Canadian Federation of Apartment Associations
Fédération Canadienne Des Associations De Propriétaires Immobiliers

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(For Immediate Release)

CFAA welcomes FCM Housing Action Plan, including tax deferral recommendation

CFAA welcomes the Housing Action Plan released today in Vancouver by the Federation of Canadian Municipalities (FCM), and supports its main thrusts. Specifically, CFAA agrees that federal housing funding should

- be long term and predictable
- allow flexibility in the use of funding
- include supportive housing to end homelessness
- address affordability, which is the predominant housing need apart from homelessness.

Tax deferral on reinvestment

The CFAA particularly welcomes FCM's call for improved tax treatment for rental housing. "Allowing tax deferral on real estate reinvestment will improve housing affordability, and capital and labour mobility, and help raise productivity in Canada," says CFAA President John Dickie.

Many groups across Canada are calling for the tax deferral on reinvestment in rental real estate, including:

- Canadian Real Estate Association
- Canadian Home Builders Association
- Canadian Federation of Apartment Associations, and now
- Federation of Canadian Municipalities

For more information on tax deferral, see the attached backgrounder.

CFAA is also particularly pleased with FCM's calls for

- a focus on the support needs of the chronically homeless, who typically have serious mental health or substance abuse problems
- the continuation of the Residential Rehabilitation Assistance Program (RRAP)
- improved shelter allowances under social assistance
- increases in the Guaranteed Income Supplement for seniors with affordability problems
- portable housing allowances for working poor households

Portable housing allowances

"CFAA is also glad to hear FCM add its voice to the growing chorus of organizations calling for portable housing allowances as a key method of addressing affordability," says CFAA President John Dickie. In its background document FCM says, "the analysis of housing need clearly documents the predominant problem as one of affordability. ... Affordability problems account for 93% of core housing need. …[portable shelter allowances] (i.e. linked to a household, not contracted to a unit) can be effective in helping to reduce these high shelter burdens."

The FCM recommendation lines up with the recommendation of the **Federal Liberal Women's Caucus** that ”a portable shelter subsidy that is tied to need rather than to designated units” be used to “increase the number of women who could receive the assistance they need to live in adequate, affordable housing.” See the *Pink Book, Volume 2*.

CFAA has long advocated portable housing allowances, since portable housing allowances:

- allow tenants to choose where to live;
- use the existing economical housing stock, rather than expensive, newly built housing;
- achieve income mixing without the cost of subsidizing middle income tenants;
- avoid the stigma associated with public or social housing;
- allow tenants to keep their housing assistance when they move to take a new job;
- can easily be used both in and outside major cities;
- can be administered quickly and at very low cost; and
- allow help to be provided equitably among many more low income tenants.

FCM's costing shows the value-for-money feature of portable housing allowances. FCM estimates a Canada-wide average cost per household of $38,000 for housing allowances as opposed to $107,000 for new construction (p.24). That means that **2.8 households can be helped through housing allowances for each household which is helped by construction subsidies.** FCM also notes housing allowances are well suited to payment of part of the affordability gap, which means that yet more households can be helped at the same total cost.

"CFAA joins FCM in calling on the federal and provincial governments to provide long-term housing funding to address the support needs of the chronically homeless, as well as addressing affordability through portable housing allowances,” says CFAA Chair Avrom Charach.

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Backgrounder

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Tax Deferral on Real Estate Re-Investment

Under the current federal income tax rules, when a rental real estate property is sold, the owner must pay tax on the recaptured CCA (at up to 48%) and on any nominal capital gains (at up to 24%). (Capital gains are not adjusted first for inflation, and therefore much of any gain may be eaten up by inflation, even before the tax is applied.) Due to the tax impact, an even trade of properties of the same value is not possible. The inability to defer the tax burden on the sale and reinvestment in rental real estate creates numerous economic problems and inequities.

Allowing tax deferral on real estate reinvestment would:

1. Reduce the cost of rental housing, and improve affordability and housing supply

When producers of a product are more heavily taxed, the price charged to consumers is increased. Rental property is no exception. Because rental property owners cannot defer taxes, they incur immediate tax costs on any property reinvestments, and in the long run those costs are passed on to tenants in the form of higher rents. Lower costs will result in lower rents (i.e. improved affordability) and a larger supply of rental housing.

2. Promote efficient capital allocation across the economy

The absence of a tax deferral on reinvestment creates a “lock-in” effect; in other words, to avoid tax consequences, investors retain real estate assets when other assets would provide a higher return. That is a drag on the economy, and results in lower economic growth and less productivity across Canada. Allowing tax deferral would eliminate that effect.

3. Promote more compact, environmentally sound urban redevelopment

The lock-in effect also inhibits the redevelopment of land in urban areas. It discourages the redevelopment of significant pieces of land into their most productive uses, contributing to urban decay and to urban sprawl. Allowing tax deferral would facilitate the rehabilitation of brownfield sites and compact, environmentally sound redevelopment in cities.

4. Help small investors and middle-income families

Investment rental property is very widely held, much more widely held than shares in public or private companies. For example in 2005, 66% of those who reported capital gains on rental real estate had less than $50,000 per year in income other than those gains. For those people the gains averaged $40,000 each.

5. Permit relocation by owner-managers

Rental property owners have the same relocation needs as other investors. If a person moves 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 be able to manage their property in their new location, rental property owners have to sell one property and buy another. Enabling investors to do that more freely would reduce absentee ownership and improve communities, as well as improving labour mobility across Canada, which is important for economic productivity.

6. Help level the rules between homeowners and residential tenants

Homeowners never pay any capital gains tax on the increase in the value of their houses, whereas such tax must be paid on the increase in the value of rental properties. Residential tenants have substantially less income and wealth than homeowners, but through their landlords the current tax regime imposes a tax burden on tenants, which homeowners are spared.

7. Level the rules between rental property and other businesses

People who own businesses can defer taxes on sale and reinvestment in their businesses now, but people who own rental real estate cannot.

8. Level the rules between businesses which rent and which own their premises

To relocate, downsize or expand, business owners who own their premises can defer taxes on sale and reinvestment in their premises now. For example, the owners of a print shop operating in a building worth $500,000 can sell it, buy a building worth $1,000,000, and roll over their tax position to defer tax until the latter building is sold. However, if the business owner rents their premises, the property owner cannot defer taxes, they incur immediate tax costs on any property sales. In the long run that raises the rents real estate investors need to charge to their business renters.

9. Level the rules between rental property and shares in companies

Three quarters of company shares are held in tax deferred vehicles such as pension plans and RRSPs. Real estate is not eligible for RRSPs. Allowing a tax deferral would result in between 50% and 75% of real estate gaining tax deferral, which would still be less than the deferral level which exists in company shares.

The proposal is a deferral only

To allow tax deferral on reinvestment is not a tax reduction; rather it is merely a tax deferral. The tax on capital gains and the recaptured CCA will ultimately be paid. The proposal is only to defer the tax, and only if the proceeds of a sale are reinvested in a replacement property within 12 months of the sale. On that basis, no capital gains have been realized; only an exchange of properties has taken place. Moreover, given that a lower undepreciated capital cost will apply, the taxes received on the income from the replacement property will be higher than they would be without the deferral.

The deferral cost of the proposal is reasonable

The federal government revenues that would be deferred by the proposal in the first year after implementation are approximately the following:

Deferred tax on capital gains	$ 256M
Deferred tax on recapture of CCA	$ 167M
Total revenue deferral	$ 423M

In the years that follow the first year, the deferral amount should decrease given that taxes payable (deferred from the first and subsequent years) would appear as an additional tax payable thereafter. Besides that, the increase in transactions resulting from reducing the lock-in effect would generate increases in economic activity and thus higher taxes on that activity. Increased income and capital gains from reducing the lock-in effect would also tend to raise tax revenue in future years. Over time, the deferral “cost” would decrease toward zero, while the economic benefits would quickly make the overall impact on government revenue positive.

Conclusion

Permitting rental property owners to defer capital gains tax and the recapture of capital cost allowances when they reinvest in real estate would benefit residential tenants, Canada’s economy, Canada’s cities, business renters and small, middle-class investors, and move the tax system toward greater equity and fairness.