

# **TAX FAIRNESS FOR CANADIANS IN 2020: HOW DO WE GET THERE?**

## **Recommendation 1: Ensure all Corporations that Operate in Canada Through a Digital Presence Pay Corporate Income Tax on Canadian Earnings**

Canadian employers pay income tax on their profits while digital companies operating in Canada without employees and a permanent establishment legally pay nothing. Because the corporate offices of digital platform companies are located abroad, this shrouds the reality that they are operating a business in Canada and are competing with Canadian employers. Airbnb's website features many references about how to do business in Canada and they certainly have no shortage of Canadian lobbyists advocating on their behalf to protect their privileged status and unfair advantages. Yet, they get a pass on income tax.

It is not the Canadian "hosts" that the government is shielding from paying tax. Airbnb operates in 191 countries and has a company value in excess of \$30 billion. Another platform behemoth, Homeaway Inc., operates in 190 countries with over 2 million listed properties. It functions as a conglomerate of over 25 companies, including such well-known names as VRBO and Booking.com. These are not entities who should be given a break on taxes that Canadian employers are obliged to pay.

## **Recommendation 2: Amend the Excise Tax Act to Require Offshore Short-Term Rental Platform Companies Operating in Canada to Charge GST/HST to Hosts and Guests on all Service Fees**

The same antiquated regime that exists on corporate income tax also applies to sales tax. Because platform companies have no permanent establishment in Canada, they are excused from levying the GST/HST on the fees charged to hosts and guests. A Canadian company operating a reservation system enjoys no such benefit.

According to the Airbnb website, it charges consumption taxes on its service fees for customers from countries such as Albania, Belarus, Iceland, Norway, Russia, Switzerland, Taiwan, the Bahamas, Japan, and the European Union. Additionally, some provinces have moved to capture tax from short-term rental platforms for their provincial portions. The Federal Government should do the same.

## **Recommendation 3: Amend the Excise Tax Act to Parallel the Treatment for Ride-Sharing by Eliminating the Use of the Small-Supplier Threshold for Short-Term Rental Accommodations**

It is the responsibility of businesses to collect tax on behalf of the government and yet short-term rental platforms and hosts are not doing so consistently, transparently, or in some cases, at all.

Canada's practice of requiring consumers to self-assess the GST/HST is at odds with the OECD, which recommends that when required, digital product vendors collect and remit the sales tax on behalf of consumers.

It's almost impossible to tell at the time of booking on Airbnb whether a host is registered to collect GST or not. There is no mechanism on the Airbnb booking system for property owners to assess the tax.

To alleviate concerns that rectifying this would be complicated for small operators, one only needs to look at the precedent set in 2017 for ride sharing services and taxis. Similar to taxis, the easiest solution for the short-term rental industry would be for platform companies to assess the GST/HST at the time of booking on all reservations. Doing so would be straightforward for the platform companies and would make the system consistent for hosts and guests.

#### **Recommendation 4: Amend the Income Tax Act to Require Short-Term Rental Platform Companies to Issue an Annual Information Slip on Gross Earnings to Hosts**

Airbnb states that in many jurisdictions it sends reminder notices to its hosts about tax issues, but it does not routinely share this data with government authorities. This makes it difficult to detect non-compliance.

Some American jurisdictions (Massachusetts and Vermont) obligate rental platform companies to issue official tax information slips to any host with revenues above \$600. Airbnb is also required to share its data with Danish tax authorities.

The Auditor General's Spring Report on the Taxation of E-Commerce recommends that the Canada Revenue Agency expand its compliance activities and leverage available third-party data to enhance its ability to direct and deter non-compliance for the GST/HST in e-commerce, including accommodation sharing.

An industry-wide reporting requirement would not only be an effective and inexpensive tool to achieve voluntary tax compliance; it would also simplify the accounting for host.

#### **For questions, please contact:**

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