

THE RE-INTRODUCTION OF THE GST VISITOR REBATE PROGRAM

The provincial government has set an ambitious target for the tourism industry of doubling tourism revenue to the province by 2015. The ability of the sector to meet this goal has been significantly impacted by the federal government's elimination of the GST Visitor Rebate Program that will come into force on April 1, 2007.

In Budget 2006 the federal government committed to eliminate \$1 billion in savings from programs and initiatives that were deemed to no longer effective. To achieve these savings the government identified four key areas; value for money, unused funds, efficiency, and non-core programs. Under these categories the federal government cut or reduced nearly 70 programs across government.

The Chamber has been consistent in its call for government to undertake a review of all program spending to ensure that taxpayers dollars are spent as effectively and efficiently as possible. With this in mind the Chamber welcomed the federal government's commitment to *"ensure funds are only approved if they are actually needed to achieve measurable results in a way that is effective and provides value for money on behalf of Canadians."*

Within these savings the government eliminated the Visitor Rebate Program under the auspices of not being value for money. The definition provided for this category stated;

"Funding for third parties to further their interests or programs that are not effective, do not achieve results or are being re-focused or targeted for improved effectiveness."

The governments decision to eliminate this program is based on the premise that there is only a 3% take up of the program by foreign visitors. This assessment appears to have been based on the number of rebates processed by the Visitor Rebate Centre and duty free shops.

The Chamber would agree that a 3% take up on retail purchases calls into question the value of the program as a mechanism for increasing spending by foreign visitor. However, the Chamber believes that the governments analysis is flawed and seriously underestimates the true impact of the program by ignoring the programs value in terms of Canadian tour packages sold in foreign markets and more importantly the role the program plays in attracting foreign conventions to Canada.

The program was developed in the early 1990's to recognize tourism's role as an export industry. The recognition of the tourism as an attractor of foreign currency revenue led to the extension of the exemption of value added taxes that was enjoyed by other export industries.

The recognition of tourism as an export industry, and the subsequent creation of a rebate program, has become a feature of many of Canada's competitor jurisdictions, indeed, virtually all OECD countries, including all EU states, offer rebate programs. In recent months many of these countries have taken steps to actually expand their rebate program.

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With the elimination of this program Canada will be the ONLY country among the top twenty (measured by tourist arrivals) that does not provide a rebate program for international visitors. This will place Canada at a significant competitive disadvantage.

Under the terms of the program all foreign visitors to Canada were eligible for a rebate on the GST charged on certain retail products exported from the country and on accommodation while visiting Canada. In addition the program also covered non-resident convention expenses in Canada.

Under the program tourism operators were able to assist the visitor in claiming the rebate on accommodations that are part of a package of services, such as an organized tour, vacation package or convention, thus making the tax invisible to the visitor. Now companies marketing themselves abroad will either have to increase their price by 6% to cover the tax, thereby rendering themselves less competitive in an increasingly aggressive sector. Alternatively the operator can chose not to increase their price and will therefore have to absorb the cost themselves. Indeed, given that many companies have already taken bookings and marketed a price in overseas markets they will have no choice but to pay the tax themselves.

It seems evident that the government did not take these implications into consideration when reaching its decision on this program. This was not helped by the fact that there was no consultation with the industry prior to the announcement. Had this consultation occurred it would have been evident that the economic activity stimulated by packages and conventions is significant and would be directly threatened by this move.

In BC alone an estimated 1.42 million visitors attend meetings and conventions every year. These visitors spend over \$570 million collateral spending in practically every sector of the economy and every region of the province.

Tourism has rightly been seen as a significant growth opportunity for Canada and for BC. We have a market ready product and are seen as a friendly and welcoming destination that provides real opportunities for communities across the province. However our ability to take advantage of this opportunity will be based on our ability to compete in an increasingly competitive global environment.

Given that the industry is already facing a number of significant challenges such as the value of the dollar, rising fuel costs, border delays, confusion over identification documents, as well as strong competition that is impacting visitations from its primary market, the US. With this in mind the industry can ill afford the loss of competitiveness that will result from the elimination of the GST Visitor Rebate Program.

THE CHAMBER RECOMMENDS

That the federal government:

immediately re-introduce the Visitor Rebate Program for tour packages sold in foreign markets and foreign conventions held in Canada.

work with the tourism industry to review the effectiveness of the program on retail purchases to determine the programs effectiveness