

Canadian Federation of Apartment Associations

**Supplementary Submissions
to the Federal Finance Committee**

EXTRACTS FROM

**A REPORT PREPARED BY
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entitled**

**Government Subsidies to Homeowners
versus Renters in Ontario and Canada**

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The full report is available at www.cfaa-fcapi.org.

Introduction

This report has been commissioned by the Federation of Rental-Housing Providers of Ontario and the Canadian Federation of Apartment Associations to document the magnitude of the subsidies provided by the federal government, the Ontario government and municipalities in Ontario to private renters and homeowners. [The Ontario figures are omitted from this extract.] Subsidies encompass both direct spending and so-called tax expenditures.

Key findings

The per-household total subsidy calculations by tenure are the following:

Direct Spending and Tax Expenditures for Private Renters and Homeowners, Canada, Federal government only, 2008/9

| | Total Subsidies | | Number of Households | Average Subsidy per Household | Average Pre-Tax Household Income (2008) |
|-----------------|-----------------|------|----------------------|-------------------------------|---|
| | \$ Millions | % | | | |
| Homeowners | 15,816.1 | 92.6 | 8,677,662 | 1,823 | 91,122 |
| Private Renters | 1,263.9 | 7.4 | 4,109,370 | 308 | 43,794 |

Focus on Private Renters and Homeowners

The study concentrates on the relative size of housing subsidies to renters residing in private rental housing and households living in private ownership housing.

The difference in average incomes between homeowners and private renters should be considered in this analysis. According to the 2008 *Survey of Household Spending*, for Canada the average renter household in a private rental home had an income of \$43,794, 52% less than the average owners' income (\$91,122).

Social housing is outside the private market framework as it is owned by governments, non-profit groups or by cooperatives. Social housing is targeted at lower income households unable to afford adequate housing in the private market. As such, social housing spending can be regarded as an income support program for lower income households. Since much of the direct spending by governments for housing goes to support social housing, social housing spending is included in this study as background, but treated separately from the consideration of private housing. [Social housing expenditures are omitted from this extract.]

Similarly, the shelter component of social assistance is part of an effort to support the incomes of lower income households. It is not considered in the analysis here because it is an income redistribution program and the benefits are neutral with respect to tenure in that both renters and owners are eligible for the benefits.

The Importance of Considering Tax Expenditure as Well as Direct Spending

Direct spending on housing by various governments is generally available from revenue and expenditure statements. Tax expenditures, which are government expenditures on housing in the form of tax provisions, are much less obvious and often overlooked in discussions of government spending on housing.

A tax expenditure "...is a tax provision that deviates from a normative or benchmark tax system. Tax expenditures may take a number of forms: exclusions, exemptions, allowance, deductions, credits, preferential tax rates, or tax deferrals."

Illustrations of tax expenditures are:

- The exclusion of capital gains on the sale of a principal residence from capital gains taxation.
Since 50% of capital gains are normally taxed as income, the absence of a tax on the gains from the sale of principal residences gives homeowners preferred treatment under the federal and Ontario income tax system not available to renters.
- A rebate under the federal Goods and Services Tax (GST) for new ownership and new rental housing construction
The GST provides a partial rebate of the tax on newly constructed ownership and rental housing. The dollar value of the rebate is dependent on the price of new housing.

To provide a complete and reliable accounting of government incentives to private renters and homeowners, a consideration of both direct spending and spending through tax expenditures is essential.

Spending and Tax Expenditures on housing

Estimated Housing Spending and Tax Expenditures by Tenure, Canada, Federal Government only, 2009¹

| Private Homeowners | Millions of Dollars |
|--|----------------------|
| Homeownership Residential Rehabilitation Assistance Program (RRAP) | 64.6 |
| Senior Homeowners' Property Tax Grant | 0.0 |
| GST Rebates for New Ownership Housing | 515.0 |
| First-Time Homebuyers' Tax Credit | 160.0 |
| Non-Taxation of Imputed Net Rent | 5,595.0 ² |
| Non-Taxation of Capital Gains on Principal Residences | 3,100.0 |
| Preferential Property Tax Rates | 0.0 |
| Exemption of Imputed Rents from GST | 3,381.4 |
| Home Renovation Tax Credit | 3,000.0 |
| Total Private Homeowners Spending | 15,816.1 |

Private Renters

| | |
|---|-----------------|
| Rental Residential Rehabilitation Assistance Program (RRAP) | 93.9 |
| Exemption of Residential Rents from GST | 1,120.0 |
| GST/HST Rebate for New Rental Housing | 50.0 |
| Total Private Renters Spending | 1,263.9 |
| GRAND TOTAL (Homeowners and Renters) | 17,080.0 |

Among the findings relating to federal subsidies at the national level are:

- Housing spending and tax expenditures by the federal government for Canada totaled to \$17.1 billion in 2009;
- Approximately 93%, or \$15.8 billion, of the expenditures benefitted homeowners;
- Renters received \$1.3 billion (or 7%) of the total; and
- Three ongoing tax expenditure provisions—non taxation of net imputed rents, non-taxation of capital gains from the sale of principal residences, and the exception of imputed rents from GST—account for the bulk of the subsidy preference to homeowners.

Conclusions

The following conclusions emerge from a review of the subsidy estimates summarized above:

- The income disparity between private renters and homeowners is large. In 2008, homeowners had an average household income of \$91,122 while renter households earned an average income of \$43,794.
- The amount of subsidies allotted to private renters and homeowners does not reflect the income disparity between the two tenure groups. Homeowners received an average of \$1,823 in subsidies per household while private renters—with far lower average incomes—only received an average of \$308 per household.
- Housing subsidies in Canada, encompassing both direct spending programs and tax expenditure provisions, massively favour private homeowners over private renters; and
- This favoritism to homeowners occurs even though private renters on average have household incomes about one-half the average income of homeowners.

¹¹ The full report explains and documents all these subsidies. It is available at www.cfaa-fcapi.org.

² According to Statistics Canada, net imputed rent on owner occupied housing in Canada amounted to \$39.2 billion in 2009. The federal tax expenditure incurred in 2009 by not imposing income tax on that imputed income is estimated by Dr. Clayton at \$5,595 million (i.e. \$5.595 billion).