

Rental Owners and Managers Society of British Columbia

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?

Revise restrictive and discriminatory income tax rules to treat rental property owners and other business owners equally, i.e. define residential rental property owners as active businesses, and allow them to defer tax on sale and reinvestment on the same basis as other businesses. There are literally billions of dollars invested in rental properties, where, but for these restrictive and discriminatory tax rules, the owners would sell and reinvest the proceeds in new construction. Before the current tax rules (based on the definitions of active and passive businesses) were promulgated, 50,000 new rental units were being built annually. For four decades, that number has not been met; in the last 20 years new rental construction has ranged between 6,400 and 20,000 rental units. Stimulating new rental housing will have many beneficial effects, including: ➤New rental units will first be built where vacancy rates are low, relieving upward pressure on rents. ➤Renters (about one third of Canadian households) will have greater choice of both type (contemporary units) and location. ➤Greater choice and availability contributes to labour mobility, currently a restriction on Canadian productivity. ➤New buildings will be significantly more energy efficient than the typical 40 to 60 year old buildings. ➤Buildings that have passed their useful life will be replaced. In addition to permitting capital gains tax rollover, as is allowed for most industries, the following tax reforms are required to stimulate the expansion of rental housing: ➤Increase soft construction costs deductibility; ➤Provide for higher capital cost allowances in the early years of building life; ➤Permit capital cost allowance deductions against other income; ➤Permit rental housing to qualify for small business treatment on the same basis as other businesses. It is critical to emphasize that most of these recommendations won't result in reduced tax revenues; they would result in tax deferral. We submit this deferral is an appropriate economic stimulus and in the short term would be offset by the increased activity – hence increased tax revenues -- in the design, development, construction, legal and financial sectors.

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?

Revising the relevant tax rules to be consistent with those applicable to small business, as recommended in #1, would be perhaps the greatest single stimulus to meaningful job creation in almost all areas of Canada. Providing other incentives, or removing disincentives, to residential rental property owners to upgrade current rental stock would not only create jobs, but also improve the quality of life for the one third of Canadian households who rent their homes. The typical apartment building in Canada is between 40 and 60 years old. Fewer are newer because of the changes in federal taxation laws in the early 1970s that continue to discourage investment and reinvestment in the rental housing industry. These old buildings must continue to exist for the foreseeable future. Not only must roofs, windows,

boiler systems, etc. be replaced, but also building owners are under increasing pressure from federal, provincial and municipal regulatory bodies to install or upgrade building infrastructure and systems to meet current building code requirements. Implementing many of the latter, such as dealing with potential asbestos containing materials, is prohibitively expensive. Moreover, a property owner's only source of revenue to carry out these projects is the rents that must consequently increase. Reducing the cost of these projects, whether through tax reductions, rebates or other measures within the purview of the federal government will directly lead to more projects becoming economically feasible, thus creating additional jobs. Most of these jobs would be in the small business sector – the sector that drives the Canadian economy. One specific step in this direction would be to encourage building retrofits that reduce energy consumption by including their equipment, material and labour costs in Class 43.2 in Schedule II of the Regulations to the Income Tax Act.

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?

Immigration Canada's working age population will continue to decline in relationship to the population that has retired from the workforce. Demands for social and health services will increase in direct proportion to the increase in this population demographic. It is therefore imperative that Canada continues to encourage – indeed expand – immigration of people with needed skills and qualifications. Immigrants generally gravitate to one of Canada's three largest cities and initially rent their homes. Particularly in Vancouver, there is a dearth of affordable rental housing. Further, immigrants may wish to be more mobile once they are established in Canada and have developed personal or career objectives that would take them to other than a major city. This is desirable, however, there must be available rental housing in their new location. **Seniors** There is a growing trend for persons late in life to want to remain in independent housing, while disposing of their owned personal residences to provide or supplement their retirement income. Seniors often want to be relieved of building maintenance costs and responsibilities and/or to avoid the purchase costs and inherent social problems sometimes encountered in strata complexes. This trend translates into more demand for contemporary rental housing, particularly in areas close to major health care and recreational facilities. **Labour Mobility** In addition to the needs and desires of immigrants to relocate from the area they first occupy, there is a need for people to relocate to pursue employment or career advancement opportunities. Being able to do so means being able to locate reasonable accommodation in their new location. Similar to immigrants, people moving to a new community often choose to rent until they become familiar with the various neighbourhoods, learn which schools they wish their children to attend, are assured their employment is stable, etc. The above perspectives reinforce the need to enable the rental housing industry to expand the availability of rental housing by constructing thousands of net additional rental units over the next decade in almost every area of the country. The primary stimulus vehicle must be the various tax reforms outlined in this submission.

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?

There is a correlation between labour mobility and productivity. Consider several people with occupational skills that were once in demand in their community, but no longer are. To survive and maintain their families, they have taken lower paying, less skilled jobs. Their valuable skills are not underutilized; they are unutilized. However, there is a shortage of these skills in another community. If

relocating, most of these families would choose to rent until they become familiar with their new community. They would consider moving, except there is little or no suitable rental housing in the area where they would be employed. This fact alone dissuades them from pursuing the available skilled or professional jobs. Financial incentives to encourage labour mobility are not the answer. People will move without such incentives if they can be assured of stable employment and suitable housing. The role the federal government can play in increasing mobility, hence productivity, is obvious: remove the barriers to rental housing construction, particularly those related to current taxation rules. Restrictions on labour mobility are not confined to trades or professions; they extend to rental property owners. Many of Canada's rental portfolios are privately owned. Thousands more single properties or small buildings are owned by individuals; in fact, over 1.3 million Canadians report rental income each year. If investors in stocks or bonds choose to relocate, their investments go with them. For rental property owners to contemplate relocating, and continuing to invest in rental property, they must dispose of their properties or portfolio, and then find comparable properties in their new location. This is problematic for several reasons: ➤Disposal of current properties will trigger recapture and capital gains taxes. ➤Persons must be found who are willing to invest in what are likely aged buildings. ➤Relevant properties in the new community must be available, as the current tax rules preclude the construction of new rental properties. Allowing capital gains tax deferral and providing incentives for constructing purpose built rental properties would inevitably result in increased mobility by rental property owners, many of whom are skilled trades people or professionals.

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?

The predominant challenges facing Canadians are financial. Rents, incomes taxes and property taxes consume much of their income. There is a compound anomaly that generally is unrecognized by governments and media: ➤Homeowners pay lower taxes directly related to their property than do renters, whose rents are the sole source of revenue for landlords to pay all taxes – property, income, fuel, carbon, etc. ➤Governments at all levels tend to apply higher and/or broader taxes on rental property owners than on homeowners. ➤The current income tax system inflates the cost of rental housing. See Government Subsidies to Homeowners versus Renters in Ontario and Canada, August 2010, by Frank A. Clayton at http://www.cfaa-fcapi.org/pd2/CFAA_FRPO_Govt_Sub.pdf While this anomaly is caused at all levels of government, the federal “portion” thereof can be addressed through the essential tax reforms proposed elsewhere in this submission. While there is an urgent need for more private sector rental housing, that need does not extend to social housing. With the exception of persons with special health related needs, most of the people who reside in social housing do so because of an income shortage, not a housing shortage. The federal government -- and through its influence provincial governments – needs to provide or expand portable housing allowances to low income individuals and families. The most effective of these allowances are those that realistically bridge the income to rent gap and can be retained, at least temporarily, by those who relocate to seek employment or better employment. (See our labour mobility response to the Productivity question.) A portable housing allowance is extended to a qualified person; it is not paid to nor its existence known by landlords, thus cannot be argued to cause inflated rents. The other tangible benefit from expanding portable housing allowances is that they allow people to move from social to private sector housing, thus freeing up much needed housing for those with special needs for whom appropriate supports can not be provided by private sector landlords.