourism sectors in British Columbia include the following:³

- Accommodations (e.g., hotels, motels, B&Bs, lodges, campgrounds)
- Food and beverage
- Attractions
- Transportation (e.g., air, rail, bus, rental)
- Light recreation, resort, spa (e.g., golf / ski)
- Adventure tourism (e.g., heli-skiing, rafting)
- Arts, culture, and heritage
- Meetings, convention, incentive, exhibition

Tourism Trends

B.C.'s tourism markets are undergoing a dramatic transition, with an overall trend in the past ten or more years toward enhanced domestic travel (B.C. and Canada), decreasing visitation from the United States and Japan, and increasing visitation from markets in Latin America as well as Asia-Pacific (particularly Mexico, Australia, New Zealand, China, India, Taiwan, and Hong Kong).

Another notable trend is that total global travel and Canadian travel volumes continue to outpace the growth of inbound travel to Canada. At a time when Canadian outbound travel is at record levels, we are not witnessing a corresponding increase in total inbound travel or domestic travel by Canadians. Canada now has its largest-ever travel deficit in history, with billions of dollars in economic opportunity being lost every year.

In Q2 for 2009 the travel deficit for Canada with the United States reached record levels, at \$812 million. Between 2001 and 2007 Canada's total international travel deficit ballooned from \$1.7 billion to \$10.0 billion.⁴

As of October 1, 2009, international travel to Canada has declined in fourteen (14) of sixteen (16) quarters dating back to 2005, resulting in what tourism industry officials are describing as the "worst recessionary period our industry has ever seen."⁵ The leading causes of this decline in visitation is cited as being the high Canadian dollar, rising fuel prices, higher costs of Canadian

¹ The B.C. forest industry (including wood and paper products) remains B.C.'s largest sector, with total shipping receipts of \$17.7 billion (2005). Source: BC Stats, BC Manufacturing Shipments by Industry (SIC 1993-1996, NAICS 1997-2005). Tourism stats are based on BC Stats / Tourism BC estimates for 2008.

² It should be noted that the provincial government revised its tourism revenues accounting in 2007, resulting in a statistical increase from \$11.2 billion to \$13.8 billion as a result of this revision.

³ Specific sector revenue data is not available for most of the product sectors identified here.

⁴ Canadian Tourism Commission, International Travel Account Report, http://mediacentre.canada.travel/content/ctc_news/international-travel-account-second-quarter-q2-2009. September 29, 2009.

⁵ Canadian Broadcasting Corporation, "Tourism industry hit by 'worst period' in its history," <http://www.cbc.ca/canada/calgary/story/2009/09/29/tourism-drop.html>. Sept. 29, 2009.



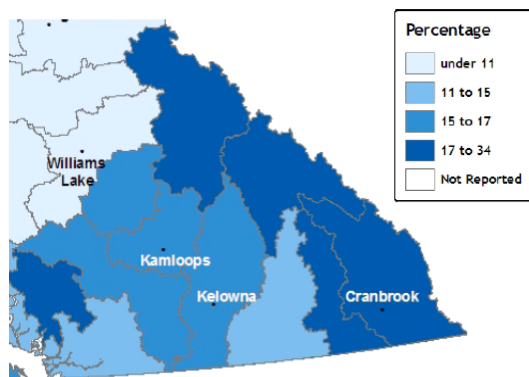
tourism products and services relative to emerging tourism destinations, taxation issues (e.g., GST Visitor Rebate Program cancellation), border documentation requirements and lineups, and others.

Employment Trends

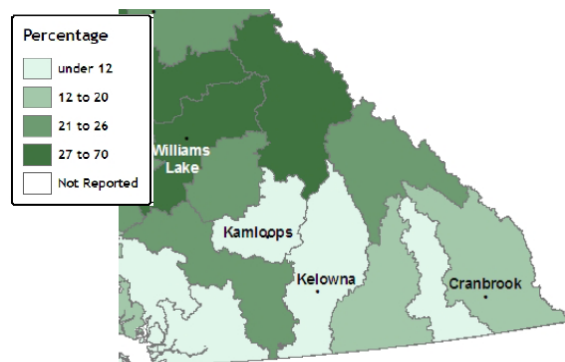
According to B.C. Stats, tourism directly employs 131,000 people, making it one of the largest sources of employment of any vertical sector in the provincial economy. This has increased by 29,000 since 2002, for a net employment increase of 28.0%.⁶ Just as importantly, tourist spending supported an additional 135,000 jobs in B.C. in 2008, in such areas as skilled trades, construction, and professional services.

Tourism is now one of the key pillars of economic activity in most communities and regions of the province. Regions traditionally dependent on primary sectors such as forestry and mining are increasingly seeing their economies grow and diversify through tourism development.

**Figure 1.0 – Economic Dependency on Tourism
(B.C. Southern Interior - 2006)**



**Figure 2.0 – Economic Dependency on Forestry
(B.C. Southern Interior – 2006)**



Tourism employment is also transitioning toward increasingly full-year, full-time employment, with a higher percentage of jobs being in higher paying occupational categories, including management, information technology, marketing, and other professional services.

According to recent studies, only 22% of tourism-related jobs in the province are seasonal in nature, and when the seasonality and unaccounted wages/benefits are taken into account, in many cases tourism incomes outstrip the provincial average income.⁷

⁶ BC Stats, "BC Tourism and High Technology GDP and Employment," http://www.bcstats.gov.bc.ca/data/bus_stat/bcea/satacct.asp, April 2009.

⁷ See for example, InterVISTAS Consulting, "Economic Opportunities Study for Northern and Central British Columbia," November 2006. Commissioned for Council of Tourism Associations.



3.0 HST BACKGROUNDER - EXPERIENCES IN OTHER JURISDICTIONS

A number of jurisdictions outside B.C. have already implemented the HST, including Atlantic Canada and Quebec, or are in the process of implementing the HST (e.g., Ontario).

Atlantic Canada

Atlantic Canada’s experience with the HST has been widely cited as proof of the positive impacts of the tax. Referencing a July 2007 C.D. Howe Institute study on HST impacts in Atlantic Canada,⁸ the Government of B.C. and many industry groups have pointed to the decreasing cost structure of various businesses and resulting increases in business investment related to sales tax harmonization. However, there are a number of key differences between the Maritime experience with HST and B.C. These are summarized below.

Table 2.0 - Sales Tax Harmonization in Maritimes vs B.C.

<ul style="list-style-type: none"> • Sales tax harmonization in Atlantic Canada resulted in an overall tax reduction from roughly 19% to 15% (and subsequently to 13%). • Impacts of harmonization on the Atlantic Canada service sector (including tourism) was lessened by the fact that fewer tourism-related goods and services were exempt from provincial sales/retail taxes. • HST in the Maritimes was <i>not</i> implemented at a time of widespread global recession and unprecedented lack of consumer confidence. • Atlantic provinces depend heavily on Ontario tourism and this province was not impacted with a new tax at the time of harmonization (unlike B.C.).
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Ontario HST Implementation

The Government of Ontario has also indicated its intentions to harmonize its provincial Retail Sales Tax (RST) with the GST on July 1, 2010.

To assess the impacts of HST on the Ontario tourism industry, the Tourism Industry Association of Ontario (TIAO) commissioned a study by HLT Advisory (September 2009).⁹

In general the implications of HST for the Ontario and B.C. tourism industries are quite similar. The Ontario Retail Sales Tax (RST) and British Columbia Provincial Sales Tax (PST) will now be charged for the first time on nearly all tourism-related products and services. These are summarized in the Table below.

Table 3.0 – Products and Services Subject to 7% Tax Increase due to HST (BC and Ontario)

<ul style="list-style-type: none"> • Meetings and conventions • Campgrounds and RV parks • Attractions • Festivals and events • Arts and culture / heritage (galleries, museums, theatre, aboriginal tourism products/services, etc) 	<ul style="list-style-type: none"> • Golf / ski / other light recreation • Adventure tourism products (e.g., heli-skiing, rafting, etc.) • Transportation services (e.g., cruise, rail, bus, rental cars, taxi) • Restaurant meals • Spas / health and wellness
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There are three primary differences between Ontario and B.C. relating to HST.

⁸ Michael Smart, "Lessons in Harmony: What Experience in the Atlantic Provinces Shows About the Benefits of a Harmonized Sales Tax." C.D. Howe Institute: July 2007.

⁹ Tourism Industry Association of Ontario, "Impact of Sales Tax Harmonization on Ontario’s Tourism Industry," prepared by H.L.T. Advisory, September 2009.



First, accommodations in B.C. are charged an eight (8) per cent provincial sales tax, whereas in Ontario accommodations are charged only five (5) per cent. This means that accommodation taxes, *ceteris paribus*, will be reduced by one (1) per cent in B.C. under the HST whereas they will increase by three (3) per cent in Ontario.

Second, because Ontario has a higher RST rate of eight (8) per cent compared to B.C.'s PST rate of seven (7) per cent, harmonization will result in a final HST rate of 13% for applicable goods and services in Ontario whereas the rate will be 12% in B.C.

Third, restaurant meals above \$4.00 attracted RST in Ontario, whereas restaurant meals are PST-exempt in British Columbia.

Ontario HST Analysis – Key Findings

The following were key findings in the TIAO report on HST impacts on the tourism industry in Ontario:

- Input Tax Credits (ITCs) will be negligible for most tourism businesses, as major cost components, particularly labour and fuel, are not eligible for ITCs.
- HST would increase the cost of a typical short weekend getaway by \$63 – adding 43.6% in new taxes to the trip.
- A family ski holiday would increase by \$123 – or a taxation increase of 25.3%.
- A tour operator offering a one-week touring holiday with a base cost of \$46,395 would have costs increase by \$1,928 – which is a taxation increase of 41.2% on the service.



4.0 ANTICIPATED IMPACTS OF HST ON TOURIST BEHAVIOUR

The impacts of HST will hinge on the consumer response to the tax and other marketplace characteristics. Of note is that B.C. is considered to be a relatively expensive tourism destination at present, with little capacity to increase prices without significantly impacting demand levels.

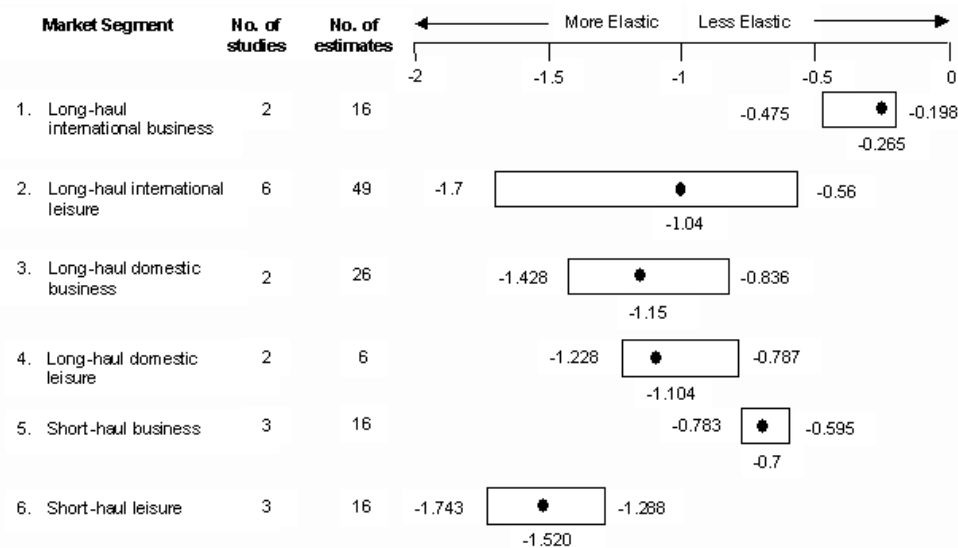
At first glance some may question whether moderate price increases – such as a \$1.75 increase on a \$25 theatre ticket – would actually impact consumer spending decisions. To assess potential consumer responses, COTA reviewed the extensive literature on tourism price elasticity.

Tourism Demand Elasticity

Tourism is generally considered an “elastic” industry sector, meaning that increases in prices will, on average, result in a decrease in demand that is at least equal (and opposite) to the increase in prices. For example, a 10% price increases should, *ceteris paribus*, result in more than a 10% decrease in consumer demand.

It is also important to note that price increases will impact consumer responses to different products and services in a very different manner. For example, as the following table demonstrates, short-haul leisure travel (air) is significantly impacted by price increases, with a relatively high consumer price elasticity of demand (-1.52).

Figure 1.0 - Air Transportation Price Elasticity of Demand¹⁰



With regard to HST, one can thus expect that short-haul leisure travel originating in B.C. (and in post-HST Ontario) will be more significantly impacted than, for example, short haul business travel or long haul leisure travel. International flights to B.C. will not be impacted directly by HST, though we can expect reduced consumption levels “in-market” due to overall increased prices post-HST.

¹⁰ Government of Canada, Department of Finance, “Air Travel Demand Elasticities: Concepts, Issues and Measurement.” http://www.fin.gc.ca/consultresp/Airtravel/airtravStdy_1-eng.asp Accessed July 5, 2009



Other Factors Influencing Demand

Demand elasticity of tourism is a challenging and complicated subject.¹¹ However, a number of key factors identified in the literature suggest that tourism will be much more heavily impacted by price increases due to the HST at this time, including:

- Visibility / awareness of tax increase. High visibility of price increases with B.C. (and Ontario) residents means that relatively more pressure will be put on this market, which constitutes more than 50% of B.C. tourism revenues at present. Vacations by B.C. residents will also have a higher relative proportion of items that are subject to the tax (e.g., domestic versus international flights). This is particularly problematic for the sector in its attempts to promote “import substitution” as a viable growth strategy.¹² (Ministry of Tourism, Culture and the Arts, Tourism Action Plan 2007).
- Consumer confidence in key markets is critical. Many of B.C.’s key markets, including the United States, Western Europe, Japan, Korea, and China are all suffering from weak consumer confidence. The return to stable economic conditions in these markets will be a critical factor influencing when and how the B.C. tourism industry returns to a strong growth position.
- High consumer price sensitivity, due to the ongoing effects of economic recession. Consumers will be seeking deals more than ever. As such, luxury and non-essential goods and services are expected to suffer disproportionately.
- Business travel should be relatively less impacted. However, sharp cutbacks in all government-related travel over the past two years has dampened the domestic business travel market.

¹¹ See for example (Geoffrey R Crouch, The Study of International Tourism Demand: A Review of Findings. *Journal of Travel Research*, Vol. 33, No. 1, 12-23 (1994).

¹² Import substitution is a key component of the Government of British Columbia Tourism Action Plan (2005) and also the Strategic Plan of the Canadian Tourism Commission. Efforts to promote intra-provincial travel have also been significantly buttressed by recent increases in marketing activities of regional and community destination marketing organizations in B.C.



5.0 HST IMPACTS ON TAXATION RATES – BY TOURISM PRODUCT SECTOR

The HST will have a different impact on tourism-related businesses. The following table provides an overview of these impacts.

Table 5.0 – Federal and Provincial Taxes Affecting Tourism Operations Currently and Subsequent to the Implementation of the HST (British Columbia)

	GST	PST*	Total	HST	Variance
Accommodation^a					
Hotels / Motels, Lodges	5%	8%	13%	12%	-1%
Campgrounds	5%	0%	5%	12%	+7%
RV Parks	5%	0%	5%	12%	+7%
Bed and Breakfasts	5%	0% / 8%	5% / 13%	12%	+7% / -1%
Guest-ranches	5%	0% / 8%	13%	12%	+7% / -1%
Hostels	5%	0% / 8%	5% / 13%	12%	+7% / -1%
Entertainment					
Attractions	5%	0%	5%	12%	+7%
Arts (Museums / Galleries / Theatres)	5%	0%	5%	12%	+7%
Recreation					
Adventure tourism	5%	0%	5%	12%	+7%
Ski / resorts (lift tickets only)	5%	0%	5%	12%	+7%
Golf (rounds only)	5%	0%	5%	12%	+7%
Travel Services (e.g., tour operators, wholesalers, travel agents)					
	5%	0%	5%	12%	+7%
Food and Beverage					
Restaurant Food & Beverage (non-alcohol)	5%	0%	5%	12%	+7%
Alcohol Sales ^b	5%	10% / 7%	15% / 12%	12%	-3% / 0%
Transportation					
Air (domestic and transborder)	5%	0%	5%	12%	+7%
Rail ^c	5%	0% / 7%	5%	12%	0% / +7%
Bus / Charter	5%	0%	5%	12%	+7%
Ferry (fares only)	0%	0%	0%	0%	0%
Cruise	5%	0%	5%	12%	+7%
Rental Cars ^d	5%	7%	5%	12%	0%

^a Accommodations with fewer than four (4) rooms are not subject to the eight (8) per cent hotel tax. Accommodations under \$25 in value are not subject to the Goods and Services Tax (GST). Accommodations such as lodges sold as part of a package do not typically charge the HST.

^b Depends on point of purchase. Government intends to mark-up wholesale liquor prices to negate potential tax savings.

^c Private sector operations are presently PST exempt whereas publicly-run entities such as VIA Rail are subject to PST.

^d Rental car rates are expected to lose a \$1.50 surcharge when HST is implemented.

The HST will result in an overall increase in taxation levels for sixteen (16) out of twenty (20) product sectors identified above in *Table 5.0*.



6.0 INPUT TAX CREDITS (ITCs) AND TOURISM

Perhaps the key benefit of shifting toward a Value-Added Tax (VAT) such as the HST is that business input purchases are not subject to the tax. For groups promoting HST in B.C., this is cited as the main reason for implementing the tax.

Tourism businesses will also receive some benefits from ITCs. However, input Tax Credits will be relatively insignificant for tourism-related businesses in both Ontario and British Columbia. This is due to tourism-related businesses being labour-intensive, with nearly 50% of total business costs for hotels and attractions being related to payroll, as Table 6.0 demonstrates. .

Table 6.0 – Expense Structure of Tourism Businesses (Ontario)¹³

Estimated Expense Structure of Selected Ontario Tourist Operations (as a Percentage of Total Expenditures)		
	Hotels	Attractions
Total Payroll Expenses	45%	48%
Food Cost	10%	6%
Other Direct Operating Expenses	15%	22%
Administrative and General Expenses	5%	6%
Sales and Marketing	5%	10%
Property Operations and Maintenance	4%	6%
Energy Costs	6%	4%
Other Direct Operating Expenses	9%	0%
Total Expenses	100%	100%

Input Tax Credits Analysis – Initial Estimates

In order to assess the expected impact of ITCs, COTA surveyed its membership from a variety of tourism-related product sectors, including accommodations, attractions, adventure tourism, ski resorts, and others. The overall tax impacts of HST were assessed based on the expected ITCs for products and services that are zero-rated, exempt, or subject to HST. (See *Appendix A* for survey form).

This information was also assessed against sector-wide data compiled as part of the Nature-Based Tourism Sector Analysis conducted in 2005 and updated in 2007.¹⁴

The analysis revealed that benefits associated with ITCs will range from practically non-existent for the attractions, arts & culture, and accommodations presently exempt from Hotel Room Tax (HRT) – particularly campgrounds and RV Parks. Some businesses that have relatively lower labour costs as a percentage of total operating expenses, such as some sectors of the adventure tourism and light recreation (e.g., golf / ski) will have limited ITCs, but these will nonetheless compensate for less than half of the 7% price increases associated with applying HST on their products and services.

For all product sectors evaluated, ITCs represented a gross cost structure savings of 3.34%, meaning that businesses may be able to reduce total operating expenses by 3.34% prior to adding an additional 7% to the majority of their products and services.

¹³ Tourism Industry Association of Ontario, op. cit., p. 11.

¹⁴ Tourism British Columbia, "Characteristics of the Nature-Based Tourism Sector in British Columbia," 2001 (updated 2005; 2007).



7.0 NET IMPACTS OF HST – INITIAL ANALYSIS

Estimating a “bottom line” net economic impact figures of HST for the entire B.C. tourism industry is extremely difficult to do with precision. However, with published statistics and commonly held assumptions, we can certainly develop a rough gauge of HST-related impacts for the following:

- Average impacts on prices
- Net tax changes for the entire industry
- Net impacts on overall tourism revenues in B.C.
- Associated impacts on tourism-related employment (direct and indirect)
- Associated impacts on tourism-derived revenues from government

HST Impacts on Tourism Pricing Structure

Using a survey of dozens of nearly fifty (50) businesses (see Appendix A) COTA has estimated the average impacts on the tourism pricing structure. This net price impact of HST represents the difference between the overall price impact (increase) across the tourism industry and the cost impact (negative) of Input Tax Credits (ITCs).¹⁵

Based on this preliminary analysis, we expect the HST to increase the average price of tourism-related products and services by 4.66%.

Net Taxation Impact of HST on B.C. Tourism Industry

Establishing the net taxation impact of HST can be undertaken by applying the net price impact of HST to overall tourism revenues for those products and services subject to the increased tax. Table 7.0 (below) provides an initial assessment based on the preceding analysis.

Table 7.0 Estimated Incremental Taxation on B.C. Tourism Industry from HST

1. Total B.C. tourism industry revenues - \$13.8 billion
2. Minus PST previously applied on products and services (i.e., no price increases)
 - a. Most accommodations
 - b. Liquor purchases
 - c. Some transportation services

Total value: ~\$6 billion¹⁶
3. Net HST Tax Impact = (HST impacted product sectors) X (average price impact)
$$= (\$13.8 - \$6 \text{ billion}) * 4.66\%$$

= \$363 million

¹⁵ It should be noted that there is also an expected decrease in the cost structure (and thus end consumer prices) associated with the removal of embedded PST on business cost inputs. However, with tourism business costs primarily associated with labour, professional services, and fuel, as per Table 6.0 (p. 9) it is expected that embedded PST savings will be negligible.

¹⁶ This is a rough, initial estimate based on BC Hotel Room Revenues, liquor sales, and select transportation service sales. Further analysis is required to determine this figure with greater certainty.



Assumptions:

The analysis does not consider potential ITC exclusions, such as the proposal to deny ITCs for businesses with greater than \$10 million in revenues. The analysis does not factor-in potential HST visitor rebates as part of the Foreign Convention Tour Incentive Program (FCTIP). Accommodations are included as a subset of the data compiled for specific businesses. (e.g., a sport-fishing company with transportation, accommodations, and guiding services has the accommodation component included in the analysis. Accommodations sold as part of a package (and thus subject to an additional 7% tax) were not accounted for in this analysis. This makes the average price impact figure (4.66%) relatively more conservative, as accommodations are stripped-out of calculation #2, in Table 7.0).

This figure appears to be consistent at an “order of magnitude” scale with the C.D. Howe Institute report estimate that HST would result in a net taxation increase on services of 285% under the HST, from \$391 million to \$1.11 billion, for a net increase of \$722 million.¹⁷

Net Tourism Revenue Impacts

Net tourism revenue impacts can be roughly deduced using the preceding analysis of HST sector applicability and published demand elasticity ratios.

Using an average¹⁸ price elasticity of demand (D_{ij}) range of $-1.5 > D_{ij} > -1.0$ the total HST-related revenue losses to tourism businesses would be:

Lower estimate revenue losses: \$363 million Upper estimate revenue losses: \$545 million
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Associated Tourism Job Impacts

Tourism employment figures for B.C. are published by B.C. Stats on an annual basis. As of 2008, there were 131,000 direct tourism jobs in British Columbia and 266,000 indirect jobs. Using existing employment to revenue ratios, this means that a net revenue loss of \$363 million to \$545 million would, *ceteris paribus*, result in:

Direct job losses: 3,446 to 5,174 jobs Total job losses (direct and indirect): 6,997 to 10,505 jobs
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Associated Tourism-Derived Government Revenues

Government revenues from tourism can be assessed based on published information from B.C. Stats, as well as information published by the Ontario Ministry of Tourism¹⁹ and other BC studies.²⁰ Using net revenue impact data above, the following government revenue impacts are expected:

Federal government revenue losses: \$52.6 to \$79.0 million Provincial government tax revenue losses: \$42.8 to \$64.3 million Local government tax revenue losses: \$9.4 to \$14.2 million Total government revenue losses: \$104.9 to \$157.5 million
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¹⁷ Ibid., p. 6. Table 1.

¹⁸ This range was established using data derived from Figure 1.0, p. 6, for long haul leisure travel (-1.0) and short haul leisure travel (-1.52).

¹⁹ For Ontario see http://www.tourism.gov.on.ca/english/research/quick_facts/index.html. For B.C., see Ministry of Tourism, Culture and the Arts Tourism Action Plan. The data for B.C. and Ontario revenue-to-tax ratios are similar, with Ontario provincial revenues equaling 11.8% of total tourism revenues, whereas the same figure for B.C. is 11.2%. For Ontario, federal tax revenues derived from tourism are 14.5% of total tourist expenditures, and municipal tax revenues are 2.6% of total tourist expenditures.

²⁰ E.g., see InterVISTAS Consulting (2006), op. cit.



8.0 SUMMARY OF FINDINGS AND IMPLICATIONS

The analysis and findings provide insights into how the HST will impact the B.C. tourism industry. These key factors and impacts are summarized below.

Table 8.0 – Summary of Findings and Considerations

1. HST will impact all tourism businesses, as visitors will be subject to the tax on many or most of their travel-related expenditures, which will result in fewer visitors overall.
2. Businesses / packages with relatively higher accommodations and international travel components will be relatively less impacted by HST.
3. Businesses that are relatively more labour intensive will be more impacted by HST.
4. Positive benefits of ITCs for transportation-related products and services will be offset by losses of ITCs on fuel (HST-exempt), one of the top input costs for these businesses.
5. The average price structure impact (increase) of HST on tourism businesses is estimated to be approximately 4.66%.
6. The net taxation increase for the tourism industry is expected to be approximately \$363 million.
7. Based on the analysis and published elasticity rates, we can expect a decrease in tourism revenues of roughly \$363 million to \$545 million.
8. Tourism-derived tax revenue declines for all levels of government would likely be in the range of \$105 million to \$157 million.²¹
9. Tourism-related job losses would be in the range of 3,400 to 5,200 direct jobs, and 7,000 to 10,500 total jobs (direct and indirect).²²
10. Short-haul / domestic travel should be more heavily impacted than long-haul travel, due to the higher proportion of domestically produced goods and services subject to the HST (e.g., domestic flights/ vehicle rentals). Short-haul travel will also be more impacted due to higher consumer awareness of price increases due to HST, and higher consumer price elasticity of demand for short-haul travel relative to long-haul travel. This will exacerbate B.C.'s ballooning international travel deficit, driving the lucrative domestic market to other more affordable destinations. This could also prove to be a significant impediment to rural tourism development opportunities.
11. As a result of the ongoing recession, consumers can be expected to be strongly (negatively) responsive to price increases.
12. Most businesses have little ability to absorb additional costs in their pricing, as most have undertaken major cost cutting measures in response to the recession and dampened demand from B.C.'s major international markets (particularly the U.S. but also Japan and now most of Asia-Pacific and Europe).
13. The provincial government goal of increasing tourism revenues to \$18 billion by 2015 will be jeopardized by introduction of the tax without significant mitigation measures for tourism put in place.

²¹ Provincial government data (B.C. Stats, Tourism Action Plan) indicates that for every dollar spent on tourism products and services, roughly 10 cents is returned to provincial government coffers.

²² This assumes that job losses correspond at a consistent rate with revenue declines based on current employment and revenue ratios. A more likely scenario would be for businesses to cut a disproportionate amount of costs through staffing reductions.



PART 2: TOURISM INDUSTRY MITIGATION RECOMMENDATIONS

A variety of groups have recognized that the HST will have a negative impact on the B.C. tourism industry, including the Government of British Columbia, the Business Council of B.C., and the B.C. Chamber of Commerce.

"[HST] is a significant change and government recognizes that some will be asked to make significant adjustments. Government will work to help mitigate negative impacts."

- Government of British Columbia, Throne Speech, August 25, 2009

"The Chamber welcomes the introduction of mitigation measures... this shows government is listening to concerns about the HST and is acting where appropriate. We believe government should continue to work with impacted sectors such as homebuilding, tourism and foods services to look at mitigating measures for these critical sectors."

- BC Chamber of Commerce, BC Budget Update Press Release, Sept. 1, 2009

"We recommend that the province continue to work with the Council of Tourism Associations to explore measures that can assist tourism operators by lowering government-imposed costs, fees and regulatory requirements."

- Business Council of B.C., official submission to Select Standing Committee on Finance and Government Services, Sept. 28, 2009

Guiding Principles for Recommendations

COTA has consulted widely on potential mitigation measures relating to the HST. An HST Tourism Working Group comprising more than forty members of the COTA Council has held seven meetings to discuss the issue, and have considered a variety of mitigation options. The HST Tourism Working Group has established the following principles for mitigation:

1. The HST should not have significant negative impacts on the B.C. tourism industry, one of the province's largest and most important economic sectors.
2. Mitigation should be targeted as broadly as possible across the entire tourism industry, as tourism activities are based on a range of activities that incrementally and collectively constitute the overall tourist pricing system.
3. While industry representatives are seeking permanent mitigation measures, the urgency of immediate mitigation is reinforced by the exceptional challenges facing the industry at present.
4. The federal government "transition fund" of \$1.6 billion should be directed at mitigating actual transitional issues for businesses and consumers, not returned to provincial general revenues.

B.C. Tourism Industry Initial HST Recommendations – September 24, 2009

Under the direction of the HST Tourism Working Group, on September 24, 2009 COTA made an initial submission to the Ministers of Finance with the Government of Canada and the Government of British Columbia regarding HST. These recommendations were as follows:

- a. Delay or phase-in the implementation over a period of two years, enabling tourism businesses to adjust their pricing, fulfill the terms of existing contracts, and prepare to absorb the additional costs where possible.
- b. Raise the exemption limit above 5% while maintaining the full \$1.6 billion transfer to the Province of BC, providing the provincial government with flexibility to mitigate impacts on negatively impacted sectors.



- c. Ensure that the Foreign Convention and Tour Incentive Program (FCTIP) makes eligible the full twelve (12) per cent HST for foreign visitor rebates.

The Government of British Columbia has repeatedly stated to tourism industry representatives and other stakeholders that any HST mitigation measures likely to be introduced will be outside the formal HST architecture (e.g., not formal exemptions as outlined in the Canada-BC MOA and the CITCA). In response to this, COTA and its members have considered a wide variety of potential mitigation options that would be targeted, timely, and cost effective, including taxation and regulatory measures, marketing expenditures, tourism development expenditures, and other measures.

Mitigation Recommendations to the Government of BC

COTA and its members wish to engage the Government of BC directly on potential measures in order to develop an HST mitigation suite that fairly reflects the scale and scope of impacts of HST on our critical economic sector and does not disproportionately impact tourism at this critical time.

COTA and its members recommend the development of a joint industry-government working group to review relevant HST-related data, assess potential mitigation measures, and develop a coordinated implementation plan. Potential mitigation measures identified in COTA's initial consultations with members include the following:

- Establish Income Tax Credits for labour for tourism-related businesses, at least for a three-year HST transition period (FY 2010, 2011, 2012). This could be modeled on effective programs already in place.
- Maintain full eligibility for Input Tax Credits (ITCs) for all tourism-related businesses (i.e., eliminate the \$10 million revenue cap for ITC eligibility).
- Work with Ottawa to ensure that the Foreign Convention and Tour Incentive Program (FCTIP) makes eligible the full twelve (12) per cent HST for foreign visitor rebates, re-introduce rebates for individuals, and streamline the application process with a particular emphasis on re-enabling point-of-sale rebates.
- Provide rebates or exemptions for tourism services provided after July 1, 2010 and for which PST was not charged, if the contract was signed before October 14, 2009 (the HST Transitional Rules announcement date).
- Ensure the provincial marketing system (provincial, regional, and community) retains the following properties:
 - Funding is predictable and performance-based, preferably as a fixed percentage of industry-derived revenues.
 - Funding levels remain at least on par with those in existence prior to the announcement of HST.
 - Marketing agencies at all three levels should continue to maximize their effectiveness and accountability by observing industry-led professional standards and governance best practices.



APPENDIX A: Cost and Price Structure Analysis

Based on the 49 returned surveys, the average net price structure impact of HST on tourism-related businesses was 4.66%.

Methodology

In total, 49 businesses completed the following chart in order to calculate the net impact on the business price structure. Individual businesses extrapolated the net pricing structure impacts by:

1. Calculating the total percentage of their total suite of products and services to be subject to a 7% tax increase due to HST
2. Assessing the impact of this increase on total business costs.
3. Calculating the amount of Input Tax Credits (ITCs) based on the parameters outlined in the Canada-B.C. Memorandum of Agreement

The following table was utilized to estimate the net price structure impact of HST:

HST NET PRICE IMPACT CALCULATOR - FICTITIOUS EXAMPLE

Revenue	\$10,000,000	
% revenue currently charging PST	15%	
% revenue not currently charging PST	85%	
7% increase in tax on sales		\$595,000.00
Total additional tax on sales		\$595,000.00
Expenses:		
Wages	44%	no PST
Cost of goods	14%	no PST
Bank	4.0%	no PST
Fuel	3.5%	no HST rebates
Insurance	1.7%	no PST
Property taxes	0.8%	no PST
Management fees	0.7%	no PST
Hydro	2.0%	(14,000.00)
Leasing	3.4%	(23,800.00)
Parts	1.5%	(10,500.00)
Supplies	2.2%	(15,400.00)
Uniforms	0.8%	(5,600.00)
Advertising	0.8%	(5,600.00)
Propane	0.7%	(4,900.00)
Contractors	0.7%	(4,900.00)
Other	9%	(63,000.00)
Profit before tax	10%	
Maximum pst savings	100%	(133,700.00)
Capital improvements	\$120,000	(8,400.00)
Total maximum PST savings		(142,100.00)
Net cost to customers of HST		452,900.00
NET IMPACT OF HST ON PRICES:		4.53%



Adventure Tourism Sector Analysis

Summary data for the B.C. “adventure tourism” sector can be extrapolated from the 2007 Tourism BC report “Composition of the Nature-Based Tourism Sector in British Columbia.”

The net impact of this analysis was 3.19% price impact, including all accommodations. This analysis is under further review by COTA and its members.

For the purposes of this analysis, it is notable that the figures for the adventure tourism sector corroborate those of the resort sector. On net this provides some assurance of data validity, as the broader adventure tourism sector comprises most major product sectors of the B.C. tourism industry, including those products and services that will attract an additional 7% tax and those that will not. These include attractions, accommodations, transportation services, guiding services, and others.