Priorities for the 2018 Federal Budget
Submission to the House of Commons Standing Committee on Finance

The Canadian Real Estate Association

August 2017

Executive Summary

The Canadian Real Estate Association (CREA) represents over 122,000 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 2018 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 the country's overall economic stability and an important generator of jobs and economic security. In 2016, Multiple Listing Service (MLS®) home sales and purchases added an estimated $31 billion in spin-off consumer spending to the economy and created 220,000 jobs. In 2017, this is expected to rise to over $33 billion in spin-off spending and create 230,000 jobs.

Homeownership is an important part of a complete housing spectrum, and continues to be an important issue to Canadians. Addressing affordability at all levels of housing means ensuring that individuals can access housing options that fit their income and lifestyle. Keeping homeownership affordable and within reach for Canadians helps to relieve pressure on housing across all sectors, allowing Canadians to move within the housing continuum.

CREA recommends budget 2018 implement the following recommendations to ensure the Canadian housing market continues to contribute strongly to the economy and create jobs:

- **Modernize and extend eligibility for the Home Buyers' Plan (HBP)** to Canadians who relocate to secure employment, accommodate an elderly family member in their home, become widowed, suffer a marital breakdown, or wish to assist their children with the purchase of a home.
- **Make homeownership affordable by increasing the HBP withdrawal amount by $10,000** – a limit that has not increased with inflation since 2009.
- **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.

Modernize and extend eligibility for the Home Buyers' Plan (HBP)

The HBP is a valuable tool for Canadians interested in buying a home and has helped over 2.9 million first-time homebuyers achieve their dream of homeownership since its inception in 1992. The HBP allows Canadians to borrow from their Registered Retirement Savings Plan (RRSPs) to put towards the down payment of a home.

Ensuring affordable access to safe and stable housing for individuals impacted by unexpected significant life changes must be a priority. A core principle of the HBP is to mitigate concerns around housing affordability for Canadians. The HBP effectively amounts to a zero-interest self-loan because it allows Canadians to borrow from their own savings.

CREA recommends the HBP be extended to help Canadians maintain homeownership after significant life changes including:

- **job relocation;**

  Jobs are the foundation of a strong economy. Relocating for work is a reality for many Canadian workers. As Canada sees strong job and economic growth, it's important that access to housing does not become a barrier to employment. Shifting demographics in the work force mean that Canada must stay on top of innovative policy solutions to ensure the labour market remains productive and stable—including facilitating labour mobility.[1] Recent studies show generational income mobility in Canada is greatest in urban centres, and fostering labour mobility is tied to removing the costs and barriers associationed with moving.[2] The HBP can encourage labour mobility and ease affordability for families moving for work, by easing financial obligations during the purchase of a home in a new city. The existing definition in the *Income Tax Act* for eligible moving expenses can be used to administer eligibility for this policy extension.

- **a decision to accommodate an elderly family member, and;**

  The proportion of seniors in the Canadian population is rapidly growing. The 2016 census reported over 5.9 million seniors, outnumbering children under 14 for the first time.The increase in the senior population between 2011 and 2016 is one of the largest observed and shows a clear aging trend in Canada. Innovative policy solutions are needed to accommodate these individuals' specialized needs and provide support to an ever-growing segment of the population and their respective families. Extending the HBP would provide Canadian families with a viable financing option to accommodate an elderly family member in their home. Eligibility can be built on existing rules in the *Income Tax Act* to accommodate this initiative.

- **the death of a spouse, or a marital breakdown.**

  In 2013, 50,900 Canadians became widowed and 38,800 divorced. Individuals in these situations may require support to keep housing within reach through this disruptive and often difficult period of change. Extending the HBP to a second use can help ease families in transition and continue to ensure access to stable housing. Already, the HBP is available for second use to individuals requiring new housing as a result of becoming disabled, as well as those who have been out of the housing market for more than five years. Exisiting reporting requirements in the

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[1] https://www.fin.gc.ca/pub/ltefp-peblt/report-rapport-eng.asp

[2] https://www.theglobeandmail.com/news/national/a-tale-of-two-canadas-where-you-grow-up-affects-your-adult-income/article35444594/

Income Tax Act can be used to effectively facilitate and monitor the extension of the HBP to accommodate Canadians experiencing these life changes.

Intergenerational RRSP loans

Allowing parents to assist their children with the purchase of a home would help many first-time homebuyers enter the market. According to the 2017 Mortgage Consumer Survey completed by CMHC, nearly 1 in 5 first-time home buyers receive a loan or gift from a family member to go towards the purchase of a home. Extending the HBP to allow for intergenerational RRSP loans will ease the financial obligations for many first-time homebuyers and increase access to homeownership for young Canadians.

Given the recent and rapid increase in home prices, many parents are giving their children a gift of money as a downpayment for a home. According to a 2017 survey by Genworth Canada, 22% of first-time homebuyers surveyed received a gift from a family member, while 12% received a loan from a family member (up from 9% in 2015) geared towards a downpayment. As many parents are already 'loaning' their savings to their children, a formalized mechanism which allows for the transfer of RRSP savings would help not only increase the available downpayment and reduce the amount borrowed, but also limit risk to the lender.

The intergenerational use of savings would permit the use of parents' RRSP funds by one child or more for the purchase of a home. The accumulated savings of a parent (up to the maximum HBP withdrawal amount) could be accessed through an intergenerational loan, and reimbursed to the parents' RRSP in accordance with applicable conditions. Both parents would be eligible to withdraw from their RRSPs, and loan funds to whom they had previously claimed as 'dependents' on their Income Tax Return. Extending the HBP is a compassionate and fiscally responsible way to help modern Canadian families finance the purchase of a home, and also help close the gap for young Canadians.

Make Homeownership Affordable

Homeownership is a key feature of a strong and stable economy. Access to market-rate housing for first-time homebuyers in Canada provides more families with housing that is adaptable and fits their needs as well as the opportunity to build long term wealth and equity. The most recent data from 2013 shows residental property valued at over 4.2 trillion dollars.[3] With 94% of Canadians living in market-rate housing, addressing affordability challenges of homeownership is an important part of overall affordability in the housing spectrum. Homeownership can be a reality for most middle-class Canadians across the country with the right policy supports, like the HBP.

Currently the HBP allows first-time homebuyers to borrow up to $25,000 from their RRSPs to use as a down payment towards the purchase of a home. Unfortunately, this key program for first-time homebuyers has and continues to lose purchasing power due to inflation. Left unadjusted, the eroding value of the HBP means affordable and accessible homeownership will be pushed out of reach.

[3] http://www5.statcan.gc.ca/cansim/a26?lang=eng&retrLang=eng&id=0260018&tabMode=dataTable&p1=1&p2=-1&srchLan=-1

CREA recommends the HBP withdrawal limit be increased by $10,000 in the 2018 Budget to realign its value with current rates of inflation.

The HBP is a critical piece of the homeownership journey for first-time homebuyers, allowing Canadians to access their own savings to put towards a down payment, and make the purchase of a home a reality. With the HBP, first-time homebuyers have the ability to make larger downpayments without taking on greater debt and thus reducing overall risk.

Owning a home can be an important piece of retirement security planning for the vast majority of Canadians. This is why the HBP was introduced: it combines the twin goals of saving for a home and saving for retirement, eliminating the need to choose one over the other.

At the macro level, housing is an important part of Canada's overall economic health. Home purchases involving the HBP in turn generate spin-off spending and create jobs. In 2016, home purchases involving the use of the HBP resulted in $2.9 billion in spin-off spending and more than 20,700 jobs.

Increasing the withdrawal limit of the HBP is an affordable way for the government to support first-time homebuyers finance the purchase of a home. Using budget 2009 as a starting point, such an increase would cost an estimated $30 million to the government. The cost is attributed to a loss in tax revenue from Canadians contributing more to their RRSPs in order to take advantage of the HBP. With continuing increases in the price of residential real estate, increasing the HBP limit will merely keep pace with other inflationary trends.

Create 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, CREA recommends a deferral of previously claimed depreciation (CCA) be allowed on an investment property when a seller reinvests the proceeds of the 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.

Encouraging redevelopment and renovation of buildings will result in quality housing stock and increase supply, helping to 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 these improvements take place.