

## Input for the Horizontal Red Tape Reviews

Canada's hotel industry is an investment powerhouse, built on \$74 billion in capital assets that strengthen the Canadian economy. As the second largest service export in Canada, the hotel industry generates \$30 billion in annual revenue, \$12 billion in government taxes across all three levels, and employs over 320,000 Canadians. As part of the Horizontal Red Tape Review's theme of reducing barriers to business productivity, we wish to highlight how the Excessive Interest and Financing Expenses Limitation (EIFEL) rules create red tape for the hotel industry, amongst other asset-intensive industries, which limits long-term growth and competitiveness.

### Canada's Investment Climate

Strong international and domestic demand creates a significant opportunity for Canada, but our ability to seize it is constrained by supply shortages. Based on estimates by the Hotel Association of Canada and Destination Canada, Canada is expected to face a shortfall of nearly 20,000 hotel rooms by 2030, which could cost the economy an estimated \$5 billion annually. Canadian hotel investors are considering projects in the US where investment conditions are more favourable. This pattern reflects increased capital outflow from the Canadian tourism sector, raising concerns about investor confidence and long-term competitiveness. To fully realize this potential within a highly competitive global travel market, we must foster a tax and investment environment that supports growth.

### EIFEL and Hotel Financing

The EIFEL rules do not reflect the financing realities of hotels, which are highly asset-intensive and often rely on long-term, property-secured mortgages representing 50–70% of a property's value. For many projects, particularly new builds, access to Canadian capital is limited, making offshore financing a practical and necessary option rather than a tax-avoidance strategy. By imposing a fixed 30% interest limitation, EIFEL creates barriers to investment and can discourage the development and expansion of hotels.

### Compliance Burden

Compliance with EIFEL is highly burdensome for hotels. Many operate through multiple entities—property-owning corporations, operating companies, management companies, franchises, and partnerships—requiring entity-by-entity calculations, intercompany loan tracing, and documentation of business relationships. Combined with the group ratio method for claiming additional interest deductions, EIFEL generates a disproportionately large administrative workload that diverts resources from operations and investment, reducing overall business productivity. While hotels illustrate these challenges clearly, the rules similarly create red tape for other asset-intensive sectors such as commercial real estate, including retail, office, and housing.

HAC recommends waiving the EIFEL requirement altogether if the foreign investment is a conventional mortgage secured against the value of the hotel property at terms consistent with domestic mortgages.

Foreign investment supports domestic growth, supporting hotel projects that contribute millions in federal tax revenue and create hundreds of Canadian jobs. By aligning the rules with the financing realities of asset-intensive sectors, the government can unlock private investment, accelerate construction timelines, and support economic growth without undermining the objective of preventing tax avoidance.