

Canadian Home Builders' Association

Responses

1. Economic Recovery and Growth

Given the current climate of federal and global fiscal restraint, what specific federal measures do you feel are needed for a sustained economic recovery and enhanced economic growth in Canada?

The CHBA welcomed the federal government's announcement last November launching the development of a long-term infrastructure plan for Canada, one to be developed in consultation with the provincial and territorial governments and other interested parties. The CHBA commends the federal government for taking leadership on this important matter. Development of the plan will create key opportunities to 'get infrastructure right' for the future, with benefits for all Canadians. The CHBA recommends that the plan:

- Give priority to Canada's 'basic' infrastructure, and support coordinated federal, provincial, and municipal efforts;
- Build a comprehensive accounting for the current state of infrastructure to enable timely and adequate infrastructure investments;
- Recognize housing affordability and choice as one of the priority outcomes;
- Support fiscally responsible investment approaches that take into consideration the benefits (and beneficiaries) of 'basic' urban infrastructure – and spread the costs among all beneficiaries;
- Ensure that progress toward achieving infrastructure goals, at all levels of government, are measured and reported transparently to the public. A national long-term infrastructure plan for Canada would provide the opportunity to:
- Clarify the roles and responsibilities of the various levels of government for different types and levels of infrastructure investment and the services they provide;
- Coordinate long-term plans and investments that anticipate future growth and pursue desirable outcomes of infrastructure systems;
- Offer additional potential tools for provinces and municipalities to finance infrastructure (such as debt and new methods of equity-financing), and facilitating transfer of innovative concepts, methods and technologies from other countries to Canada, and across Canadian jurisdictions;
- Provide data and information for regular reports to decision-makers, users and the general public. Important policy benefits would flow:
- Orienting infrastructure investment to address emerging needs as Canada's population ages, and patterns of development and infrastructure use shift over time;
- Supporting housing affordability and choice, which will contribute directly to Canada's broader long-term economic objectives;
- Enhancing decision-making at all levels of government and in the private sector based on comprehensive, predictable and transparent investment plans;
- Increasing Canada's international economic competitiveness;
- Supporting environmental objectives and policy goals, for example water and transit systems.

2. Job Creation

As Canadian companies face pressures resulting from such factors as uncertainty about the U.S. economic recovery, a sovereign debt crisis in Europe, and competition from a number of developed and developing countries, what specific federal actions do you believe should be taken to promote job creation in Canada, including that which occurs as a result of enhanced internal and international trade?

Using a constant 7.5% mortgage interest rate (the average for the 1991-2012 period) illustrates the fact that current analyses mask a significant deterioration in affordability in recent years. The use of a constant mortgage interest rate removes the effect on the affordability analysis of the current historically low interest rates. The deterioration in homeownership affordability over the past decade

is due to the significant increases in housing prices over the past several years – price rises driven, in part, by inexorably rising government-imposed costs and more burdensome regulation. In particular, increased municipal charges (especially development cost charges – DCCs) are raising costs for home builders – with follow-on impacts on housing prices and homeownership affordability. When municipalities impose DCCs on new homebuyers, they effectively transfer public sector debt into household mortgages, which itself is a cause for concern from a public policy perspective. Also, some taxes, such as the GST/HST and land transfer taxes, are applied to the price of a home. Since municipal charges, such as DCCs, are built into the price of a new home, there is a significant element of pyramiding ('tax on tax') in the application of these taxes on new homes. The costs associated with levies, fees, charges and taxes are passed on to purchasers through higher housing prices. The fact that the GST rebate phase-out thresholds have been frozen for the past two decades is another serious impediment to housing affordability. The threshold at which the federal GST New Housing Rebate begins to be phased out is currently \$350,000. The rebate disappears entirely at \$450,000. This important measure of tax relief is effectively being phased out over time because the price thresholds, especially in Canada's most costly urban centres, have been overtaken by rising housing prices. The CHBA urges that the federal government pursue consultations with provincial governments on a national plan to address the deterioration in housing affordability as a matter of urgency. The Canadian economy and society are singularly not prepared for the very large impact of higher interest rates on the ability of young Canadians to pursue their dream of purchasing a home.

3. Demographic Change

What specific federal measures do you think should be implemented to help the country address the consequences of, and challenges associated with, the aging of the Canadian population and of skills shortages?

For many years, Canada has not produced nearly enough skilled trades to meet demand in residential construction. Canada's pool of skilled trades people is shrinking dramatically as an unprecedented rate of retirement occurs. The growing shortage of skilled people will undermine the industry's economic viability in the longer-term. Expanded immigration and training of Canadians – especially youth, Aboriginal people, and women – will be required to meet this demand. In the federal Budget of 2007, the Government of Canada introduced an Apprenticeship Incentive Grant and Job Creation Tax Credit. The Government of Canada also introduced an Apprenticeship Completion Grant in the 2009 federal Budget. However, very few new home builders and renovators, especially in the low-rise segment of the market, are able to take advantage of these tax measures because they apply to Red Seal trades only. Many trades employed in residential construction, including designated trades with skills of particular application in the residential sector, are not eligible for the Red Seal. Although 22 of the total of 50 Red Seal trades work in the residential sector, there are 20 trades designated by provincial governments that have not received the Red Seal endorsement. Some of the provincial grants and incentives available for apprentices are restricted to Red Seal trades or apprenticeships with three or more levels of training. The CHBA urges the federal government to:

- Extend apprenticeship grants and incentive programs to include all trades designated by provincial governments which are receiving provincial program support.
- Expand provincial grants and incentives currently available only to Red Seal trades, or to apprenticeships with three or more levels of training, to include all designated trades.
- Ensure that any new provincial training programs supported through federal Labour Market Development Agreements and Labour Market Agreements are made available to all trades designated by provincial governments.
- Require a full accounting of provincial programs funded through the Labour Market Development Agreements and ensure that this information is made readily accessible. It is extremely important to ensure that federal funds are being deployed effectively in support of provincial labour priorities.

4. Productivity

With labour market challenges arising in part as a result of the aging of Canada's population and an ongoing focus on the actions needed for competitiveness, what specific federal initiatives are needed in order to increase productivity in Canada?

The high quality of Canadian housing is a direct result of the types of materials, technologies and practices used in new home building and renovations – as well as the highly skilled people who perform the work. Building codes, product standards, technical research, innovations in products and building practices, and adoption of new products have all been (and continue to be) very important to the process of ensuring the high quality of Canadian housing. The housing industry works closely with key federal departments and agencies – Canada Mortgage and Housing Corporation, Natural Resources Canada, and the National Research Council (NRC – including the Canadian Codes Centre, the Canadian Construction Materials Centre and the Industrial Research Assistance Program). These collaborations have helped to support continuous improvement in the quality and performance of Canadian homes – it is critical that these collaborations continue and expand, with a focus on research and development that supports commercial application, and that addresses market innovation, for the benefit of all Canadians. This will not only address the economic priority of increased productivity, it is key to achieving further environmental progress, and to improving continuously the quality of Canada's housing stock. The imperative is to get R&D innovations into commercial use. Initiatives such as the LEEP process, supported by NRCan, make a significant contribution in this area. As well, 'beyond-code', voluntary, market-driven initiatives such as the 'Next Generation' of R-2000 and ENERGY STAR for New Homes support continued industry innovation. Further, the CHBA fully supports the new strategic direction at the NRC – including its review of competencies and organizational structure. NRC Construction will retain its current research resources deployed in new Programs, producing more focused outcomes and higher impact. And, the fundamental mandates of national code development and product evaluation services will be strengthened. And, the CHBA is very pleased that CMHC will continue its important research and information transfer activities with a renewed emphasis on research to support conventional and enhanced new housing – 'nuts and bolts' research that helps builders build better homes – as well as increased efforts towards getting practical information to builders.

5. Other Challenges

With some Canadian individuals, businesses and communities facing particular challenges at this time, in your view, who is facing the most challenges, what are the challenges that are being faced and what specific federal actions are needed to address these challenges?

Governments at all levels are losing billions of dollars annually through the activities of underground 'cash' operators in the home renovation sector. By one estimate, average government revenue losses from underground activity in the Ontario construction industry during the 2007-2009 period ranged from \$1.4 to \$2.4 billion per year. Canada Revenue Agency's (CRA) primary response to underground 'cash' activity in home renovations has been the Contract Payment Reporting System (CPRS). CRA itself has concluded that the CPRS is "not effective in that segment of the underground economy . . . commonly known as the 'cash' economy." Also, the GST registration requirements benefit 'cash' operators. By claiming their annual revenues total less than the exemption threshold for GST registration (\$30,000 annual sales), 'cash' operators can stay 'below the radar' of tax compliance and enforcement authorities. Action is urgently needed to combat the underground 'cash' economy, which undermines housing quality, creates liabilities for housing consumers, hurts legitimate tax-paying contractors and costs the federal and provincial governments billions of dollars each year in lost revenues. • The CPRS should be replaced with an effective approach to the underground 'cash' economy. As shown in recent Canadian-led international research (Reducing Opportunities for Tax Non-

Compliance in the Underground Economy, OECD, January, 2012), there are approaches taken by other countries that are effective. These should be examined and applied in Canada. • To end flagrant misuse of the GST exemption threshold, all firms and individuals in the construction industry should be required to register for a Business Number, even if they qualify for the GST exemption (i.e., have less than \$30,000 in annual sales). • A permanent 2.5% GST Home Renovation Tax Rebate should be introduced by the federal government to address unfairness in how the GST applies to home renovations. A key secondary benefit of such a Rebate would be to reduce significantly consumer acceptance of underground 'cash' deals in home renovations. The potential of this approach was demonstrated by the success of the Home Renovation Tax Credit in encouraging consumers undertaking home renovation projects to demand proper business documentation.