Standing Committee on Finance (FINA)

Pre-budget consultations 2012

The Canadian Real Estate 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 real estate sector can continue to play a leading role in enhancing economic growth in Canada, facilitated by fiscally prudent measures that complement the government's strong and steady approach to budgetary planning that has made our country the leader among G7 countries. The positive effects to the economy can be magnified by indexation of the Home Buyers' Plan (HBP), permitting use of the HBP after a significant life event and allowing the deferral of previously claimed depreciation (Capital Cost Allowance (CCA) recapture) on an investment property when owners sell in order to reinvest. Research from Altus Group estimates the average residential resale housing transaction generates over $42,000 in spin-off spending. This translates to a projected $20 billion in spin-off spending and over 165,000 jobs in 2012. A second Altus Study of multi-unit income property transactions in three of Canada's largest cities found the typical sale generates $287,850 in ancillary spending, and that every two transactions create more than one job. Budget measures targeted at the real estate sector can be implemented while ensuring Canadians participate in the housing market when they can afford to do so. The government's mortgage financing framework coupled with rules from the Office of the Superintendent of Financial Institutions are intended to ensure Canadians purchase real estate within their means, and do not use their home as a piggy bank to purchase consumer goods they cannot afford. However, it is equally important to ensure Canadians with good credit and stable incomes continue to benefit from government programs and policy designed for property buyers and owners. By allowing Canadians to withdraw up to $25,000 from their RRSP, the HBP reduces home buyers' obligation to lenders and can reduce or eliminate costly mortgage loan insurance. Since its inception in 1992, this critical program has helped make home ownership a more affordable reality for over two million Canadians without detracting from retirement savings goals. Unfortunately, inflation steadily erodes the purchasing power of the HBP. In its 20 year history, the HBP has only been adjusted once, from $20,000 to $25,000 in Budget 2009. While this restored much of the Plan's purchasing power at the time, inflation is once again steadily eroding the buying power of the HBP. A first-time buyer in 2012 is only receiving $23,850 in value from the HBP in 2009 dollars, not $25,000. For this reason, REALTORS® recommend the HBP withdrawal limit be indexed to inflation in $2,500 increments. It is important to emphasize that adjusting the withdrawal limit to compensate for inflation serves to maintain, not increase, the Plan's value. Adjusting in increments is a similar approach used to maintain the value of Tax Free Savings Accounts and would not interfere with deficit reduction targets and other fiscal and monetary objectives. Indeed, using the last time the HBP was adjusted as the starting point (Budget 2009), this approach would cost nothing until 2015, at which time the plan would adjust by $2,500 at a cost of $7.5 million. A further $2,500 increase would occur in 2019 at an additional cost of $7.5 million. Economic growth can also be encouraged in a fiscally prudent manner by allowing income property owners to defer previously claimed depreciation for tax purposes (CCA recapture). Income property investors face taxation on CCA recapture when they sell, and are often left with insufficient funds after tax to reinvest even in a property of similar value. Consequently, many hold on to properties instead of reinvesting preventing a dynamic of new investors from joining the market and existing investors from upgrading to larger investment properties in the community. Currently, each rental property is treated separately for

CCA purposes, if it was acquired after 1971 at a cost of more than $50,000. This means each building maintains a separate CCA balance and the sale of a single building triggers a recapture of the CCA. However, if income property CCA balances were allowed to be pooled together for depreciation purposes, the recapture of CCA could be deferred, and proceeds that would otherwise be taxed could be used for reinvestment. Under this system, any sale would reduce the pool balance and resulting amount available to depreciate by the amount that would otherwise be recaptured. Any purchase would increase the pool balance by the capital cost of the acquired property. Any deferral would be recaptured when the pool balance goes below zero, encouraging income property owners to reinvest and grow their portfolios. This is a Main Street proposal that seeks to level the playing field with real estate developers who already have other tax measures to defer CCA recapture. Research from Dr. Thomas Wilson of the University of Toronto illustrates that 55 per cent of the individuals who would benefit from this policy change have incomes below $50,000. A further 14 percent have incomes between $50,000 and $70,000. Dr. Wilson estimates the direct cost of this proposal will be almost completely offset in the first year ($12 million net cost) and revenue positive in year two ($7 million net benefit) by the collection of other revenue, including Capital Gains Tax from property sales, and GST/HST and income tax from spin-off activity. All deferred tax is ultimately collected when investors decide not to reinvest or later, through their estates.

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?

Jobs are the foundation of a strong economy. Unfortunately, housing prices in areas where labour is in high demand, such as the oil sands in Alberta, can impede an individual's ability to purchase a home. Labour mobility can be facilitated at little cost to government by allowing Canadians to use the Home Buyers' Plan (HBP) after relocating for new employment. The fiscal impact of this proposal would be minimal, as the cost of the HBP program is attributable to individuals who are assumed to contribute more to their RRSPs in the year of a home purchase in order to maximize their withdrawal under the HBP. There is precedent in the HBP to use it more than once. Individuals who need to seek new housing as a result of becoming disabled can use the HBP, as can those who have been out of the housing market for more than five years. To determine whether an individual could use the HBP as a result job relocation, REALTORS® recommend applying the same criteria used in the Income Tax Act to determine whether individuals can deduct eligible moving expenses. By this measurement, the new home would need to be at least 40 kilometers (by the shortest usual public route) closer to the new place of work. The HBP not only helps home buyers, it also benefits workers and industries across Canada. In 2010, more than 45,000 homes were purchased using the HBP. This resulted in over $1.9 billion in spin-off spending and more than 16,000 jobs. While we have concentrated on jobs as the motivator for this proposal, there are other significant life changing events that impact the ability to own a home, which would also benefit from the HBP. Specifically, we recommend allowing the use of the HBP in cases of a marital breakdown and death of a spouse. Marital breakdowns often lead to a split in assets, including a house, which can leave both individuals with insufficient equity to purchase another home. The death of a spouse can lead to reduced income, triggering the need to sell and impeding the ability to buy another property.

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?*	
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?*	
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?*	
Specific to the housing sector, first-time buyers are affected most by recently tightened mortgage regulations. Because their careers are in the early stages and often have debt from financing their education, home ownership affordability for first-time buyers is often challenging. First-time buyers with sound finances are the linchpin to the demand and supply chain that comprises the housing market, and are critical to the overall health of the sector. First-time buyers are needed for homeowners to move to homes that better suit their life circumstances, creating a virtuous circle that sustains a stable housing market. Federal action that supports home ownership for first-time buyers is imperative. While CREA understands the motivation of moving from 30 year to 25 year maximum amortizations and capping the gross debt servicing ratio at 39 percent, many first-time home buyers with modest, yet stable incomes and good credit now require a larger down payment to qualify for mortgage financing. Indexing the maximum Home Buyers' Plan (HBP) withdrawal to inflation would ensure many first-time home buyers, who use the Plan for their down payment, can meet tightened debt servicing ratio criteria. In addition, because the HBP allows Canadians to borrow from their own savings, they can do so without taking on additional debt. As such, REALTORS® want to emphasize our recommendation that the government maintain the purchasing power of the HBP by indexing it to inflation in $2500 increments.	