<u>2014 Pre-Budget Consultation</u>

The Canadian Real Estate Association's Priorities for the 2015 Federal Budget

Executive Summary

On behalf of Canada's over 100,000 REALTORS®, The Canadian Real Estate Association is proud to continue its longstanding participation in the House of Commons Standing Committee on Finance's annual Pre-Budget Consultation.

Canada's housing market played a key role in helping to maintain overall stability during the global economic downturn of 2008 and 2009. As the world economy continues to recover, Canada's housing market is integral to creating jobs. In 2014, 463,400 homes are projected to be sold in Canada with this number rising to 467,800 in 2015. These transactions are expected to generate more than 180,600 jobs and $23.6 billion in spin-off spending in 2014. In 2015, these numbers will rise, with 182,400 jobs and $24.3 billion in spin-offs projected.

CREA believes three measures can help ensure the continued stability of the Canadian housing market and its contribution to jobs and economic growth through Budget 2015:

1. Index the withdrawal limit of the Home Buyers' Plan (HBP) in $2,500 increments to the Consumer Price Index (CPI).

2. Extend HBP eligibility to those who have recently become divorced, lost a spouse, relocated for a new job, or decided to accommodate an elderly family member in their home.

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

CREA's Recommendations for Budget 2015

Recommendation #1 – Make Homeownership Affordable

The HBP allows first-time homebuyers to borrow up to $25,000 from their Registered Retirement Savings Plan (RRSP) to use as a down payment towards a home purchase. The affordability of homeownership is a growing concern for first-time buyers; meanwhile, the HBP is losing its purchasing power to inflation.

To keep pace with inflation, CREA recommends the HBP withdrawal limit be indexed to the Consumer Price Index (CPI) and adjusted in $2,500 increments.

To date, more than 2.7 million Canadians have used the HBP to help make homeownership more affordable. However due to inflationary trends, the HBP has already lost over $1,600 in purchasing power since it was last adjusted in 2009. If left unadjusted for inflation, a homebuyer in 2020 will receive over $5,000 less value from the Plan compared to a homebuyer in 2009.

Maintaining the value of the HBP is important to help Canadians with their down payments. The HBP allows first-time homebuyers to reduce or avoid mortgage default insurance fees. Larger down payments facilitated by to the HBP also allow homebuyers to build home equity sooner. This reduces interest charges to financial institutions.

Additionally, home purchases involving the HBP generate spin-off spending and create jobs. In 2012, home purchases that involved the use of the HBP resulted in over $2.5 billion in spin-off spending and more than 20,200 jobs.

Indexation in the Income Tax Act is an established practice applicable to personal tax exemptions annually and should be applied to the HBP. A direct point of comparison is the Tax Free Savings Accounts (TFSAs) which are indexed to the CPI in $500 increments. Moreover, Budget 2014 indexed the Lifetime Capital Gains Exemption on small business shares.

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

Finally, indexing the HBP is an affordable way for government to support first-time homebuyers. Using Budget 2009 as a starting point, the plan would adjust by $2,500 in 2016 at an estimated cost of $7.5 million. Based on current trends, we estimate a further $2,500 adjustment would not occur until 2020 at an estimated cost of $7.5 million.

Recommendation #2 – Help Homeowners Through Life Changes

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

Helping Canadians who lose their jobs, by allowing use of the HBP, facilitates labour mobility by easing housing affordability concerns.

The proportion of seniors in the Canadian population is growing rapidly, 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. Affordability concerns should not restrict families from choosing to accommodate an elderly family member in their home when the HBP could offer assistance.

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 can use the HBP, as can those who have been out of the housing market for more than five years. The current structure of the rules in the Income Tax Act and the reporting requirements that exist can readily facilitate an extension of the HBP to accommodate the life changing events described in an effective way that can be easily administered.

Extending the HBP is a fiscally responsible way to help Canadians. The HBP effectively amounts to a zero-interest self-loan because it allows Canadians to borrow from their own savings. The only costs to the government are attributable to a loss in tax revenue from Canadians contributing more to their RRSPs in the year of a home purchase in order to take advantage of the HBP.

Recommendation #3 – Encourage Community Reinvestment

To promote reinvestment and revitalization of Canadian communities, 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 disincentive to many investors to sell income properties. That is because depreciation that was deducted from income is taxed when the property is sold, which often leaves insufficient after-tax proceeds to reinvest in another property even of similar cost.

CREA believes a deferral of previously claimed depreciation (Capital Cost Allowance (CCA)) should 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 Canadian communities.

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 only $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 per cent of the individuals that would benefit from this measure have annual incomes below $50,000. An additional 14 percent of beneficiaries' incomes are under $75,000 and as a result the measure would be instrumental in leveling out their average income over time as opposed to the current situation which pushes an individual's income into a higher marginal tax bracket as a result of recapture in the year of sale.

This proposal also benefits tenants by encouraging redevelopment and renovation of buildings, which provides spin-off benefits for communities where these improvements take place.