

## **Improving Rental Incentives through Tax Reform**

The outlook for rental units is a significant concern. In major cities, renters are paying substantially more than they can afford on rent. According to a 2004 PricewaterhouseCoopers report for the Greater Vancouver Regional District (GVRD) titled *Forecast Demand for Affordable Housing in Greater Vancouver*, in 2001, 43 percent of renters in the GVRD spent over 30 percent of their income on rent, and 22 percent of renters spent more than 50 percent of their income. The problem has worsened in the Region since 2001.

A rapidly decreasing number of rental housing starts since 1970 has limited the rental housing stock available to the average renter. The most recent CMHC Rental Market Statistics report indicates that from October 2008 to October 2009, the Universe Of Privately Initiated Rental Apartments in 28 Census Metropolitan Areas increased from 1,751,031 to 1,762,175 or a mere 11,144 units [from October 2007 to October 2008, the Universe Of Privately Initiated Rental Apartments in 28 Census Metropolitan Areas decreased from 1,797,468 to 1,751,031 or 46,437 units].

The availability of affordable housing/rental accommodation has economic implications since there is a direct impact on the ability of businesses to retain current employees who have difficulty in meeting their housing needs, and the ability to recruit new employees into the region due to high housing costs.

According to a 2007 report by the Urban Development Institute titled *A New Agenda for Canada's Urban Environment*, one critical cause for the reduction in the provision of rental housing has been changes in federal income tax policy such as the elimination of capital gain rollovers, decreases in the amount of allowable Capital Cost Allowance (CCA), the capitalization of soft costs (i.e. legal fees, engineering, financing, etc.) and the introduction of the GST. The federal government has the ability to reduce some costs for investors and homebuyers by re-introducing federal tax policies that successfully encouraged the development of rental housing in the past.

### **Recommendations**

That the federal government:

1. Offer a rebate of the Goods and Services Tax (GST)/Harmonized Sales Tax (HST) on new rental housing.
2. Offer deferral of capital gains tax and recaptured Capital Cost Allowance (CCA) upon sale of a property and re-investment in new rental housing within a reasonable amount of time (two years).
3. Increase CCA for new rental housing to line up with the true economic life of the relevant asset.
4. Restore soft cost deductibility in the year the costs are incurred for new rental housing.