



## Government Relations Issues Update

### Reinvestment in Real Property

#### TREB Key Message

REALTORS® support the deferral of the capital gains tax and the recaptured capital cost allowance when an income property is sold and the proceeds are reinvested in another income property within one year.

#### Background

Canadian investors holding real property assets with a relatively low rate of return have incentive to hold on to them because of capital gains tax policy. This is known as the “lock-in” effect, as investors hold their position rather than investing in new assets with potentially higher returns. Dr. Thomas Wilson of the University of Toronto, a leading authority on tax policy, has estimated government first year costs – for a deferral of both capital gains tax and recaptured capital costs – at \$433 million. Immediate economic benefits from transactions, such as professional services, would offset these costs. Spin-off activities – renovations, maintenance and conversions – would follow in subsequent years. Studies have shown that commercial sales trigger greater renovation and other economic spin-offs than residential transactions. A survey by DRI Canada found that more than 29 jobs are created for every \$1 million invested in renovation.

Dr. James McKellar, Professor of Real Property at the Schulich School of Business, York University, has documented how current tax regulations contribute to the “lock-in effect.” He notes that the lock-in effect is most visible in the underutilized and often boarded up buildings in deteriorating urban cores across the country.

REALTORS’® proposed deferral will mitigate some of the existing inherent tax inequity imposed upon small investors in property. Over the last 25 years tax changes have been introduced that have disadvantaged investment in rental housing, making taxation less equitable and less neutral. These changes included eliminating real estate from the lifetime capital gains exemption in the 1980s; elimination of deductibility of soft costs for investment in all real estate; and GST rules that discriminate against rental housing.

The research conducted by Dr. Wilson indicates that those with net incomes of \$50,000 or lower, represented about 58 per cent of those reporting real property gains in 2006. This demonstrates that CREA’s proposal would benefit average Canadians.

The proposal would also have environmental benefits by encouraging retrofitting of properties when they are turned over. In the GTA, a study identified 1,000 buildings that consume as much as 20 per cent more energy per square metre than a single-family home. Retrofitting could cut energy use and carbon output of rental properties in Canada by over 50 per cent.

CREA’s recommendation increases liquidity for those who select property as an investment vehicle. It offers the benefits of portability in cases where households may relocate as part of a retirement plan and wish to relocate property holdings.