Canadian Federation of Apartment Associations
Fédération Canadienne Des Associations De Propriétaires Immobiliers

1600 Carling Ave. Suite 640
Ottawa, Ontario K1Z 1G3
Tel. 613-235-0101 Fax 613-238-0101
Web: www.cfaa-fcapi.org

CFAA REPORT ON FEDERAL BUDGET 2016 — March 27, 2016

Released on March 22, Budget 2016 forecasts a deficit of $29 billion. The budget includes much in the way of new spending, but little in the way of tax changes or new taxes.

Income Tax measures – the good news

Despite some earlier trial balloons, no changes were introduced to the capital gains inclusion rate. That rate is the proportion of capital gains which are taken into income and taxed. The inclusion rate is currently 50% although the inclusion rate had been raised to 75% in 1990 before being returned to 50% in the year 2000. The partial inclusion is justified by the risk of capital losses and by the fact that much of what appears to be a capital gain is actually just an increase is the current price of an asset driven by inflation. Due to inflation, a higher rate than 50% would in many case impose a tax on capital. Such taxes are ruinous because they drive away investment in capital assets, like buildings.

Classes 43.1 and 43.2 were expanded to include more eligible equipment that generates or conserves energy by using a renewable energy source, using a fuel from waste or making efficient use of fossil fuels. Those classes provide accelerated CCA rates (30% and 50% respectively on a declining balance basis).

Income Tax measures – the bad news

Last year, the 2015 budget announced a review of the circumstances in which income from a business, the principal purpose of which to earn income from property should qualify as active business income, and therefore be eligible for small business tax treatment. The government has completed its review. No changes are proposed to the active/passive income rules at this time.

The small business tax rate on active business income will remain at 10.5% (The rate had been 11% in 2014, and was to decrease to 9% in 2019.)

The Liberal platform promised to remove all GST on new capital investments in affordable housing, in order to grow and renovate the supply of rental housing. Budget 2016 did not make that change or refer to it. CFAA remains optimistic that the tax reduction will be made within the term of this government.

Support for housing

Over the next two years, the following federal funds will be spent on housing:

- $504M for the **Affordable Housing Initiative**, which can be used for new social or supportive housing construction, forgivable loans for repairs to private housing or direct financial assistance to tenants.
- $200M on seniors housing, including repairs and adaptations to owner-occupied homes.
- $739M for indigenous peoples' housing.
- $574M for repairs and energy retrofits to social housing ($500M in this year.)
- $90M for the repair and construction of emergency shelters for victims of domestic violence.
- $112M for the Homelessness Partnering Strategy, supporting Housing First and other projects.

Under the Affordable Housing Initiative the federal government allows the provinces to decide what they will spend the money on. (In turn, Ontario largely leaves that to the municipalities.) Many CFAA member associations are active in promoting landlord-friendly spending such as direct financial assistance to tenants and supportive housing.

Supportive housing is good for landlords because it accommodates tenants who are "hard to house" or suffer from mental illnesses or addictions. Absent sufficient supportive housing, such people usually rent rooms or bachelor apartments in private buildings, and too often create disturbances in the buildings. Landlords need to police their behaviour and end up with substantial costs and stress, while losing good tenants.

The government will also provide:

- **low cost loans for the development** of affordable market rental housing of up to $500M per year for 5 years. (Such new housing makes lower cost units available as renters move into the new housing.)
- $208M over 5 years for an Affordable Rental Housing Innovation Fund to be administered by CMHC.

The Innovation funding will be used to test innovative business approaches—such as housing models with a mix of rental and home ownership—to lower the costs and risks of financing affordable rental housing projects. The funding is expected to support the construction of up to 4,000 new affordable rental units over five years. Both the innovation fund and the development bonds are wins for the rental housing industry, and especially for those who develop rental housing.

Income support measures

As promised, the age of eligibility for Old Age Security (OAS) and Guaranteed Income Supplement (GIS) is to be returned to 65 (from 67), and the age for Allowance benefits will be returned to 60 (from 62).

The GIS top-up benefit will increase by up to $79 per month for single seniors starting in July 2016. Seniors with incomes of about $4,600 or less (apart from the OAS and GIS) will receive the whole increase.

Couples who receive GIS and Allowance benefits, but need to live apart for reasons beyond their control (such as a requirement for long-term care) will receive higher benefits based on their individual incomes.

The various Child Tax Benefits have been amalgamated into one program and rearranged to focus funding on families with low-incomes.

The eligibility rules for Employment Insurance for new entrants and re-entrants will be relaxed, and in certain regions benefits will be temporarily enhanced.

CFAA Comments

While disappointed that the review of the active/passive business test did not result in any changes to the current regime, CFAA is relieved that there were no changes to the capital gains inclusion rules. CFAA remains optimistic that the GST on new capital investments in affordable housing will be removed within the term of this government.

CFAA is generally pleased with the allocation of funding for housing, the support for development of affordable market rental housing, and the income support measures. Improving the incomes of low-income people and families is an excellent way to improve the housing that they can obtain.