

NATIONAL OUTLOOK

DIGITAL EDITION

SOME TAX RELIEF MAY BE OBTAINED

BY JOHN DICKIE, CFAA PRESIDENT

For decades, hands-on rental owners have been irritated by the federal government's insistence that their net income is passive income, rather than active business income. To a hands-on residential landlord with more than a handful of rental units, their rental operation feels like an active business.

Unlike an investor receiving dividends from publicly traded shares or interest from bonds, a residential landlord of one or more multi-tenant buildings provides many services, including:

- Cleaning the common areas
- Lawn maintenance

- Snow and ice clearing
- Repairs in common areas and en-suite, both by staff and by contractors
- Utilities (which have to be managed)
- Resolving inter-tenant disputes

Other aspects of "landlording" also make it feel like an active business, including:

- Managing staff
- Collecting the revenue from multiple sources

Continued on page 2

SAVE THE DATE

CFAA Rental Housing Conference 2016 will be held in Toronto on June 7, 8 & 9, 2016. See inside for a wrap-up of CFAA Rental Housing Conference 2015. 2016 will see new topics to address the information needs of:

- Rental Housing Executives
- Rental Housing Investors
- Regional Managers
- Hands-on Rental Owners
- Property Managers
- Human Resources Managers
- Commercial Realtors
- Asset Managers
- Maintenance Managers & Supervisors



POSSIBILITÉ D'ALLÈGEMENT FISCAL

PAR JOHN DICKIE, PRÉSIDENT DE LA FÉDÉRATION CANADIENNE DES ASSOCIATIONS DE PROPRIÉTAIRES IMMOBILIERS (FCAPI)

Depuis des décennies, les propriétaires de logements locatifs qui aiment mettre la main à la pâte sont irrités de l'insistance avec laquelle le gouvernement fédéral prétend que leur revenu net est un revenu passif et non pas un revenu tiré d'une entreprise exploitée activement. Un propriétaire de logements résidentiels voit les activités de location dont il s'occupe comme relevant d'une entreprise exploitée activement.

Contrairement à un investisseur qui perçoit des dividendes provenant d'actions cotées en bourse ou un intérêt produit par des obligations, un propriétaire d'un ou de plusieurs édifices résidentiels à locataires multiples fournit de nombreux services, entre autres :

- Nettoyage des zones communes
- Entretien de la pelouse

Suite à la page 6

INSIDE NATIONAL OUTLOOK - DIGITAL EDITION

Housing in the News and in the Election	3
CFAA Rental Housing Conference Addressed Industry's Diversity	4
Alberta NDP Win Worries Landlords	5
Rental Housing Employee Compensation Survey Now Available	7
Election signs and canvassing	8



SOME TAX RELIEF MAY BE OBTAINED

continued from page 1

- Managing many payors who are not always prompt with the rent
- Frequent tenant turnover, with marketing issues
- Tenant selection requirements
- “Policing” tenants through a complicated notice and eviction process
- Dealing with many aspects of local government regulation

However, because their income is considered to arise mostly from property, landlords cannot claim the lower tax rate that is available to corporations with active business income. But now the federal government is considering allowing more businesses to qualify for active business treatment.

This review is not a debate in the election campaign. At this point it is a review by the Finance Department on the basis of public policy, which was initiated by the Harper government. CFAA is making a submission in that review. The Finance officials will assemble the submissions, add their analysis, and present the results to the next government. That will be the time for landlords to tell the politicians what landlords think about the current and proposed tax rules.

The current rules

Currently a business with more than five full-time employees qualifies for active business tax treatment even though its main source of income is from property. A reform could potentially include residential landlords with fewer than six full-time employees.

CFAA is suggesting that businesses qualify for active business treatment if they have a staff of more than three full-time equivalents. That would include hundreds of landlords who do not qualify now. See our full submission at www.cfaa-fcapi.org/submissions.php.

The reason for suggesting a modest change is to keep the cost of the reform at a manageable level. Small changes are much more palatable than costly changes. The CFAA Board believes the rental housing industry will achieve more by asking for modest changes.

No one should assume that any change is a sure thing. The Finance Department officials are always on watch to avoid the widening of what they see as a loophole, and they almost always lean to maximizing the government's revenue base.

Small Business Tax Rate

An additional change has been announced to the small business tax rate. Small businesses which are run by

Canadian-controlled private corporations (“CCPCs”) pay a federal tax rate of 11% on the first \$500,000 per year of qualifying active business (net) income. (That amount could be a large part of the net income of a corporation with taxable capital of up to \$10 million or \$15 million, at which point the small business rate no longer applies. Depending on the area in Canada in question, that could be rental holdings of up to 100 or 200 suites.)

Even if they are operated through a CCPC, landlords have not been able to access that reduced tax rate on the “property portion” of the rent they receive from tenants, since they would rarely have six or more full time employees for a portfolio of that size. (Landlords are now entitled to establish a CCPC and pay it a management fee which generates active business income, but that has been a cumbersome process involving extra bookkeeping and administrative burden when landlords want to minimize that burden.)

Note that as soon as the income is taken out of the CCPC through dividends, each person's individual personal tax rates apply. The reduction in the tax rate allows the deferral of tax on the active business income, which lasts while the retained income is left in the CCPC.

Budget 2015 set in motion reforms to reduce the 11% rate by one half of one per cent per year, commencing January 1, 2016, over the next four years, to reach a tax rate of 9% effective January 1, 2019. The federal NDP and the federal Liberal Party have expressed support for lowering the small business tax rate.

It remains to be seen what position they will take on allowing mid-size landlords to qualify for the active business tax rate. Both opposition parties are generally supportive of measures that favour small businesses, although historically none of the parties has been very favourable toward landlords.

The views of the NDP and the Liberals will be highly relevant in any federal election outcome other than a renewed Conservative majority government. In other words, if the next government is a minority of any stripe, then at least two-party support would be needed for any legislative amendment to reduce taxes on landlords (or other taxpayers.)

Conclusion

CFAA works for tax reform that will improve the tax situation for all landlords, but since that is not currently in the cards, we want to make the most of this opportunity. Despite the uncertainty that still exists, the review of the test for active business income is a better opportunity for a positive tax reform than we have seen for some time. ■



HOUSING IN THE NEWS AND IN THE ELECTION

Recently, housing affordability has often made the headlines. People are concerned that house prices in Toronto and Vancouver are over-inflated and may crash, with disastrous consequences for the economy. Many are concerned about affordability for young people starting families.

Others are concerned about the lack of low-rent housing for the poor. For example, the Federation of Canadian Municipalities just released a study called "Built to Last: Strengthening the Foundations of Housing in Canada," which received considerable coverage in the media.

Too often, housing for the poor seems to dominate the conversation. Too often, we hear the old solutions of the last century, namely building more social housing (at tremendous expense.)

While landlords and apartment associations need to take the lead on making this happen, the news stories and public concern offer the opportunity to insert a better, more rounded story about how rental housing can address housing affordability, while providing mobility, choice, convenience and environmental benefits.

Rental housing is more affordable than owner-occupied housing, both for the families which rent it and for society.

- Rental housing costs less than owner occupied homes because of economies of scale and the expertise that professional managers bring to building maintenance.
- Rental housing often uses less land to house a given number of people, which means less land cost and more economical land servicing.
- Rental housing avoids real estate fees and other transaction costs.

Rental Housing provides mobility and choice

- Compared to selling or buying a home, moving from or to a rental home is easy and economical.
- Renters can readily move to change jobs, for advancement or to adjust for a changing economy.
- Young people can easily establish new households at less cost than buying a house.

Rental Housing provides convenience

- Maintenance and repairs are organized by the property manager so that renters do not need to know about building science for repairs to be done right.
- Renters do not need to pay for major repairs when the work is done. Renters pay for repair costs gradually over time through their monthly rents.
- Exterior maintenance and often lawn care are organized by the property manager, allowing renters to focus on other aspects of their lives.

- Rental complexes often have recreation facilities such as swimming pools or party rooms within the building or within the rental community.

Rental Housing provides environmental and municipal benefits

- Rental buildings usually make more intensive use of urban land, reducing urban sprawl.
- More intensive land use makes for lower municipal costs for roads, transit, water, sewer and garbage pick-up.
- Rental buildings are more often located near public transit.
- Renters are more often able to bike or walk to work or to social engagements.

Rental housing - better for employment

An ample supply of "rental housing has been widely recognized as an important contributor to the labour market, and to economic productivity," says the FCM report. In fact, economists Blanchflower and Oswald found that higher homeownership rates are directly linked to higher unemployment rates and slower economic growth. (National Bureau of Economic Research, 2013).

Housing policy reforms

FCM and other housing stakeholders of both the right and the left are on record as being in favour of

- reforms to the federal tax system to reduce taxes on rental housing, and
- using direct financial assistance to low-income households in the private sector, namely portable housing allowances and rent supplements (pp. 4-5, "Statement of Principles" of the National Forum on Housing and the Economy, available at fcm.ca and at www.cfaa-fcapi.org.)

CFAA has advocated those measures for decades, but what is encouraging is the growing recognition by housing advocacy groups across the political spectrum, that the private-market rental housing sector has much to offer, and would be able to offer still more if a better housing assistance policy were put in place.

Continued on page 5





CFAA RENTAL HOUSING CONFERENCE ADDRESSED INDUSTRY'S DIVERSITY

The rental housing industry is extremely diverse. Portfolios range from one to 35,000 units. Rental units may be self-managed entirely, or managed by professionals as to operations (but not finance), or managed by professionals as to operations, finance and asset management.

The CFAA Rental Housing Conference 2015 included 16 topics for rental executives, 14 topics for investors, 22 topics for hands-on owners, self-managing 10 to 2,000 suites and 15 topics for property managers.

Many of the topics applied to more than one group of people. For example, executives of major rental housing providers usually deal with matters that investors address, such as the economy, rental demand, rental housing sales, interest rates and so on. Hands-on owners are concerned with investment issues, and often address the same issues that property managers address, such as invisible building problems, workplace harassment, mechanical system etc.

Besides the diversity of how buildings are managed, the rental housing industry is diverse in what needs to be managed. There is the physical building — which needs to be repaired and sometimes retrofitted, then there is the marketing of the suites, and the management and supervision of the staff who do it all.

The CFAA Rental Housing Conference 2015 also presented:

- 5 sessions on building science,
- 5 sessions on marketing, and
- 10 sessions on employee management (or "HR")

Many of those sessions were legal or regulatory updates. The Conference also addressed revenue management in four sessions.

Regardless of the size of your rental portfolio, and regardless of your position ---- from a hands-on owner of 10 units to a property manager of 500 units to a rental executive dealing with 20,000 units - the CFAA Rental Housing Conference 2015 offered great education, ideas and networking for you. So will CFAA Rental Housing Conference 2016! ■





HOUSING IN THE NEWS AND IN THE ELECTION

continued from page 3

CFAA has advocated those measures for decades, but what is encouraging is the growing recognition by housing advocacy groups across the political spectrum, that the private-market rental housing sector has much to offer, and would be able to offer still more if a better housing assistance policy were put in place.

Portable housing allowances

The present federal government has declared that it will not renew the social housing operating agreements, and the key Finance Department officials are apparently in full agreement.

More and more provinces and territories are moving to use portable housing allowances as the solution of choice to help low-income Canadians with their housing costs. As just one example, Manitoba recently expanded its long-running housing allowance program, in part thanks to the continued advocacy for that

program by CFAA's Manitoba affiliate, the Professional Property Managers Association.

Portable housing allowances can be provided within weeks and removed quickly when they are no longer needed. They leave the recipients with dignity, mobility and choice in their housing.

Landlords and others who often serve moderate and low-income people should pay careful attention to the platforms which the Conservatives, the NDP and the Liberals release for the up-coming election campaign. Are they forward-looking, with programs which promote choice, mobility and dignity for low-income people, and plentiful housing options for everyone?

Or do they want to take Canada back to building social housing complexes, which often generate massive, ongoing repair obligations for taxpayers, while acting as poverty traps for the very people the advocates say they want to help? ■

ALBERTA NDP WIN WORRIES LANDLORDS

BY JOHN DICKIE, CFAA PRESIDENT

In the Alberta provincial election held on May 5, the provincial NDP won 41% of the popular vote, and 53 seats out of 87 to achieve a majority government. The Wild Rose Party became the official opposition with 21 seats and 24% of the vote, while the Progressive Conservatives were relegated to third place in the Legislature with 10 seats and 28% of the vote. The Liberals, the Alberta Party and an independent each won one seat.

The Alberta NDP did not make any significant promises about housing, and did not promise rent control in their election platform during the campaign or in the run up to it. However, Rachel Notley, the new Premier, had endorsed rent control in remarks to the Calgary Herald in October, 2014, as reported by Garry Marr, in the Financial Post on-line on May 6, 2015.

The new government will have lots on its hands with young, inexperienced MLAs, a large budget deficit and their promises not to cut services. Landlords can hope that those challenges occupy the government, so that it does not bring in rent control unless rents rise substantially. Rents are currently flat or falling, which may mean the issue will not arise. Landlords will also want to avoid bad press, much more than they have

needed to in the past.

The immediate threats to rental housing seem to be these:

- the promise of a higher minimum wage (\$15 an hour phased-in over several years)
- higher corporate taxes and
- higher income taxes (since the new NDP Premier seems to have ruled out a sales tax.)

In the longer term,

- business groups are concerned that the NDP policies will hurt the economy
- if rents do rise due to demand increases, then the government would consider rent control (and union-NDP people would look on controls as a positive.)

Based on the experience in other provinces, an NDP government may well also prevent future condo conversions in order to protect the existing purpose-built rental stock. Unfortunate though it is, Alberta's landlord and tenant laws may move closer to the laws in force in Ontario, Quebec and BC, which favour tenants more than Alberta's laws do now. ■



POSSIBILITÉ D'ALLÈGEMENT FISCAL

suite de la page 1

- Enlèvement de la neige et de la glace
- Réparations dans les zones communes et privées, par le personnel et les entrepreneurs
- Services publics (qu'il faut gérer)
- Résolution des conflits entre locataires

D'autres aspects de la gestion d'une propriété immobilière donnent aussi au propriétaire l'impression d'administrer une entreprise exploitée activement :

- Gestion du personnel
- Collecte des recettes de différentes sources
- Gestion de nombreux payeurs qui ne sont pas toujours très prompts à acquitter leur loyer
- Roulement fréquent des locataires
- Exigences liées à la sélection des locataires
- «Maintien de l'ordre» parmi les locataires grâce à un processus complexe d'avis et d'évictions
- Gestion de nombreux aspects réglementaires au niveau de l'administration locale

Cependant, parce que son revenu est considéré comme provenant essentiellement d'une propriété, le propriétaire ne peut se prévaloir du taux d'imposition réduit offert aux sociétés dont le revenu est tiré d'une entreprise exploitée activement. Cela dit, le gouvernement fédéral étudie la possibilité de permettre à un plus grand nombre d'établissements d'avoir accès au traitement réservé aux entreprises exploitées activement.

Cette révision ne sera pas débattue pendant la campagne électorale. Il s'agit plutôt d'une proposition du ministère des Finances sur une base de politique publique, lancée par le gouvernement Harper. La FCAPI propose une soumission à l'occasion de cet examen. Les fonctionnaires des Finances vont regrouper les soumissions, y ajouter leur analyse et présenter les résultats au prochain gouvernement. Ce sera alors le moment pour les propriétaires de dire aux politiciens ce qu'ils pensent des règles fiscales en vigueur et des changements proposés.

Les règles actuelles

À présent, une entreprise comptant plus de cinq employés à temps plein est admissible au traitement fiscal réservé aux entreprises exploitées activement, même si sa principale source de revenus provient d'une propriété. Une réforme pourrait inclure les propriétaires de logements résidentiels comptant moins de six employés à temps plein.

La FCAPI suggère que les entreprises soient admissibles

au traitement réservé aux entreprises exploitées activement si leur personnel comprend plus de trois équivalents temps plein, ce qui inclurait des centaines de propriétaires non admissibles à ce statut pour l'instant.

Nous suggérons un changement modeste pour que le coût de la réforme reste gérable. En effet, de petits changements sont plus acceptables que des modifications coûteuses. Le conseil de la FCAPI croit que le secteur des logements locatifs obtiendra plus de résultats en optant pour des révisions limitées.

D'autre part, personne ne devrait supposer qu'un changement est chose certaine. Les fonctionnaires du ministère des Finances sont toujours sur un pied d'alerte pour éviter l'élargissement de ce qu'ils perçoivent comme une faille, une lacune. Ils ont, de plus, presque toujours tendance à vouloir maximiser les recettes du gouvernement.

Taux d'imposition des PME

Un autre changement a été annoncé au sujet du taux d'imposition des petites et moyennes entreprises (PME). Les petites entreprises dirigées par des sociétés privées sous contrôle canadien (SPCC) s'acquittent d'un taux d'imposition fédéral de 11 % sur la première tranche de 500 000 \$ par année de revenu (net) tiré d'une entreprise admissible exploitée activement. (Ce montant pourrait constituer une grande part du revenu net d'une société dont le capital imposable atteindrait 10 millions de dollars ou 15 millions de dollars, seuil au-delà duquel le taux d'imposition des PME ne s'applique plus. Selon la région du Canada concernée, il peut s'agir d'un portefeuille de 100 à 200 logements locatifs.)

Même s'ils sont administrés par l'entremise d'une SPCC, les propriétaires n'ont pas réussi à bénéficier de ce taux d'imposition réduit sur la « portion liée à la propriété » du loyer qu'ils perçoivent des locataires, puisqu'ils auraient rarement six employés à temps plein ou plus pour un portefeuille de cette taille. (Les propriétaires ont maintenant le droit de créer une SPCC et de lui verser des frais de gestion, produisant ainsi un revenu tiré d'une entreprise exploitée activement. Ce processus toutefois est lourd. Il exige des opérations comptables additionnelles et un fardeau administratif supplémentaire lorsque les propriétaires veulent réduire ces charges.)

Dès que le revenu de la SPCC est déduit par l'entremise des dividendes, les taux d'imposition individuels s'appliquent à chaque personne. La réduction du taux d'imposition permet le report de taxe sur le revenu tiré d'une entreprise exploitée activement, report qui reste en vigueur pendant que le revenu conservé demeure dans la SPCC.

Suite à la page 7



POSSIBILITÉ D'ALLÈGEMENT FISCAL

suite de la page 6

Le budget de 2015 a mis en route des réformes destinées à réduire le taux de 11 % d'un demi pour cent par année, dès le 1er janvier 2016, au cours des quatre prochaines années, pour atteindre un taux d'imposition de 9 % à partir du 1er janvier 2019. Au niveau fédéral, le NPD et le Parti libéral ont manifesté leur soutien à la réduction du taux d'imposition des PME.

Il reste à voir quelle position ils adopteront quant à l'autorisation qui pourrait être octroyée aux propriétaires intermédiaires de bénéficier du taux d'imposition du revenu tiré d'une entreprise exploitée activement. Les deux partis d'opposition soutiennent d'ordinaire les mesures qui avantagent les petites entreprises, même si, historiquement, aucun de ces partis n'a été très en faveur des propriétaires.

Le point de vue du NPD et des Libéraux sera d'actualité, peu importe le résultat des élections fédérales, exception

faite de la réélection d'un gouvernement conservateur majoritaire. Autrement dit, si le prochain gouvernement est minoritaire, tous partis confondus, le soutien d'au moins deux partis serait nécessaire pour modifier la loi et réduire le taux d'imposition des propriétaires (ou des autres contribuables).

Conclusion

La FCAPF travaille pour que la réforme permette d'améliorer la situation fiscale de tous les propriétaires. Puisque ce n'est pas encore le cas pour l'instant, nous tenons à tirer le meilleur parti possible de l'occasion qui nous est présentée. Malgré l'incertitude ambiante, la révision du test associé au revenu tiré d'une entreprise exploitée activement permettant de déterminer si une entreprise est ou non admissible est la meilleure possibilité depuis longtemps de voir une réforme fiscale positive se concrétiser. ■

RENTAL HOUSING EMPLOYEE COMPENSATION SURVEY NOW AVAILABLE

Find out how your wages and salaries compare with your competitors. The CFAA Rental Housing Employee Compensation Survey reports for 2015-16 are now available for 17 areas across Canada, including two in Atlantic Canada, two in Quebec, seven in Ontario and six in the West.

The survey reports on the average and range of compensation for both building-based and head office positions. Most city reports present actual city data for building superintendents, cleaners, leasing agents, maintenance technicians, property accountants, property administrators and property managers.

Other building-based positions and 14 head office positions are primarily addressed through statistical estimates from the Canada-wide or Region-wide data, specific to rental housing, which data is provided with all reports. The regions used are Atlantic & Quebec (together), Ontario and the West. (A substantial amount of head office data is available for Toronto specifically since many head offices are located there.)

In total, the survey reports on more than 5000 incumbents in 26 occupations, specific to rental housing. An optional survey component addresses HR and benefits information, including average turnover rates, benefits programs, hours of work, vacation and sick leave entitlements. That data is split between large rental housing providers and others so that survey users can compare their programs with those of their peers.

This is the one and only compensation survey specific to

rental housing in Canada, using rental housing position descriptions and reporting on rental housing employees, rather than a mix of employees including commercial office building operators.

Building-based positions:	
•Building Superintendent	•Maintenance Technician
•Property Manager	•Cleaner
•Property Assistant Manager	•Property Administrator
•Leasing Agent	•Property Accountant
•Security Guard	•Doorman/Concierge
Head Office Staff Include:	
Chief Operating Officer (VP/Director of Operations); Top Finance Position (CFO); Corporate Controller; Staff Accountant; Head of Marketing (VP, Marketing); Accounts Payable Accountant; Director, Asset Management; Maintenance Manager; Maintenance Coordinator; Regional Manager; Legal Administrator/Paralegal; Head of Leasing (VP, Leasing); Top IT position; Top HR Position (VP/Director, Human Resources); HR Generalist (HR Staff Person).	

CFAA's pricing is competitive. For more information and pricing, see the compensation survey section of the CFAA website at www.cfaa-fcapi.org. Order the CFAA Rental Housing Compensation Survey for your city or area now! ■



ELECTION SIGNS AND ENTRY BY CANVASSERS

CFAA SUPPLIERS COUNCIL:

Gold

Rent Hello	Wyse Meter Solutions
RHB Magazine	Yardi Systems

Silver

4Rent.ca	Landlord Web Solutions
Accompass	Places4Students.com
Altus	Yellow Pages
Coinamatic	NextHome
IRC Building Sciences Group	

Bronze

BCAP	Orkin Canada
Belanger Engineering	Rainmaker LRO
Bentall Kennedy (Canada) LP	Read Jones Christoffersen
Canada Post	RealPage
Carma Industries	Rent Check Credit Bureau
Century Building Restoration Inc.	Rentokil
CMLS Financial	Rogers Communications
Cohen Highley LLP	Shaw
EnerCare Connections	Sparkle Solutions
Excel Collection Services	Spinnaker Recycling
InSinkErator	Suite Collections
Lumenix	Toronto Hydro
M&E Engineering	Water Matrix
Miller Waste Solutions Group	Winmar
National Elevator Consulting	Zipsure

Section 322 of the Canada Elections Act prohibits landlords from prohibiting tenants from displaying election advertising posters on “the premises to which the lease relates.” Removing the double negative, landlords must allow tenants to display election signage at their apartments (for example in their windows) or on low-rise property (in areas in which the tenant has exclusive use.) That applies even if a lease prohibits tenants from displaying advertising.

However, the Act allows a landlord to prohibit the display of election advertising posters in common areas of a rental building, and allows a landlord to “set reasonable conditions relating to the size or type of election advertising posters that may be displayed on the premises.” For example, the sign would have to be affixed so that it does not create a hazard.

One approach to sign size and content is to permit only signage issued by a candidate’s official agent (which is usually professional looking), thereby banning disreputable looking handwritten signs.

Entry by canvassers

Section 81 of the Canada Elections Act prohibits everyone who is in control of an apartment building (or other multiple residence building) from preventing access by a candidate or his or her representative for the purpose of canvassing or leaving campaign literature. The requirement to permit entry applies from 9:00 am to 9:00 pm. Candidates and representatives are also allowed to campaign in common areas during those hours.

Most provincial landlord and tenant legislation also require landlords to permit candidates or their representatives to enter an apartment building or residential property to solicit votes or to leave election materials. ■

