

CANADIAN FEDERATION OF APARTMENT ASSOCIATIONS

2013 FEDERAL PRE-BUDGET SUBMISSION

August 1, 2012

For the 2013 pre-budget consultation, the House of Commons Standing Committee on Finance asked interested parties to answer five on-line questions with responses not to exceed 350 words each. *Set out in italics are the questions posed by the committee.* The text in normal font is the answers CFAA provided.

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

To sustain the economic recovery and enhance economic growth, a crucial factor is labour mobility, which is enhanced by a sufficient supply of rental housing, and inhibited by an overly high rate of home ownership. We urge the government to:

a) **Encourage** the development of new **rental housing** and the continued operation of existing rental housing **by means of improved income tax rules** for the rental housing sector.

Under the current income tax system, rental housing (and thus renters) pays income tax and capital gains tax which owner-occupiers do not pay. That results in over investment in owner-occupied homes, and underinvestment in rental housing, which:

- places a drag on labour mobility and employment
- inhibits a vigorous supply response to economic booms
- diminishes tenure choice and housing options for Canadians.

Reforms that would enhance economic growth through the rental housing sector include:

- Tax deferral on sale and reinvestment in rental property
- Higher capital cost allowances in early years of building life
- Allowing more soft cost deductibility
- Allowing rental housing to qualify for small business treatment
- Allowing CCA deductions against other income.

At reduced effective tax rates, a larger rental housing industry would pay a similar amount of tax as the current smaller industry pays now at higher rates. A larger rental housing industry would also provide many more benefits to the economy and to Canadian workers and their families.

b) **Encourage major building retrofits to save energy by** including the equipment and costs in **CCA Class 43.2 under the Income Tax Act**, because:

- The amount of energy retrofits currently being carried out is sub-optimal due to concerns about the rate of return and future energy prices, and the split incentive issue.
- Stimulating more major energy retrofits to buildings is the most cost-effective means of addressing Canada's energy needs.
- Major energy retrofits will create jobs.
- Major energy retrofits will reduce greenhouse gases.
- Encouraging energy retrofits will likely raise income taxes received, rather than reduce them, due to the increased profits resulting from the reduced energy costs, as well as the income taxes on labour income and profits in the retrofit work.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

To promote job creation, the three most helpful federal actions would be to

- Encourage major building retrofits to save energy by including the equipment and costs in CCA Class 43.2 under the Income Tax Act (as discussed above).
- Allow tax deferral on sale and reinvestment in rental property, and
- Proceed with a careful infrastructure plan.

Allowing **tax deferral** would facilitate rental property sales and purchases. Because they come with “fresh eyes,” new owners frequently see ways to improve, adapt and expand rental properties, which would, among other things, support growing labour markets in high-growth communities. Tax deferral on reinvestment, would raise the numbers of existing owners who buy new rental properties, thus raising demand for those assets. That will tend to improve the use and maintenance of existing properties and produce new rental housing. Both create jobs in Canada.

Tax deferral would also promote more urban redevelopment. In this regard, Mayor Hames of the City of Chilliwack wrote this in November 2007:

The City of Chilliwack has been working to rejuvenate its aging downtown for many years. We have ... attempted to assemble property in order to facilitate development. Unfortunately, some property owners have owned their properties for many years and are not willing to sell their rental properties even at prices above market value because they would have to immediately pay significant taxes on the capital gains created. [Tax deferral] would greatly assist the City of Chilliwack in stimulating the redevelopment of its aging downtown.

Allowing tax deferral would facilitate the rehabilitation of brownfield sites and compact, environmentally sound redevelopment in cities, all of which would provide jobs as well as the many other benefits.

We commend the government for announcing the development of a long-term **infrastructure program**. We urge the government to:

- Give priority to Canada's basic infrastructure, such as roads, transit, and water and sewer services
- Recognize that housing affordability is a priority outcome
- Recognize and act on the view that housing affordability can best be promoted through moderation in development charges, and expanding the availability of serviced land.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

The government should **continue immigration at today's levels** in all economic circumstances, thereby directly addressing the consequences of Canada's fertility rate, as well as the shortage of skilled workers and of workers to assist the elderly.

The government should **encourage** the development of new **rental housing**, and the continued operation of existing rental housing, through improved income tax rules on the rental housing sector. An adequate supply of rental housing across Canada is important to serve the housing needs of seniors, many of whom want to reduce the responsibilities of home ownership, and to gain the benefits of rental living, such as having repairs organized by the landlord (and paid over time through the rent), and engaging with neighbours without having to go outside.

An adequate supply of rental housing across Canada is important to facilitate labour mobility. When workers move they tend to rent for the first year or two so that they can determine if they expect their new job to be on-going, and can decide where in their new city they want to buy a house. Further, the vast majority of immigrants rent their first homes. Therefore, an ample supply of rental housing is essential for successful immigrant settlement.

In addition, an overly high rate of home ownership reduces labour mobility. When homeowners lose their jobs they tend to look for new work within commuting distance of their homes, whereas renters tend to look for new work wherever they can find it, and then move if necessary.

The government should encourage the provinces to provide housing support through **direct assistance to tenants** (such as a housing allowance) rather than through the funding or construction of new social housing to address affordability concerns. Social

housing attaches the financial subsidy to the housing unit, thereby reducing labour mobility. The direct assistance to tenants should be portable within and between provinces to encourage labour mobility, and to allow the elderly to relocate, to live closer to family members for example. Funding can be found from the existing housing envelope as the operating agreements for social housing come to an end.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

Increased productivity requires improved labour mobility, which in turn requires a more positive climate for rental housing in order to improve the situation for people who might move, who usually want to rent.

There is also a labour mobility issue on the landlord side. Over 1.3 million Canadians report rental income. Many of them are tradespeople or entrepreneurs. If investors move across their province or across Canada, they can easily take their stocks and bonds with them, but the owners of rental property cannot move their rental buildings. To continue to invest in rental property they need to be able to sell their existing properties and buy new ones in their new location. Allowing tax deferral would facilitate selling and reinvesting, which would improve mobility for large numbers of skilled workers and businesspeople. The inability to rearrange their rental investments without incurring an immediate and onerous tax burden dramatically reduces the willingness of rental owners to move.

The government should also expand the Apprenticeship Incentive Grant and Job Creation Tax Credit and the Apprenticeship Completion Grant programs. Currently those programs apply only to "Red Seal trades". Although 22 of the total of 50 Red Seal trades work in the residential sector, there are 20 trades designated by provincial governments that have not received the Red Seal endorsement.

We urge the federal government to:

- Extend apprenticeship grants and incentive programs to include all trades designated by provincial governments which are receiving provincial program support.
- Expand provincial grants and incentives currently available only to Red Seal trades, or to apprenticeships with three or more levels of training, to include all designated trades.
- Ensure that any new provincial training programs supported through federal Labour Market Development Agreements and Labour Market Agreements are made available to all trades designated by provincial governments.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Despite the fact that rental housing is largely occupied by low-income and moderate-income households, the current income tax system unfairly inflates the cost of rental housing. See Clayton, 2010 at http://www.cfaa-fcapi.org/pd2/CFAA_FRPO_Govt_Sub.pdf. The tax system should be reformed to reduce the tax burden on rental housing, which is ultimately borne by the households who occupy it. See the key reforms listed in the answer to question 1.

The federal government should also support the provinces in providing adequate income supports to low-income Canadians, and should make those supports more portable within and across provinces so that potential workers can migrate or travel to take available work.

Likewise, the federal government should encourage the provinces to make their housing supports portable within and across provinces so that potential workers can migrate or travel to take available work. The best way to make housing supports portable is to provide direct assistance to tenants in the form of housing allowances. Even better would be a national housing allowance program with parameters adapted to the housing markets in the different provinces and metropolitan areas.

The federal government should provide adequate funding for immigrant settlement, particularly for refugees, and that support should be balanced among the provinces.

We urge the government to continue and expand its support for the Mental Health Commission of Canada. In particular, the Commission is performing valuable research through targeted assistance to the mentally ill through a “Housing First” approach.

The federal government should support the provinces in providing adequate mental health and social service supports for low-income Canadians, while leaving them with choice in housing where practicable. When economies of scale mean that congregate care is more efficient, funding to build new supportive housing is also indicated. Funding for new accessible housing is also cost-effective since the cost of retrofitting existing housing is usually prohibitive.

Rental Residential Rehabilitation Assistance Program (Rental RRAP) funding is also a productive and valuable use of funding, as it assists in retaining existing low cost housing without preventing re-development on other property when that is the highest and best use of that other property.

John Dickie, CFAA President
613-235-0101 or president@cfaa-fcapi.org