



October 12, 2006

Honourable Jim Flaherty  
Minister of Finance, Government of Canada  
HOUSE OF COMMONS  
Wellington Street  
Ottawa, Ontario K1A 0A6

Dear Minister Flaherty;

As the representative body of the BC tourism industry, we are writing to express our deep concern over the proposed elimination of the GST rebate program.

This initiative has been proposed without consultation with the industry that will be most affected by the change. If consultation had taken place, it would have been apparent that the move was ill-advised based on the unintended economic consequences to one of Canada's largest industries and ultimately to the Canadian economy.

Although the government analysis of the issue is that there is only 3% take up by individuals claiming the rebate, this number is very misleading. As most claimants are claiming on behalf of a couple or family, the number is closer to 11%.

However, the real damage will result from the reaction of foreign tour operators and convention or meeting planners.

Allow us to give you a practical example:

"Acme" Tour Company is in the business of bringing in visitors from the UK every summer through arrangements made with UK-based tour companies who have similar arrangements with other global destinations. Each one of the tour groups has about 26 individuals, and the price levied by the Canadian tour company (excluding air travel from the UK) is approximately \$1368 per person for an 8-day tour of Canada. With the current GST rebate program, Acme is able to facilitate the tax rebate process for the visitor applied to accommodations, resulting in the customer not having to pay this tax and having to go through the considerable trouble of claiming it back. Therefore to the visitor, and for accommodations only, this tax is invisible.

The overall spending for the tour alone, by each tour group, is therefore about \$35,572 (including the non-accommodations GST) for the 8-day stay in Canada. However, while in Canada for these 8 days, the average visitor eats and drinks in restaurants, buys gifts for people back home, goes to attractions, and purchases personal items. This adds an average of \$150 to the total spending by each individual per day. For the entire 8 days, this comes to \$1200 per person or \$31,200 for the group for the entire 8 days. Therefore, the conservative estimate of spending by that group for the entire trip to Canada is about \$66,772.

Acme Tour Company will bring approximately 30 such groups to Canada over the course of one summer. Total spending stimulated by that tour company in one year is conservatively

estimated at \$2,003,160. As there are many tour companies of varying sizes also doing the same thing, total spending by foreign visitors stimulated by these groups is many times that amount.

However, Acme Tour Company is beginning to notice that with each passing year, fewer UK tour companies are booking their clients into Canada. The reason given by these operators is that Canada is becoming more expensive – flight costs are increasing due to extra fees and charges for security charges and fuel and the pound is losing value against the Canadian dollar. Other countries are aggressively competing for the attention of the same client.

Therefore over the years, the tour company has been forced to reduce costs. However, the tour company's own costs of operation continue to escalate.

Without warning, the Canadian government announces the elimination of the federal tax rebate. Since the rebated GST to date has been approximately 3% of the cost of the tour, the operator becomes concerned that this cost, heretofore hidden from the UK tour companies and the clients will now have to be paid. This is an additional cost: the operator has two choices; to either pay the increase out of the profits or to increase the selling price of the tour.

In the short term, the tour operator printed brochures and rate sheets which have been sent to the UK in January 2006 for tours that will happen up to 18 months in the future. The government has said that it will honour written agreements made before September 25, if the tour begins prior to April 9, 2009.

However, for agreements made with UK tour companies after September 25, 2006 for the summer of 2007, it appears that the Canadian government will allow the rebate only if the tour begins before April 1, 2007. Unfortunately for the tour operator (and most Canadian tour operators), his season begins April 1, therefore the tour operator has no choice but to take the increase out of profits.

In the long term, the tour company might decide to continue to absorb the costs rather than raise the price of the tour and lose ground against its global competitors for the UK tour market. This means that to stay in business, it will have to cut costs. One of the few costs that it can cut is in staffing.

Alternatively, the cost of coming to Canada continues to escalate, for after April 2007, Acme Tour Company has been forced to raise prices to cover the un-rebated taxes. The UK tour companies, who have a whole world of destinations to choose from (destinations aggressively clamoring for their business), make plans to visit less expensive destinations. With an extremely slim profit margin, Acme Tour Company may go out of business.

As a result, the Canadian government not only loses the now un-rebated 3% accommodation taxes, it loses the taxes associated with the visitors' spending in restaurants, in retail outlets and in attractions over the course of this and future summer seasons. There are other costs to the country in terms of lost jobs both from tour companies and associated businesses.

Other revenue lost is from visitors who normally take advantage of the fact that they are already in Canada to stay on beyond the tour, renting cars, staying in hotels and eating in restaurants while here. This spending is incremental to that incurred by the tour company, but is made possible by the fact that the visitor is already in the country.

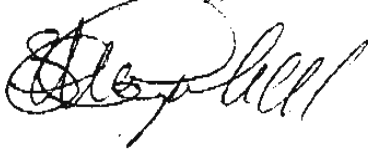
This scenario applies to many small tour companies dealing with other tour companies from all over the world, multiplying the cost to Canada of many millions of dollars.

Minister, we have heard from other BC touring sectors such as those dealing with Japanese touring companies who are predicting that, as a sector, the impact on the bottom line for major wholesalers would be anywhere from \$6.5 to \$9.5 million based on 2005 business results, if the loss of rebate cannot be passed to their clients. However, the touring sector is one of many that will be affected by this. We have heard expressions of great concern from sectors such as meetings/conventions, heli-skiing, guide outfitters, transportation and others.

Minister Flaherty, we call upon you to re-visit this course of action and change the government's plans to eliminate the Visitor GST rebate program. No such move should be made without a thorough cost benefit analysis and consultation with the affected industry – one that is worth \$67 billion in annual revenue to the country.

Thank you for your attention to this important issue, affecting all Canadians.

Yours sincerely,



C. Michael Campbell  
President

- cc. Honourable Carol Skelton, Minister of National Revenue Canada
- John Baird, President of Treasury Board Canada
- Honourable Maxime Bernier, Minister of Industry Canada
- Honourable Gordon Campbell, Premier of British Columbia
- Honourable Stan Hagen, BC Minister of Tourism, Sport and the Arts
- Honourable Stockwell Day, Minister of Public Safety Canada
- Honourable Chuck Strahl, Minister of Agriculture and Agri-food Canada
- Honourable David Emerson, Minister of International Trade Canada



October 20, 2006

Honourable Jim Flaherty  
Minister of Finance, Government of Canada  
HOUSE OF COMMONS  
Wellington Street  
Ottawa, Ontario K1A 0A6

Dear Minister Flaherty;

This is a follow-up letter to the one sent to you on October 12, 2006 from the Council of Tourism Associations of BC.

As the representative body of the BC tourism industry, we are deeply concerned over the proposed elimination of the GST Visitors' Rebate Program.

The attached document, *A BC Business Case for Maintaining the Canadian Visitor Rebate Program* (October 17, 2006) is a more detailed analysis of how a typical small tour operator will be affected should the GST Visitors Rebate Program (GSTVRP) be eliminated. This was referenced in our initial letter to you.

The analysis shows that the tour company, which is typical of many tour companies in British Columbia and Canada, has two options once the GST VRP is eliminated. One is to absorb the added costs within the operation and the other is to pass the added cost on to the consumer. In this case study, the first option results in an annual loss in net income of 81%. The second option represents a loss in net income of 66%, and the prospect of declining interest in this higher cost product by foreign tour operators with whom the Canadian tour operator is contracting to bring tour groups to Canada.

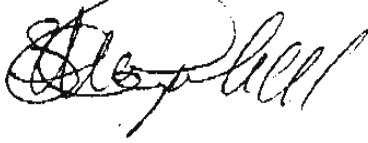
In the final analysis, in the current situation in which the GST is rebated for a portion of the tour, the net contribution of the tour company (assessed in terms of net income, as well as GST and corporate income taxes) to the Canadian economy is \$124,000 per year. If, after the Visitors' Rebate Program is discontinued, the operator absorbs the increase, the net benefit to the Canadian economy has not changed. If, after the GSTVRP is discontinued, the operator passes the costs on to the consumer, the net benefit to Canadians is reduced to \$109,684 or by 12%.

Not included in this analysis are the losses to the Canadian economy as a result of decreased personal income tax due to lost jobs, both within the tour company and as a result of the loss of collateral spending in the restaurants, attractions, retail outlets, etc. that currently benefit from spending by the tour operator's clients while in Canada – either during the tour, before or after it.

It is our sincere hope that you will consider the impact upon small businesses such as this, which make up over 90% of Canada's tourism industry, prior to making a final decision around the elimination of the GST Visitors' Rebate Program.

We are ready and willing to discuss this further with you or Ministry officials, should you be interested in such a discussion.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C. Michael Campbell', written in a cursive style.

C. Michael Campbell  
President

cc: Members, Cabinet of the Canadian Government  
Honourable Gordon Campbell, Premier of British Columbia  
Honourable Stan Hagen, BC Minister of Tourism Sport and the Arts  
Members, Council of Tourism Associations of British Columbia  
Members, Board of the Tourism Industry Association of Canada  
Members, Board of Tourism British Columbia  
Members, Province and Territory Tourism Industry Associations

Enclosure

# **A BC Business Case for Maintaining the Canadian GST Visitor Rebate Program**

**Council of Tourism Associations of BC  
October 17, 2006**



**Council of Tourism Associations**  
VOICE OF THE BC TOURISM INDUSTRY

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# **A BC Business Case for Maintaining the Canadian Visitor Rebate Program**

**Council of Tourism Associations of British Columbia  
October 17, 2006**

## **Executive Summary**

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The following analysis uses the example of a typical British Columbia –based tour company to outline the unintended consequences of the Canadian Government’s proposal to eliminate the Visitors’ Rebate Program (VRP).

The analysis shows that the tour company, which is typical of many tour companies in British Columbia and Canada, has two options once the VRP is eliminated. One is to absorb the added costs within the operation and the other is to pass the added cost on to the consumer. In this case study, the first option results in an annual loss in net income of 81%. The second option represents a loss in net income of 66%, and the prospect of declining interest in this higher cost product by foreign tour operators with whom the Canadian tour operator is contracting to bring tour groups to Canada.

In the final analysis, in the current situation in which the GST is rebated for a portion of the tour, the net contribution of the tour company (assessed in terms of net income, as well as GST and corporate income taxes) to the Canadian economy is \$124,000 per year. If, after the Visitors’ Rebate Program is discontinued, the operator absorbs the increase, the net benefit to the Canadian economy has not changed. If, after the VRP is discontinued, the operator passes the costs on to the consumer, the net benefit to Canadians is reduced to \$109,684 or by 12%.

Not included in this analysis are the losses to the Canadian economy as a result of decreased personal income tax due to lost jobs, both within the tour company and as a result of the loss of collateral spending in the restaurants, attractions, retail outlets, etc. that currently benefit from spending by the tour operator’s clients while in Canada – either during the tour, before or after it.

## **Introduction**

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The Council of Tourism Associations of British Columbia is BC tourism’s industry association. With a membership of over 40 tourism organizations and some 18 major businesses in the province, COTA is representative of an industry of 18,000 tourism businesses employing 117,000 British Columbians. Visitor spending in the province was \$9.8 billion in 2005 and is expected to exceed \$10 billion in 2006.

This paper focuses on one aspect of government policy – the GST rebate for foreign visitors and the current federal government proposal to eliminate it.

## **Significant Goals of the BC Industry**

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BC’s Premier, Gordon Campbell, has set a goal for the industry to increase visitor spending in the province to \$18 billion by 2015. To help accomplish this, the government of BC has focused on examining and improving the enabling environment in which the industry operates, creating new meeting infrastructure and upgrading the transportation network. The government of BC is also a partner in a long-range planning exercise being undertaken by COTA on behalf of the industry, known as the Foresight Project.

A significant influencer of the on-going success of the industry is the up-coming 2010 Olympic Games. This event, which will impact all of Canada, places significant pressure upon the industry to ensure that it

has a range of products available at a sufficiently high level of quality to service the needs and expectations of both the Olympic visitor and the potential global visitor who will experience BC through the eyes of the television camera, before, during and after the event. The long-range economic value of the games is greatly dependent on the economic spin-off to tourism.

### **Other Tourism “Influencers”**

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The success of any region’s tourism industry is greatly impacted by a range of influencers. In Canada, these include:

- Shifting global markets and changing expectations of the visitor
- Environmental issues, such as climate change, the integrity of the scenery and large-scale environmental disasters
- The economies of Canada, the US and key overseas markets, and costs incurred in accessing Canada as a destination, as a result of the value of the Canadian dollar, gas prices and other factors
- The availability of a skilled and effective workforce
- Adequate resources to market Canadian tourism at all levels
- Government policy in establishing a supportive regulatory environment and infrastructure

### **Assumptions Respecting the Proposed Changes to the Visitors’ Rebate Program**

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Currently, all foreign visitors to Canada are eligible for a rebate on the GST charged on certain retail products exported from the country and on accommodation while visiting Canada. Tourism operators have to date been 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. As accommodation charges account for more than 50% of the price of most packages, the visitor realized an unseen saving of approximately 3%.

As of September 25, 2006, the Government of Canada is proposing to eliminate all of the federal rebates that are covered under the Visitors’ Rebate Program. This includes the rebate for goods exported by non-resident consumers, the rebates for visitors’ short term accommodation in Canada, and the rebates in respect of non-resident convention expenses in Canada. GST/HST rebates for commercial exports, which are not part of the Visitors’ Rebate Program, will continue as before.

For tour operators, a rebate would still be available in respect of accommodation included in the tour package that starts before April 01, 2007. The GST rebate would continue to be available in respect of tour packages purchased under a written agreement entered into before Announcement Date if the first night of the accommodation starts before April 01, 2009.

For convention planners, under the proposed changes non-residents would be required to pay GST on the full admission price to a Canadian convention after March 31, 2007. Admissions to foreign conventions will continue to be exempt from GST charges. The rebate for sponsors and organizers of foreign conventions is proposed to be eliminated. The rebate for non-resident exhibitors is proposed to be eliminated.<sup>1</sup>

The effect on tourism operators will be increased costs equal to approximately 3% of the package.

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<sup>1</sup> <http://www.cra-arc.gc.ca/tax/nonresidents/visitors/qa-e.html>

## **Assertions of this Paper**

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In making this decision, the Government of Canada formulated the following erroneous assumptions:

### **1. Take up of the program by individuals exiting the country is only 3%.**

Claiming the GST rebate upon exiting the country is usually done by one family member on behalf of an entire family. For example, a father on whose credit card the majority of expenses occurred, will claim on behalf of the family. If this is taken into account, the rate of claim is closer to 11%. This is further exasperated by the GST claiming process that has become extremely complex and burdensome for the traveller in recent years and discourages claimants.

Even more importantly, this number does not take into account that tourism packages include as much as 75% of foreign visitors. As operators submit the claims on behalf of their clients, take up in this market is 100%.

### **2. There will be minimal impact on the Canadian tourism industry.**

Initial estimates of activity in claiming the rebate appear to be limited to the number of claimants processed at the Visitor Rebate Center in PEI and through Duty Free Shops. The estimates do not appear to take into account the claims processed by tourism operators and meeting planners offering packages to foreign visitors.

Relative to this, the estimates do not appear to take the following economic impact factors into account:

- i. Economic activity stimulated by the tourism package in terms of collateral spending, such as restaurant meals, gifts and souvenirs, tickets to attractions and events, etc. and the potential loss in income, corporate and value-added taxes that will result from decreased spending in these areas;
- ii. The impact of expected decreases in customers resulting from the inability of the tourism operator to continue to offer competitive prices in a highly price-sensitive and competitive global environment – especially in light of the rising Canadian dollar, high fuel prices and US/Canada border issues;
- iii. The impact on the actual viability of the tourism business and the attendant loss in income, corporate and value-added taxes to the Canadian government that would result from business foreclosures as a result of this decision.
- iv. The breadth of tourism operations impacted by the change, including, but not limited to meeting planners, tour operators, ski resorts, heli-ski operations, fishing resorts, guide outfitters and accommodations.

### **3. Tourism is not an export industry and therefore not exempt from value-added taxes.**

The GST Rebate program was developed in the early 1990s in recognition of tourism's role as an export industry. Traditional exports are Canadian goods (also called commodities) that are shipped to markets in other countries. Tourism is no different: the consumer travels to Canada to purchase the product – the “Canadian” tourism experience – here. The result is foreign currencies being used to purchase Canadian products – which is why tourism is considered an export industry by Statistics Canada.

Visitor rebate programs are in place in many OECD countries that are Canada's competitors, such as Australia, Korea, Mexico as well as Europe and the UK. This move places Canadian tourism operators at a distinct competitive disadvantage.

**4. The impact to the Canadian government is a saving of \$78 million dollars.**

The savings to the Government of Canada, estimated at \$78 *million* dollars have not been adequately assessed against the negative impact on an industry responsible for \$62.7 *billion* in visitor spending.

A detailed impact assessment on the long and short-term effects of the elimination of the GST rebate for foreign visitors on Canada's tourism industry must be undertaken in cooperation with the tourism industry. The case study (below) is an example of such an assessment.

Tourism operators (including meeting planners), faced with the dilemma of either increasing their prices by 3% or reducing their profits by 3% will be affected by the following:

1. Potential loss of appeal to foreign tour or meeting planners and of the fully independent traveller (FIT) of the Canadian product *already* considered "pricey" due to high costs of transportation and other products due to fuel and insurance surcharges, excise taxes, fees, etc.
2. An already slim profit margin, out of which fixed costs related to staffing, marketing and overhead are taken, leaving little for product upgrading;
3. The potential of business loss or failure due to the erosion of the bottom line.

**A BC Business Case Study**

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The following situation is fictitious but developed using real figures from a real BC operation. It deals with a typical small chartered tour service, based in British Columbia. The owners, husband and wife, are the only staff members. This is by no means the only sector affected by the proposal to eliminate the rebate, but it is representative of the extent of the impact of the decision.

"Acme" Tour Company is in the business of bringing in visitors from the UK every summer through arrangements made with UK-based tour companies who have similar arrangements with other global destinations. Each one of the tour groups has about 26 individuals, and the cost levied by the Canadian tour company (excluding air travel from the UK) is approximately \$1368 per person for an 8-day tour of Canada. With the current GST rebate program, Acme is able to facilitate the tax rebate process for the visitor applied to accommodations, resulting in the customer not having to pay this tax and having to go through the considerable trouble of claiming it back. Therefore to the visitor, and for accommodations only, this tax is invisible.

The overall spending for the tour alone, by each tour group, is therefore about \$35,572 (including GST for non-rebated components of the tour) for the 8-day stay in Canada. However, while in Canada for these 8 days, the average visitor eats in restaurants, enjoys cocktails each evening, buys gifts for people back home, goes to attractions and purchases personal items. Market studies estimate that this adds an average of \$150 to the total spending by each individual per day. For the entire 8 days, this comes to \$1200 per person or \$31,200 for the group for the entire 8 days. Therefore, the conservative estimate of spending by that group for the entire trip to Canada is about \$66,772.

Acme Tour Company will bring approximately 30 such groups to Canada over the course of one summer. Total spending stimulated by that tour company in one year is conservatively estimated at \$2,003,160. As there are many tour companies of varying sizes also doing the same thing, total spending by foreign visitors stimulated by these groups is many times that amount.

However, Acme Tour Company is beginning to notice that with each passing year, fewer UK tour companies are booking their clients into Canada. The reason given by these operators is that Canada is becoming more expensive – flight costs are increasing due to extra costs associated with security charges

and fuel, and the pound is losing value against the Canadian dollar. Other countries are aggressively competing for the attention of the same client.

Therefore over the years, the tour company has been forced to reduce costs. However, the tour company's own costs of operation continue to escalate.

Without warning, the Canadian government announced the elimination of the federal tax rebate. Since the rebated GST to date has been approximately 3% of the cost of the tour, the operator becomes concerned that this cost, heretofore hidden from the UK tour companies and the clients will now have to be paid. This is an additional cost: the operator has two choices; to either pay the increase out of the profits or to increase the selling price of the tour.

In the short term, the tour operator printed brochures and rate sheets which have been sent to the UK in January 2006 for tours that will happen up to 18 months in the future. The government has said that it will honour written agreements made before September 25, 2006 if the tour begins prior to April 9, 2009.

However, for agreements made with UK tour companies after September 25, 2006 for the summer of 2007, it appears that the Canadian government will allow the rebate only if the tour begins before April 1, 2007. Unfortunately for the tour operator (and most Canadian tour operators), his season begins April 1, therefore the tour operator has no choice but to take the increase out of profits.

For the long term, the tour company assesses its two options.

One option is to absorb the costs rather than raise the price of the tour and lose ground against its global competitors for the UK tour market.

In this case the company takes the hit in its bottom line. After all taxes, including corporate income tax, the operator experiences an 81% decrease in net income.

The other option is to raise prices to cover the un-rebated taxes. The UK tour companies, who have a whole world of destinations to choose from (destinations aggressively clamoring for their business), make plans to visit less expensive destinations. This results in a loss of 20% in the number of clients taking part in the Canadian tour operators business. Acme Tour Company experiences a loss of 66% in net income in the first year, with the prospect of business continuing to erode over time. If other Canadian tour companies do not also raise prices, this operator will be priced out of the market altogether.

As a result, the Canadian government not only loses the now un-rebated 3% accommodation taxes, it loses the taxes associated with the visitors' spending in restaurants, in retail outlets and in attractions over the course of this and future summer seasons. It loses the associated gains from visitors who might have taken advantage of the fact that they are already in Canada to stay on beyond the tour, renting cars, staying in hotels and eating in restaurants while here.

There are other costs to the country in terms of lost jobs and lost income taxes both from the tour company and the associated businesses.

In the final analysis (see Appendix 1), in the current situation in which the GST is rebated for a portion of the tour, the net contribution of the tour company to the economy is \$124,000 per year. If, after the Visitors' Rebate Program is discontinued, the operator absorbs the increase, the net benefit to the economy has not changed. If, after the VRP is discontinued, the operator passes the costs on to the consumer, the net benefit is reduced to \$109,684 or by 12%.

## **Recommendations for Action**

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1. The Government of Canada is in a position to foster the development of its \$62.7 billion tourism industry, thus enriching the lives of all Canadians through the \$15 billion in taxation revenue and quality of life the industry provides. As the proposed changes to the GST Rebate Program will negatively affect the health of this important sector, the BC tourism industry respectfully requests that the Government of Canada reconsider its decision to cancel the Visitor Rebate Program
2. Further, the Government of Canada may further foster the development of the tourism industry by extending the Visitor Rebate Program to all forms of transportation, including all ground transportation, included in an organized tour, as all are necessary parts of the visitor's "continuous journey".
3. That the tourism industry be considered an active partner with the Canadian government and as such is privy to consultations prior to future actions potentially affecting the industry's viability and competitiveness.

## Appendix: Financial Analysis of Acme Tour Company

The following analysis is based on Acme Tour Company, which though fictitious, is based on real numbers by real operators.

It shows that the real benefit to the Canadian economy is either nil (when the operator absorbs the cost and reduces income) or negative (when the operator passes the costs on to clients, but loses clients).

### 1. Current Situation (prior to loss of VRP):

Acme Tour Company conducts 30 tours annually. The average length of the tour while in Canada is 8 days, involving an average of 26 clients. The price charged to the overseas tour operator is \$1368 after applicable taxes, excluding inbound airfare. The average cost of a hotel room is \$200 (high season) with double occupancy. The GST on the hotel room is rebated by the tour operator, and is therefore not included in the price of the tour. While in Canada, each tourist spends an average of \$150 per day on meals, tickets, gifts and souvenirs.

In this case the net gain to the Canadian economy (not including income taxes) is \$124,675.

Base Case (before GST rebate is revoked)		Per Person	Per Tour	Per Annum	
Sales Price (before tax)		\$1,336	\$34,736	\$1,042,080	(A)
GST on charter tour all components	6.00%	\$80	\$2,084	\$62,525	
Rebate on Hotel component	-6.00%	(\$48)	(\$1,248)	(\$37,440)	
Net GST Collected on tour price		\$32	\$836	\$25,085	(1)
Price charged to foreign tour operator incl any GST		\$1,368	\$35,572	\$1,067,165	
Costs: Accommodations		\$800	\$20,800	\$624,000	(B)
Costs: Other direct costs of tour		\$320	\$8,320	\$249,600	(C)
Gross Profit before overhead expenses	(A)-(B)-(C)	\$216	\$5,616	\$168,480	(D)
Gross Profit as percentage of Sales Price	(D)/(A)	16%	16%	16%	
If we assume overhead costs as % of sales:	12%	\$160	\$4,168	\$125,050	(E)
Earnings before Income Tax (EBIT)	(D)-(E)	\$56	\$1,448	\$43,430	
EBIT as % of Sales		4%	4%	4%	
Corporate Income tax	38%	\$21	\$550	\$16,504	(2)
Net Income After Tax		\$35	\$898	\$26,927	(P)
Collateral sales (restaurants, tickets, gifts etc) per day		\$1,200	\$31,200	\$936,000	
GST Collected on collateral sales		\$72	\$1,872	\$56,160	(3)
Taxes collected GST & Income Tax (including coll sales)		\$125	\$3,258	\$97,748	(1) + (2) + (3) = (T)
Economic Activity: Net Income after taxes plus all taxes		\$160	\$4,156	\$124,675	(P) + (T)

## 2. Loss of VRP, Operator Absorbs Costs

Acme Tour operator is no longer able to rebate the GST attached to accommodation, so therefore has increased costs of 3%. Due to the fierce competition in the world marketplace, this operator elects to absorb the 3% increase within operations. Unfortunately, the operator's overhead costs do not change. The result is that the foreign tour operator purchasing the tour does not perceive a change in price, but the Canadian operator realizes an 81% decrease in net income after tax.

The net benefit to the Canadian economy (not including income taxes) is \$124,675 per year, or no gain over the situation in which the VRP is in place.

No VPR, Operator Absorbs Cost		Per Person	Per Tour	Per Annum	
Sales Price (before tax)		\$1,291	\$33,559	\$1,006,759	(A)
GST on charter tour: all components	6%	\$77	\$2,014	\$60,406	
Rebate on Hotel component	0%	\$0	\$0	\$0	
Net GST Collected on tour price		\$77	\$2,014	\$60,406	(1)
Price charged to foreign tour operator incl any GST	same as base	\$1,368	\$35,572	\$1,067,165	
Costs: Accommodations		\$800	\$20,800	\$624,000	(B)
Costs: Other direct costs of tour		\$320	\$8,320	\$249,600	(C)
Gross Profit before overhead expenses	(A)-(B)-(C)	\$171	\$4,439	\$133,159	(D)
Gross Profit as percentage of Sales Price	(D)/(A)	13%	13%	13%	
Difference in Gross Profit from Base Case		-3%	-3%	-3%	
Overhead costs (assume same as base case)		\$160	\$4,168	\$125,050	(E)
Earnings before Income Tax (EBIT)	(D)-(E)	\$10	\$270	\$8,110	
EBIT as % of Sales		1%	1%	1%	
Corporate Income tax	38%	\$4	\$103	\$3,082	(2)
Net Income After Tax		\$6	\$168	\$5,028	(P)
<b>Difference in net income from Base Case</b>		<b>-81%</b>	<b>-81%</b>	<b>-81%</b>	
Collateral Sales (restaurants, tickets, gifts, etc)		\$1,200	\$31,200	\$936,000	
GST from Collateral sales		\$72	\$1,872	\$56,160	3
Taxes collected GST & Income Tax		\$153	\$3,988	\$119,647	(1) + (2) + (3) = (T)
Difference from Base Case (Additional collections in tax)		\$28	\$730	\$21,899	(F)
Net value added to economy: net income plus taxes		\$160	\$4,156	\$124,675	(P) + (T)

### 3. Loss of VPR, Operator Passes on Costs to Clients

Acme Tour Operator can no longer claim the GST attached to accommodation, so therefore will pass the cost of the tax on to his clients. In this case, it is assumed that in the first year, the loss of materialization (expressed as loss of clients) will be 20%. This is expected for mid to lower range products which are more price-sensitive. Higher range products will be in the 10-15% range. This analysis does not take into account the loss of business over time, which is expected to erode due to uncompetitive Canadian prices.

It is important to note that this scenario only applies if ALL Canadian market players pass on the rebate to the foreign tourist. Owing to competitive market conditions, any market player who tries to pass on the rebate loss when other market players do not do the same, will lose substantially more than the estimated 20%.

The net benefit to the Canadian economy (not including income taxes) is \$109,684 per year – a decrease over the current situation of 12%.

No VPR, Tour Operator increases Prices		Per Person	Per Tour	Per Annum	
Sales Price (before tax)		\$1,336	\$27,789	\$833,664	(A)
GST on charter tour all components	6.00%	\$80	\$1,667	\$50,020	
Rebate on Hotel component		\$0	\$0	\$0	
Net GST Collected on tour price		\$80	\$1,667	\$50,020	(1)
Price charged to foreign tour operator incl any GST		\$1,416	\$29,456	\$883,684	
Costs: Accommodations		\$800	\$16,640	\$499,200	(B)
Costs: Other direct costs of tour		\$320	\$6,656	\$199,680	(C)
Gross Profit before overhead expenses	(A)-(B)-(C)	\$216	\$4,493	\$134,784	(D)
Gross Profit as percentage of Sales Price	(D)/(A)	16%	16%	16%	
Overhead costs (assume*)		\$154	\$4,002	\$120,048	(E)
Earnings before Income Tax (EBIT)	(D)-(E)	\$62	\$491	\$14,736	
EBIT as % of Sales		4%	2%	2%	
Corporate Income tax	38%	\$24	\$187	\$5,600	(2)
Net Income After Tax		\$38	\$305	\$9,137	(P)
Difference in Net Income from Base Case		12%	-66%	-66%	
Collateral sales (restaurants, tickets, gifts etc) per trip		\$1,200	\$24,960	\$748,800	
GST collected on collateral sales		\$72	\$1,498	\$44,928	(3)
Taxes collected GST & Income Tax		\$176	\$3,352	\$100,548	(1) + (2) + (3) = (T)
Difference from Base Case (additional collections in tax)		\$50	\$93	\$2,799	
Net value added to economy: net income plus taxes		\$214	\$3,656	\$109,684	(P) + (T)