House of Commons
Chambre des communes
Canada

House of Commons Standing Committee on Finance – Pre-budget Consultations 2013

This brief is submitted by:

(●) **an organization** **Organization name:** Canadian Home Builders' Association

or

( ) **an individual** **Name:** _____

Topic: Business taxation and regulatory issues

*Recommendation 1: Please provide a short summary of your recommendation.

1) ADDRESS DETERIORATION IN HOUSING AFFORDABILITY IN CANADA:
Deterioration in housing affordability is a critical issue facing Canadians and the home building industry. There are many ways for the GoC to address this issue that is hamstringing this key driver in the Canadian economy. A comprehensive approach is required, which includes a fed/prov/municipal coordinated plan addressing housing affordability (including infrastructure), revising the GST New Housing Rebate, modifying amortization rules, and fixing taxation on purpose-built rental properties. See last page for more details.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

other: please provide your estimated amount 0

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Housing plays a key role in the economy, and has been still more important since the global financial crisis. Reduced affordability decreases construction activity, reducing financial transactions and employment in the housing industry, which affects the Canadian economy at large & reduces revenues for the federal government. Increased tax revenue from increased economic activity would potentially offset taxation adjustments to increase affordability. Making rental housing attractive to private sector investment would reduce pressure on rents and the need for rental assistance programs.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

The deterioration in housing affordability negatively affects all Canadians. Inability to purchase a home degrades the financial well-being of individual Canadians, and keeping them out of the marketplace affects the economy at large. This is compounded by lack of affordable rental housing due to unfair taxation on purpose-built rental housing that discourages private sector investment, making any type of shelter inappropriately priced. Creating an environment where rental housing can be built affordably and home purchasing is a reality for more Canadians will benefit all.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Homeownership is a cornerstone of a family's financial well-being. Improved affordability particularly benefits young potential home buyers—those most affected by the downturn. The compounding issues of high youth unemployment and housing affordability will keep many out of the housing market for years if no action is taken. Reduced affordability means longer stays in rental housing in short supply & drives up rents - affecting potential home buyers and long-term renters. Affordability drives industry to create new jobs, improves work skills, and provides income to finance home buying.

Topic: Business taxation and regulatory issues

Recommendation 2: Please provide a short summary of your recommendation.

2) COMBAT THE UNDERGROUND 'CASH' ECONOMY IN RESIDENTIAL RENOVATIONS.

- Introduce a permanent GST- or income-tax-based Home Renovation Tax Rebate - both to address the unfairness of the GST/ in home renovations and to encourage proper business documentation.
- Require ALL firms and individuals in the construction industry to register for a GST Business Number, even if they qualify for the GST exemption.
- Use CRA research results to implement international best practices.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

other: please provide your estimated amount 0

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

Effective action to combat the underground economy in construction would lead to substantial increases in federal and provincial income taxes, GST/HST, CPP, employment insurance, etc. Underground construction activity is estimated to have cost all levels of government $1.4-$2.4 billion annually in Ontario alone in 2007-2009.

Requiring all firms to register for a Business Number would be costless to the government, but would help to identify all those involved in the industry and assist with compliance audits, similar to a requirement along these lines applied to other sectors.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Effective action to combat the underground economy in construction would support legitimate contractors and businesses across the country. Businesses they that pay their taxes and provide good jobs to Canadians.

Housing quality and consumer protection is compromised by underground 'cash' operators, who may not complete the work according to appropriate building codes and practices, and may expose consumers to liabilities for injuries, damage and unpaid suppliers.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

An essential element in moving Canada into durable prosperity is to ensure that those who should be paying taxes are doing so. Every dollar of evaded income tax and GST/HST, as well as Employment Insurance and Canada Pension Plan contributions, puts more pressure on governments at all levels to raise other revenues, damaging both the economy and the credibility of Canada's tax system. Those that evade taxes are also those that do not follow proper construction practices, hurting both homeowners and the reputable firms that cannot compete with dishonest competitors.

Topic: Education and skills training

Recommendation 3: Please provide a short summary of your recommendation.

3) ADDRESS ACUTE SHORTAGE SKILLED TRADES IN THE RESIDENTIAL CONSTRUCTION INDUSTRY:

- Expand federal government apprenticeship grants and incentive programs to all trades designated by provincial governments, including all those in the residential construction industry. Do the same for any new programs supported through F/P/T labour agreements.

- Continue to refocus immigration policy on giving greater priority to those with skills essential to Canada's future growth and prosperity – including the skilled trades.

Expected cost or savings: From the pull-down menus, please indicate the expected cost or savings of your recommendation to the federal government and the period of time to which the expected cost or savings is related.

other: please provide your estimated amount 0

Immediately

Federal funding: Please provide a precise indication of how the federal government could fund your recommendation. For example, indicate what federal spending should be reallocated, what federal tax measure(s) should be introduced, eliminated or changed, etc.

No reallocation of funds or additional funds would be required. The intent is to ensure that federal programs are effective in addressing the growing shortage of skilled trades in the residential construction industry.

Currently, federal programs in support of apprenticeship training are restricted to the Red Seal trades. Many trades employed in residential construction, including provincially designated trades with skills unique to the residential sector, are not eligible for Red Seal designation.

Intended beneficiaries: Please indicate the groups of individuals, the sector(s) and/or the regions that would benefit by implementation of your recommendation.

Expansion of apprenticeship grants and incentives and training programs to all trades designated by provincial governments would greatly increase the availability and accessibility of skilled trades training to underemployed youth, Aboriginal people, and women.

Continued refocusing of immigration policy on incoming new Canadians with skills needed in the residential construction industry will allow immigrants to find employment faster, and quickly become contributing members of society.

General impacts: Depending on the nature of your recommendation, please indicate how the standard of living of Canadians would be improved, jobs would be created, people would be trained, etc.

Shortages of construction trades impact on housing costs - and housing affordability - with negative effects on home buyers (new construction) and home owners (renovation).

Extending the range of trades covered by federal apprenticeship grants and incentive programs would assist in maximizing the employment opportunities of Canadians - particularly young people who are facing high levels of youth unemployment.

A housing industry that operates in an environment that is supportive of trades training provides good jobs and good wages to people in every community across Canada.

Please use this page if you wish to provide more explanation about your recommendation(s).

ADDRESS DETERIORATION IN HOUSING AFFORDABILITY IN CANADA (cont'd)

The ratio of average family income to mortgage payments in Canada illustrates the increasing inability of typical families to afford a home. The Bank of Canada has noted: "Over the past decade, the price of the average home has risen from 3.5 times disposable income to more than 5 times." This is already a problem during a time of historically-low interest rates—when the rates rise, this problem will be magnified many fold, particularly for those scarred by youth unemployment,.

Affordability deterioration over the past decade is due to dramatic increases in housing prices driven largely by inexorably rising government-imposed costs (GICs) and more burdensome regulation. These costs associated with levies, fees, charges, taxes and regulations are passed on to purchasers through higher housing prices. For example, in the City of Markham, average GICs for each new single-detached home total $149,100—there is no land or house in this cost, just government charges.

To address the issue of housing affordability, there is much the federal government can do. The following form the comprehensive approach CHBA recommends to start addressing this issue, which is problematic now, but could reach crisis proportions if action is not taken.

1. Formulate a national plan to address the deterioration in housing affordability across Canada. - All levels of government are responsible for the increase in GICs; the federal government is uniquely positioned for formulate a plan working with federal, provincial and municipal players. Governments must restore fairness to taxation, reduce inequitable land development charges, & avoid new charges and excessive regulation.
2. Related to 1 above, create a long-term, fed/prov/municipal infrastructure plan. Also, support the Building Canada Plan and ensure its funds are directed to key infrastructure. If infrastructure is not planned and funded properly, the burden is then placed on new home buyers through unfair development charges.
3. Revise the price threshold for the GST New Housing Rebate - the GST rebate thresholds (frozen since the introduction of the GST over 20 years ago) must be raised to match rising housing prices.
4. Return to 30-year amortization periods where housing affordability is an issue – while 25-year amortization restrictions have their place, the challenges facing many, and especially first-time home buyers, prove the case for 30-year solutions in some instances.
5. End discriminatory tax treatment of purpose-built rental properties so the private sector can address the shortage, which is set to get worse - federal tax policies discriminate against private, purpose-built rental housing and need to be rectified so better, more affordable rental housing can be provided in more volume.

The CHBA recommends the government pursue the above to address the deterioration in housing affordability as a matter of urgency.

*Please note that at least one recommendation must be provided