HERITAGE CANADA NATIONAL TRUST
HÉRITAGE CANADA FIDUCIE NATIONALE

BRIEF TO HOUSE OF COMMONS STANDING COMMITTEE ON FINANCE

Executive Summary

The federal tax system and federal spending are vital instruments shaping the ability of Canadians to protect and revitalize heritage places, especially during the lead-up period to 2017.

But investing in heritage conservation does more than contribute to building a legacy, it stimulates private investment in local economies, creates new jobs, revitalizes communities, preserves and creates affordable housing, and attracts cultural tourists.

It also makes good ecological sense by capitalizing on materials and energy already invested, reducing construction and demolition waste, and avoiding the environmental impact of new infrastructure.

HCNT's recommendations to the House of Commons Committee on Finance focus on actions to stimulate the economy while also contributing to more liveable and sustainable communities.

Recommendation 1: Introduce a federal rehabilitation tax incentive for heritage properties in Canada.

Recommendation 2: Reallocate a portion of Department of Fisheries and Oceans capital expenditure budget for lighthouses to create a national Heritage Lighthouse Fund, a matching grant program which leverages corporate support and private donations.

Introduction

The rehabilitation of historic buildings represents an important opportunity to stimulate private investment and create new jobs, with significantly less environmental impact than other stimulus measures – and with the added benefit of preserving and enhancing liveable communities and attracting tourism spending.

Yet every day historic buildings are lost to desertion, decay, and demolition. In the past 30 years, more than 20 percent of Canada's pre-1920 heritage buildings were demolished, despite polls that consistently show Canadians care deeply about these places. [1]

The many "sticks" or disincentives that exist make it challenging to save historic places and very few "carrots" exist to counteract those barriers. This dynamic is compounded by an unpredictable bottom line for heritage building rehabilitation, rising land values in big cities, and the lack of development activity in smaller centres. Canada's federal tax system, with its built-in disincentives for rehabilitation, is also a factor.

Recommendation 1:
Introduce a federal rehabilitation tax incentive for heritage properties in Canada.

Most historic properties are best protected and more sustainable over the long term when they have a viable use. The federal government can help create a better financial climate for reusing existing building stock by introducing a tax measure to attract investment.

A tax incentive is preferred in the fast-paced and competitive environment of the commercial property development sector, as it would provide the predictability that developers and property owners require.

And there is broad support for such a measure from provincial/territorial governments, 35 municipalities and the FCM.

No Provisions for Heritage Properties in Federal Tax System

Through special tax measures, the Minister of the Environment actively encourages appropriate private sector action in the preservation of Canada's environmental heritage through the Eco-Gifts Program. Similarly, the Minister of Canadian Heritage uses tax measures to encourage the retention of cultural objects in Canada.

However, there is no tax measure to encourage private sector action for another type of national treasure: Canada's heritage buildings.

Federal Tax System Actively Discourages Heritage Rehabilitation

Projects that introduce new housing units as part of the rehabilitation of a historic building are not eligible for the GST New Housing Rebate because the program stipulates that 90 percent of the non-structural fabric of the existing building must be removed, and that new additions must

[1] For example, a 2007 Canada West Foundation poll asked "Your city should protect historic buildings rather than demolish them to make space for new buildings." 8 out of 10 respondents from Edmonton, Calgary and Toronto agreed with this statement; and 7 out of 10 in Vancouver, Winnipeg and Regina.

fundamentally change the character of the property, which discourages renovators who follow heritage conservation standards.

A further issue is the lack of a codified definition of expensable rehabilitation in the *Income Tax Act*. Owners cannot get a clear explanation from tax officials about which types of rehabilitation work is repair and maintenance (currently deductible for tax purposes) or an expenditure which must be capitalized and depreciated over future years under the capital cost allowance system. This distinction is important. A restoration expenditure, after tax, can jump by 60 percent if CRA disallows the cost as a deductible repair and requires it to be capitalized, making it difficult to develop a balance sheet and obtain financing.

This distorts the economics of rehabilitation, and can promote demolition. More importantly, the economic life expectancy of millions of dollars in assets is being unnecessarily cut short and the productivity of the Canadian economy diminished.

<u>Tax Measures for Rehabilitation Would Help the Environment and Other Goals</u>

The rehabilitation of historic buildings has many spin-off benefits. A rehabilitation tax incentive will:

> <u>Reduce Greenhouse Gas Emissions</u>: A 2004 Montreal study found that rehabilitation of a heritage building consumed less than half the energy and produced half the CO_2 than if it had been demolished and a new building erected. The Prince's Regeneration Trust in the UK found that rehabilitation generates 38 times less energy and carbon than new construction.

> <u>Support Sustainable Development</u>: The reuse of heritage buildings supports urban intensification, capitalizes on energy already invested in them, reduces construction and demolition waste, and avoids new infrastructure (road, sewer, hydro grid) associated with new development.

> <u>Act as a Revitalization Catalyst</u>: The renewal of income-producing properties attracts new businesses and residents, and increases property values. A 2003 study showed that investments in the rehabilitation of Vancouver historic Stanley Theatre stimulated: a 21 percent increase in restaurants, cafes and bars in the area; retail sale increases of 107.7 percent, or $112 million, generating an additional $8 million in sales taxes and $9 million in GST; and real estate price increases of 72 percent, outstripping Vancouver residential market increases.

> <u>Improve Overall Economic Prosperity</u>: The economic benefits of incentives include job creation, revitalization of older communities, and generation of net tax revenue for municipalities, provinces/territories and the federal government. Looking south of the border, between 2002 and 2005 the Rhode Island Historic Preservation Investment Tax Credit generated 5 times the value of tax credits in total economic activity.

<u>Federal Tax Measures for Rehabilitation are a US Success Story</u>

In the US, a booming and preservation industry exists because 30 years ago the US established a 20 percent federal tax credit for rehabilitation of heritage buildings, and a 10 percent tax credit for the rehabilitation of non-heritage, non-residential buildings built before 1936. The Historic

Rehabilitation Tax Credit Program is internationally recognized for its continuing success at stimulating private investment and revitalizing communities. Results are visible in every region:

- over 38,000 properties rehabilitated by the private sector;
- over $62 billion in private investment in historic buildings leveraged (with a 5 to 1 ratio of private investment to federal tax credits);
- an average of 45 new jobs created by each project;
- over 400,000 housing units created, 105,000 of them low and moderate income housing
- reduced landfill; and
- increased property values and enhanced state and local tax revenues.

The federal tax credit has led the way for other levels of government. Half the states now have a tax credit that can often be 'stacked' with the federal tax credit. In Maryland, the heritage tax credit program assisted more than 1,000 rehabilitation projects, leveraging $400 million in private investment from $90 million in tax credits. Virginia and Missouri report similarly impressive ratios of private investment to tax credits.

<u>A Canadian System is Already in Place to Support a Tax Measure</u>

In a pilot program designed to 'test' the appetite and benefit of a potential tax incentive, the former Commercial Heritage Properties Incentive Fund (CHPIF) offered financial incentives to attract developers to rehabilitate historic buildings. The results were impressive: a total of $21.5 million in federal contributions spread across 49 projects leveraged more than 8 times that amount in private sector investment ($177.2 million) and gave empty, derelict buildings vibrant new uses. Thanks to the CHPIF program pilot, the tools are in place to administer a Canadian rehabilitation tax credit:

- the Canadian Register of Historic Places is online and being populated with properties eligible for incentives;
- heritage conservation standards have been published and adopted nationally; and
- trained agents are in place in every province to certify whether the work meets these standards.

<u>Recommendation 2</u>:
Reallocate a portion of Department of Fisheries and Oceans capital expenditure budget for lighthouses to create a national Heritage Lighthouse Fund, a matching grant program which leverages corporate support and private donations.

Lighthouses are landmark structures that attract tourism and anchor local, regional and national culture and identity. Governments at all levels and businesses routinely feature lighthouses in their travel promotion and economic development efforts.

Located in every Canadian province and territory except Alberta and Saskatchewan, lighthouses are typically found in smaller, remote, and often economically challenged communities. Their adaptive reuse would have economic, social, and cultural heritage impacts that would ensure their ongoing tourism potential and that of their supporting communities. Their rehabilitation and ongoing maintenance would provide economic stimulus and skilled jobs. Their reuse as eco-tourism, special event or research/education facilities would help diversify rural/outport economies.

HCNT recommends providing seed money for a national campaign to raise funds for local groups working to preserve the over 450 historic lighthouses that are in the process of being transferred out of federal government ownership. We also recommend matching funds be provided to build on the private and corporate donations generated by the campaign.

Why is a Federal Funding Role Needed?

The 2010 *Heritage Lighthouse Protection Act* (HLPA) identified lighthouses as "an integral part of Canada's identity, culture and history" and that measures were needed to protect them for posterity. However the Act excludes lighthouses that are declared surplus unless a community group or private owner commits to acquire them and protect their heritage character.

Shortly after the Act was passed, the Department of Fisheries and Oceans (DFO) declared over 450 of its lighthouses surplus, shifting the responsibility for their protection entirely onto local communities. In these cases, a written commitment to buy or otherwise acquire a lighthouse and to protect its heritage character, that includes a viable Business Plan, must be submitted to DFO. The move undermines the intent of the HLPA, leaving the door open to their abandonment and demolition by neglect. Local communities will face huge challenges in protecting and maintaining large and remote lighthouses, making federal support essential.

A national Heritage Lighthouse Fund (matching grant program with seed funding provided by Government) would leverage corporate support and private donations. The goal is to create a source of funds for local groups working to preserve historic lighthouses, thereby enabling the transfer of many cherished icons out of government ownership and into the hands of Canadian communities.

Jobs would be created in the travel sector (tours, historic/cultural interpretation, etc.), skilled trades (maintaining, upgrading and converting historic properties) and the service sector. The influx of tourism dollars and resulting job creation would improve the standard of living of residents in what are often smaller lighthouse communities.

The federal government could fund this initiative by reallocating the cost-savings to DFO for maintenance and capital expenditures on the divested lighthouses. Many will remain in active service as aids to navigation. This would build on DFO's $1 million program "Invest to Divest" available for capital upgrades to lighthouses prior to divestiture.

Conclusion

The rehabilitation of Canada's heritage buildings dovetails with the Government of Canada's current environmental and sustainability goals as well as fostering economic revitalization. Polls consistently show that Canadian's want their governments to support the preservation of heritage properties. The two measures recommended in this brief are proven approaches to encouraging and leveraging private sector investment and kick-starting viable and sustainable futures for Canada's historic places.

About the Heritage Canada The National Trust

Heritage Canada The National Trust (HCNT)**,** formerly the Heritage Canada Foundation, is a national charity that inspires and leads action to save historic places, and promotes the care and wise use of our historic environment. Our sites, projects and programs enhance community and quality of life and inspire Canadians to identify, conserve, use, celebrate and value their heritage buildings, landscapes, natural areas and communities for present and future generations. www.heritagecanada.org

Contact:

Natalie Bull, Executive Director
Heritage Canada The National Trust
613-237-1066 x222
nbull@heritagecanada.org