Canadian Federation of Apartment Associations
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CCA Rates on Rental Housing

Here is the text of CFAA's submission to the Minister of Finance on the CCA rate issue:

You asked CFAA if the industry has complaints about any particular aspects of the capital cost allowances, and if so, whether we can document the problem.

I have heard complaints about both the general CCA rate and the rate on wood-frame construction. 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, people tell me that 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 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. The attached spreadsheet shows the maximum CCA which can be claimed at different CCA rates, namely 4%, 5%, 6% and 10%.

I have also taken the opportunity to contrast the Canadian allowances (with the half-year rule and the declining balance method) against the US system and the 1989 German 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%.

Attached is a 2005 U.S. academic study that finds that, with a 2% inflation rate, the depreciation rate on residential rental property required to equal the average actual depreciation is 5.25%.

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%.

John Dickie
President