THE CANADIAN REAL ESTATE ASSOCIATION
L'ASSOCIATION CANADIENNE DE L'IMMEUBLE

The Canadian Real Estate Association's Priorities for the 2017 Federal Budget

Submission to the House of Commons Standing Committee on Finance

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EXECUTIVE SUMMARY

The Canadian Real Estate Association (CREA) represents over 114,000 REALTORS® across the country and is proud to participate in the pre-budget consultation process. We welcome the opportunity to share our recommendations directly with the House of Commons Standing Committee on Finance, as the 2017 federal budget presents an opportunity to make targeted investments that support sustainable growth and a strong middle-class.

Canada's housing market is a key component of Canada's overall economic stability and an important generator of jobs and economic security for the middle class. In 2015, each home sale generated an estimated $51,510 in spin-off spending. This translated to one job for every three transactions. MLS® home sales and purchases in 2015 added an estimated $26 billion in spin-off consumer spending to the economy and created 186,915 jobs.

To ensure the continued stability of the Canadian housing market and its contribution to job creation and a strong economy, CREA recommends Budget 2017 implement the following three recommendations:

1. Modernize and extend eligibility for the Home Buyers' Plan (HBP) to Canadians who, relocate to secure employment, accommodate an elderly family member in the family home, become widowed, or suffer marital breakdown.

2. Make homeownership affordable by indexing to the Consumer Price Index (CPI), the withdrawal limit of the Home Buyers' Plan (HBP) in $2,500 increment, a limit that has not increased with inflation since 2009.

3. Allow sellers of investment real estate to defer the recapture of previously claimed depreciation (Capital Cost Allowance [CCA]) on investment property when the proceeds are reinvested in another investment property.

Recommendation #1 – Help Homeowners Through Significant Life Changes

Vulnerable populations and individuals in life changing situations may not be able to continue to own a home without assistance. CREA believes the HBP should be available to help Canadians maintain homeownership after significant life changes, such as job relocation, a decision to accommodate an elderly family member, the death of a spouse, or a marital breakdown.

Jobs are the foundation of a strong economy. Relocating for work is a reality for many Canadian workers. At a time when the government is looking to fuel job growth, access to housing should not act as a barrier to job relocation. The HBP can encourage labour mobility by easing affordability concerns by allowing Canadians to use their RRSPs as a down payment for a family home. The existing definition in the Income Tax Act for eligible moving expenses can be used to administer eligibility for this policy extension.

The proportion of seniors in the Canadian population is rapidly growing, with the 2011 census reporting a record 4.9 million seniors in Canada. This record proportion is projected to increase by a further 10% over the next two decades. Innovative policy solutions are necessary to deal with the emerging issue of accommodating these individuals' specialized needs. Extending the HBP would help ensure Canadian families have viable financing options for accommodating an elderly family member in their home and allow them to use their RRSP savings to purchase or renovate their current home residence to accommodate an elderly family member. Eligibility could rely on existing rules in the Income Tax Act under which the cost of attendant care can be a qualifying medical expense. Where an adult relative, other than a spouse, is cared for in a residence, there is eligibility for a caregiver credit which is income dependant on the income of the person being cared for in the family home. All tests under existing administrative rules in the Income Tax Act can be used to accommodate this initiative.

In 2013, 50,900 Canadians became widowed and 38,800 divorced. These individuals may require support to keep housing within reach through this disruptive and often difficult period of change. Helping lessen affordability concerns is already a principle of the program. Individuals requiring new housing as a result of becoming disabled and those who have been out of the housing market for more than five years can use the HBP for a second time. The current reporting requirements in the Income Tax Act can be used to effectively facilitate and monitor the extension of the HBP to accommodate Canadians going through significant life changes. These requirements demand annual information about marital status, divorce or death. Also for those who are required to pay alimony or child support, there are specific rules to facilitate deductibility. Where support payments are not required, court orders regarding separation and marriage break-up can readily be required to determine status and eligibility for this initiative.

Extending the HBP is a compassionate and fiscally responsible way to help modern Canadian families finance the purchase of a new home. The HBP effectively amounts to a zero-interest self-loan because it allows Canadians to borrow from their own easily accessible savings. The only costs to the government are attributable to a loss in tax revenue from Canadians contributing more to their Registered Retirement Savings Plans (RRSPs) in order to take advantage of the HBP.

Recommendation #2 – Make Homeownership Affordable

The HBP allows first-time homebuyers to borrow up to $25,000 from their RRSP to use as a down payment towards a home purchase. Unfortunately, this key support for first-time homebuyers is losing its purchasing power to inflation. CREA recommends the HBP withdrawal limit be indexed to the Consumer Price Index (CPI) and adjusted at $2,500 increments to prevent inflation from eroding its value.

To date, more than 2.9 million Canadians have used the HBP to help make homeownership more affordable. In spite of the HBP's importance, it has lost over $5,500 in purchasing power relative to its value in 1992 and over $2,700 since it was last adjusted in 2009. If left unadjusted, a homebuyer in 2020 will receive $7,900 less value from the HBP than a homebuyer in 1992.

Maintaining the value of the HBP is critical, since it gives first-time homebuyers an opportunity to make larger down payments, which can reduce or avoid mortgage default insurance fees and help build home equity sooner. Interest charges can also be reduced by the HBP by allowing first-time homebuyers to borrow from themselves and rely less on financial institutions. In addition, the HBP makes it easier for Canadians such as millennials and middle-class families to build home equity and save for retirement at the same time, thus incentivizing greater financial preparedness.

Home purchases involving the HBP in turn generate spin-off spending and create jobs. In 2015, home purchases involving the use of the HBP resulted in $2.4 billion in spin-off spending and more than 17,100 jobs. In 2016, spin-off spending and employment creation is estimated at over $2.5 billion and 18,200 jobs.

Polling conducted by Nanos Research shows a majority of Canadians view the HBP as a valuable tool for Canadians interested in buying a home and believe it makes sense to index the HBP. Nanos Research found 76% of Canadians were supportive of adjusting the maximum withdrawal amount of the HBP to keep pace with rising consumer prices.

Finally, indexing the HBP is an affordable way for the government to support first-time homebuyers and help middle class Canadian families finance the purchase of a home. Using Budget 2009 as a starting point, the plan would adjust by $2,500 in 2017 at an estimated cost of $7.5 million. Based on current trends, we estimate a further $2,500 adjustment would not occur until 2021 at an estimated cost of $7.5

million. With continuing increases in the price of residential real estate, indexing the HBP will merely keep pace with other inflationary trends.

Recommendation #3 – Creating More Housing Stock

To increase housing supply in more costly markets and across the country, CREA proposes investors be allowed to defer taxes on the recapture of previously accumulated depreciation (Capital Cost Allowance [CCA]) when they sell one investment property to reinvest in another of equal or greater cost.

Currently, income taxes act as a significant deterrent to many investors to sell income properties. This is because depreciation that was deducted from income over time is taxed at full marginal rates when the property is sold, which often leaves insufficient after-tax proceeds to reinvest in another property even of similar cost. This gives rise to what has been referred to as a "locked-in" effect because owners who are taxed only upon realization and with paper profits on both recapture and capital gains, are reluctant to sell.

To overcome this effect, CREA recommends a deferral of previously claimed depreciation (CCA) be allowed on an investment property when a seller reinvests the proceeds of sale into another property. The current system acts as a deterrent and many hold on to the properties instead of reinvesting. CREA's proposal would promote reinvestment and revitalization of neighbourhoods, which would increase housing supply, strengthen Canadian communities and ultimately Canada's economic success.

Investment in property triggers renovations, retrofits and redevelopment, which benefits the economy. Furthermore, since this proposal would trigger federal revenue that otherwise would not be collected (Capital Gains Tax from property sales, GST/HST and income tax from spin-off activity); the net cost of this recommendation in the first year is estimated to be $12 million. By year two, it would be net revenue positive, earning the government $7 million because the deferred recapture serves to reduce the depreciable base of the replacement property yielding lesser depreciation deductions in the future, thereby resulting in higher taxable income from the replacement property. All deferred CCA is ultimately collected when investors decide not to reinvest, or later through their estates.

Allowing deferral of CCA levels the playing field for small investors, as developers already benefit from other tax measures that effectively provide for deferral on reinvestment. Over 50% of the individuals that would benefit from this measure have annual incomes below $50,000. An additional 14% of beneficiaries' incomes are under $75,000 and as a result the measure would be instrumental in levelling out their average income over time, as opposed to the current situation that pushes an individual's income into a higher marginal tax bracket as a result of recapture in the year of sale.

Encouraging redevelopment and renovation of buildings will result in quality housing stock and increase supply and help make housing more affordable for Canadians. Renovations and redevelopment also provide spin-off benefits, including investments in infrastructure and enhanced quality of life for communities where improvements take place.