

REALpac - Government Relations Tax Initiatives



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Intelligent – Influential – Informative

REALpac
Real Property Association of Canada Association des biens immobiliers du Canada



Who is REALpac?

- **REALpac is Canada's premier association for investment real property leaders.**
- **Membership is comprised of the largest owners, developers and managers of commercial real estate in Canada including:**
 - publicly traded and large private companies,
 - banks,
 - brokerages,
 - crown corporations,
 - investment dealers,
 - life insurance companies,
 - pension funds, and
 - real estate investment trusts (REITs).
- **Assets include retail, office, industrial, hotel, multi-residential and seniors housing, with a value in excess of \$150 billion.**



Tax Initiatives – Past & Present



- **REIT exemption from Income Trust tax**
- **Elimination of the Federal Capital tax**
- **Dividend Tax Reduction for publicly traded real estate companies**
- **Cross Border Loans withholding tax**
- **Capital Gains deferral for Real Estate – with CREA and CFAA**



Why Tax Initiatives?

- Many of the key issues for our Members are tax related
- Taxes are highly visible and can negatively impact our members bottom line.
- It is sometimes difficult to quantify the benefit of wins on non-tax related issues. Contrast a win on lower property taxes (\$dollar value) with inclusion of REITs in federal bankruptcy laws (non-dollar value).
- In some cases, a particular tax can have important ramifications. This recently occurred with the income trust tax. All REITs were exempted, but a few may need to restructure (seniors, hotel REITs).



REIT Exemption from Income Trust Tax

- **On October 31, 2006, the federal government announced a distributions tax on income trusts.**
- **REITs were excluded.**
- **Finance's rationale for exempting REITs is,**
 - *"This exception from the SIFT measures recognizes the unique history and role of collective real estate investment vehicles."*



REIT Exemption from Income Trust Tax

- **REALpac spent several years dealing with federal finance about various REIT issues prior to the Oct. 31st announcement.**
- **The key was providing information months and years in advance of any government action to tax trusts.**
- **REALpac communicated that REITs exist in 23 countries around the world.**
- **We believe that this type of information was the key to keeping the REIT exemption from corporate tax.**



Elimination of the Federal Capital Tax

- **The federal government announced an accelerated elimination of the Capital tax as of January 1, 2006**
 - two years earlier than was originally scheduled.
- **REALpac had advocated for that arguing:**
 - **Real estate assets are particularly vulnerable to capital tax because the assets are not mobile and the sector is very capital intensive.**
 - **Capital tax increases the carrying costs of landlords with vacant and unproductive commercial and multi-family apartment space, providing a disincentive to new construction.**
 - **Capital tax is particularly punitive for owners of multi-residential properties, because they cannot pass the tax through to their tenants, as can be done in the commercial context.**



Dividend Tax Reduction

- The federal government announced a reduction in the dividend tax rate in the Fall 2005 federal economic update and in the 2006 federal budget.
- REALPAC had requested changes to reduce the dividend tax rate for the following reasons:
 - It makes Canadian publicly traded dividend-paying real estate corporations more competitive with REITs by increasing returns for investors through dividends.
 - It makes Canadian companies more competitive by lowering the cost of capital for Canadian companies issuing equity.
 - It improves the health of Canadian financial markets by decreasing the incentive to finance through debt.

Cross Border Loans

- The 2007 federal budget announced the elimination of Canadian withholding tax on interest paid to all arm's length non-residents regardless of their country of residence.
- REALpac has for many years been advocating a loosening of the provisions of S. 212(1)(b)(vii) of the *Income Tax Act*, which allows an exemption to corporations (but not REITs) from the normal withholding tax on certain interest remitted to foreign lenders on loans to Canadian corporations.
- When implemented, these rules should allow REALpac Members to source US (and subsequently, all foreign) capital on a very tax efficient basis.
- The withholding tax on non-arm's length interest payments between Canada and the U.S. will be phased out over a three-year period.

Value of REALpac Wins on Tax-related Issues

- **REIT Exemption from Income Trust Tax (\$690 million)**
 - Based on the market cap increase in REITs in the 10 days following the no action announcement on REITs.
- **Accelerated elimination of Capital tax (\$20 million annually)**
 - two years earlier than scheduled, as requested by us in our pre-budget submissions.
- **Dividend Tax Reduction (\$20 million annually)**
 - when this is fully implemented in 2010.



Key steps in lobbying for tax reforms

- **Get to the government on issues before they become policy priorities**
- **Provide rationales emphasizing benefits to the economy, and thus the broader public**
- **Know the numbers for the tax costs**
- **Present concrete figures for the benefits**
- **Comparisons with other countries can work**
- **Alliances can work**

