

CCA Rates on Rental Housing

August 2009

Canada's rental housing providers object to the current capital cost allowances allowed to rental housing.

Until the late 1970's the rate on wood-frame construction was 10%, as compared with 5% for concrete construction. In 1988 the CCA rate was reduced from 5% to 4% for all buildings acquired after 1988. Especially in Vancouver, wood-frame buildings are reaching the end of their useful life and being torn down while they still have a substantial undepreciated capital cost (UCC).

The rental housing industry would like to see a higher CCA rate generally, and in particular for wood-frame construction. Wood-frame is the construction method of choice for the more affordable new construction, consisting of row houses or stacked townhouses in the suburbs.

Here is a comparison between the CCA allowed under the current Canadian system, the American system and the 1989 German system. Besides the lower CCA rates allowed, the Canadian allowances are reduced by the half-year rule and the declining balance method, which are not used in the US CCA system or the German CCA system. For the U.S. I have assumed a purchase early in the calendar year. You can see that the Canadian system is much stingier than either the U.S. or the 1989 German system (which was designed to stimulate rental construction). That would argue to raise the general rate of CCA on all rental buildings from 4% to 5%.

Proportion of a building which has been "written off"			
Years from construction or purchase	Current Canadian CCA system	Current U.S. CCA system	1989 German system
5	17%	18%	33%
10	32%	36%	58%
15	45%	55%	64%
20	55%	73%	70%
25	63%	91%	77%
30	70%	100%	85%

The attached spreadsheet shows the year by year detail, as well as the amounts which can be claimed at different CCA rates, namely 4%, 5%, 6% and 10%.

In 2005 Fisher, Smith, Stern and Webb found that, with a 2% inflation rate, the depreciation rate on residential rental property required to equal the average actual depreciation is 5.25%: "Analysis of Economic Depreciation for Multi-Family Property", JREER Vol. 27, No. 4. At less than 5.25% the CCA rate does not reflect the landlord's costs. A higher rate would be needed to provide stimulus for rental housing construction.

CFAA's request is for the general CCA rate on residential rental properties to be raised to 5%, and for the rate for wood-frame construction to be raised to 6%.

