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Canadian
Home Builders'
Association



Association canadienne
des constructeurs
d'habitations

Canadian Home Builders Association 2014 Pre-Budget Submission

Executive Summary

The Canadian Home Builders' Association (CHBA) supports the government's approach to securing financial stability and economic growth. Canada's residential construction industry generates more than \$120 billion in economic activity across the country. We have been working closely with policy makers to develop a series of specific proposals that will support Canadian families by protecting affordability, ensuring prosperous communities, creating efficiencies in the tax system for first-time homebuyers and contributing to jobs and economic growth.

Protect Affordability

- Funding core infrastructure should remain a priority.
- Well-qualified first-time homebuyers should have access to a 30-year amortization period.
- Current homebuyer assistance programs should be indexed.
- Development charges and taxes levied on new homes by provincial and municipal governments should be GST exempt.
- Tax treatment of new purpose-built rental housing construction should be reformed to increase private-sector investment.

Tackle the Underground Economy in Home Renovation

- A modest, self-financing tax credit for specific high-priority home renovations should be introduced.
- Consumer campaigns – like *Get it in Writing!* – should see reinvestment.

Support Skilled Trades Development

- Development of labour market information should continue to be a priority.
- Invest further in the promotion of careers in the skilled trades.
- All skilled trades designated by provincial governments should be eligible for federal support.

Advance Innovation in Canadian Housing

- Investment in housing research (e.g. on increasing productivity and managing regulatory costs), should be made a priority.
- Support for voluntary energy efficiency programs should be continued.

Protect Affordability

A vibrant housing industry and healthy housing markets form a fundamental part of Canada's economic strength. High quality new homes, in liveable and prosperous communities, that are affordable to working Canadians, are a key part of the socio-economic well-being of Canada.

For the last six decades, homeownership has been central to the Canadian dream and the financial well-being of Canadians. Young people and new Canadians look at buying their first home as a key milestone in life, and as a necessary element in the process of raising a family while developing financial security.

Today, this key milestone is under severe threat. Some financial observers predict that those born between 1977 and 1994 - the "Millennials" - will be the first generation not to achieve the standard of living of their parents. Deteriorating housing affordability is a significant reason why this is happening.

The following measures would help support young families and contribute to prosperous communities:

1. Ongoing federal investment in core municipal infrastructure, under the New Building Canada Plan, should allow municipal governments to become less reliant on development taxes. Invested appropriately at the municipal level, these federal funds can help reduce local taxation of new homes. However, for this to occur, this investment must be focused on *core* infrastructure – roads, transit, water/wastewater systems - not "nice to have" municipal projects. ***Federal leadership on core infrastructure needs to continue.***
2. New Canadians and young families are being locked out of homeownership. First-time homebuyers need special consideration when it comes to mortgage insurance rules. ***Well-qualified first-time homebuyers should have access to longer mortgage amortization periods (30 years)*** so that they continue to have a reasonable opportunity to own a home.

Given size and income distribution of current rental households in Canada, a shift from 25- to 30-year maximum amortizations would add up to 95,000 households to the potential first-time buyer pool on account of eligibility for a mortgage on an average priced home.

Current rules requiring qualification for a 5-year fixed mortgage are quite sufficient to safeguard against debt over-extension. With existing and prudent qualification requirements, the government can protect consumers and taxpayers, while at the same time increasing access to the housing market for first time buyers. This would help prevent making homeownership an elusive and elite privilege, as well as avoiding a generation of chronic renters.

3. ***The First-Time Home Buyers' Tax Credit and the Home Buyers' Plan should be indexed*** so young families do not lose the purchasing power of these programs in light of increasing house prices.
4. Currently, the GST applies to taxes levied by other levels of government, amplifying the excessive level of taxation on new homes - every \$1,000 increase in housing costs eliminates approximately 20,000 households from the potential first-time buyer pool. As local development taxes soar, GST charged on a new home increases proportionately. ***Charges and taxes levied by provincial and municipal governments should be GST exempt, so that the federal government is not levying a "tax on a tax".*** This measure would also help slow the growth of house prices for

existing homes, which rise in tandem with new housing.

This is a prime opportunity for the federal government to show leadership on the issue of affordability by removing an inappropriately imposed cost and standing by fair taxation principles while providing direct relief to new homebuyers.

5. Healthy housing markets and communities need a mix of housing – single family homes and multi-unit buildings available for purchase and rent. To address the full scope of affordability in Canada's housing system, Canada's private sector should be positioned to fill the need for market-based rental housing. Unfortunately, the current federal tax treatment of purpose-built rental housing contributes to making it a much less attractive investment than other alternatives. ***Federal tax treatment of purpose-built rental housing construction needs to be reformed so that investment in this sector is a viable business proposition compared to investments in other sectors.***

This would help re-establish equilibrium in the housing market, reduce the upward pressure on rents and house prices, reduce shelter costs, enable households to save more, and allow for greater labour mobility.

Tackle the Underground Economy in Home Renovation

Home renovation and repair represent more than half of all residential construction investment—over \$60 billion each year. Renovation creates good jobs and more comfortable, energy-efficient, and valuable homes. Yet confidence in the industry and government revenues are being undermined by underground operators. These "cash only" operators evade taxes and permits, while often harming consumers. Some \$5.5 billion worth of renovation activities annually are estimated by Statistics Canada to be done on a hidden, cash-only basis.

The following two measures would improve Canada's tax regime and support legitimate businesses operating in every community across the country, while also protecting vulnerable Canadians from fraud and liability:

1. ***A modest and targeted revenue-neutral or cash-flow-positive Home Renovation Tax Credit should be introduced to tackle the underground "cash" economy, encouraging Canadians to deal with legitimate companies when repairing or renovating their homes.***

High levels of taxation on home renovation are a major incentive for underground "cash" transactions. An ongoing federal tax credit measure requiring documentation of homeowner expenditures would undermine this practice. Careful structuring of incentives could ensure that costs were offset by increased tax revenues as "cash" transactions were reduced. The purpose of this is not stimulus but carefully implemented tax credits to address the underground economy without impacting fiscal balance, while addressing key socio-economic policy priorities, such as first-time homebuyers, aging in place for seniors, and/or energy efficiency renovations.

As past federal programs have shown, even modest incentives can dramatically suppress the underground economy, drive private-sector (in this case homeowner) investment in priority policy areas, and keep these transactions above-board. The following chart outlines various possible options for a renovation tax and the resultant positive net impact on federal fiscal balance. The net impact of increased tax revenues is forecast to more than cover the cost of the tax credit.

Type of Renovation:	Total Home Renovation Activity Leveraged:	Federal Tax Expenditures:	Federal Tax Revenues:	Net Annual Federal Revenues:
First-time home buyers, labour only	\$990.0 million	\$117.0 million	\$151.0 million	\$34.0 million
Mobility aids – seniors	\$396.0 million	\$46.8 million	\$60.4 million	\$13.6 million
Energy/water conservation	\$1.6 billion	\$188.5 million	\$244.0 million	\$55.5 million

Full details of assumptions used to develop the above projections are available from CHBA. All are based on Statistics Canada and Finance Canada data.

2. Consumers need clear information about the risks involved in dealing with underground "cash" operators. CHBA's *Get it in Writing!* initiative addresses this need. The federal government used to be a partner in delivering *Get it in Writing!*, but CHBA now delivers this important consumer protection information alone. ***The federal government should reinvest in Get it in Writing! and support its effective delivery to Canadians.***

Support Skilled Trades Development

As in many other industries, residential construction faces a growing shortage of skilled tradespeople in many regions across Canada - a shortage that will become more acute in the coming decade, as many in today's workforce retire.

The following measures would help put Canadians into good jobs in a sector that is forecast to need 100,000 new skilled trades people by 2023:

1. Existing data on labour markets in the residential construction sector lacks regional and trade-specific detail. To properly address skilled labour challenges, much better labour market information is required. ***The federal government should continue to bolster the development of more sophisticated sector-specific labour market information.***
2. To encourage more students to choose skilled trades as a career, a cultural shift in perceptions is required in Canada to create "parity of esteem" for careers such as those in residential construction. CHBA and many other organizations are actively engaged in promoting skilled trade careers. ***The federal government needs to continue to invest in the promotion of skilled trades as a career that is desirable and respected by society.***
3. Although CHBA supports Red Seal as it applies to several key trades in residential construction, many residential trades are not recognized by Red Seal and are therefore ineligible for federally-supported training assistance. However, at the provincial level these residential trades are recognized as they provide for important jobs in the sector. ***All trades designated by provincial governments should be eligible for federal training support, not just Red Seal.***

This policy proposal would have no net additional cost to the government's fiscal framework – it would only open up the eligibility pool for resources that are currently being underutilized. Note that of the \$1.4B billion allocated between 2007 and 2012 for federal support of apprenticeships, \$558 million was left unspent due to restrictions in place.

Advance Innovation in Canadian Housing

Collaborative industry/government technical research has produced significant advances in the quality of housing, enabling Canadians to consider themselves among the best housed nations in the world. Further, government-led socio-economic research is critical to support business decisions in our industry and the making of effective housing-related policy decisions by all levels of government.

The federal government has a key role to play in research and development to support the continuous improvement in Canada's housing stock. The following measures would help increase the quality and innovation already found in the residential sector:

1. The federal government's housing research capacity has been reduced in recent years. This has impacted both technical and socio-economic housing research, and the availability of related information for both the industry and homeowners. Overall, this will have negative impacts on the future quality of Canadian housing and the socio-economic well-being of Canadians. ***Appropriate investment in technical and socio-economic housing research should be resumed, to support strategic industry innovation and to inform and protect consumers.***
2. Industry/government collaboration on research and on voluntary programming like ENERGY STAR for New Homes, R-2000 and Net Zero, has allowed the Canadian housing industry to make dramatic advances in the energy and environmental performance of Canadian housing. To maintain this momentum, ***the government should continue its support of voluntary energy efficiency programs.***

About the Canadian Home Builders' Association

The Canadian Home Builders' Association is the voice of Canada's residential construction industry and represents more than 8,500 member companies from coast to coast. New home building, home renovation and residential development generates more than \$120 billion in economic activity each year, and supports jobs for over 900,000 Canadians. Our industry contributes to the economic growth and sustainability of Canada by generating billions of dollars annually through new home building and renovations.