



Tuesday, October 04, 2022

Department of Finance
90 Elgin Street
Ottawa, ON
K1A 0G5

RE: Feedback and comments on draft legislative proposals to implement Budget 2022 tax measures and amendments

We are writing to share views on draft legislative proposals released by the government to implement Budget 2022 as they pertain to the housing industry. We do so on behalf of The Canadian Real Estate Association (CREA), and its membership of more than 155,000 REALTORS® in every community across the country.

For several years REALTORS® have advocated in support of drastically increasing the supply of housing, available to Canadians, across the entire housing continuum. Housing is not only a long-term asset that provides a safe, sustainable, and quality living environment for families, but it also helps improve their social, psychological, and cultural well-being. It helps create communities.

We are encouraged by federal government's 2022 Budget, where housing is recognized as a 'basic human need' with a strong commitment to increase housing supply. As Budget 2022 acknowledges a range of initiatives are required to ensure Canadians can find a home they can afford to live and thrive in. From supports for the unhoused, to affordable rentals, to market housing, Canadians need more.

It is important to recognize that housing challenges have been decades in making and they require all levels of government to make sustained efforts to make housing market more accessible. A comprehensive national approach should be pursued to identify changes that could address supply issues across the entire housing spectrum and help increase the responsiveness of supply to housing demand.

Our members are experts on market conditions and consumer interests; therefore, they have the capacity to not only advise both home buyers and sellers on individual transactions, but also advise governments at all levels on consumer preferences and needs. We would like to extend our expertise and comment on four draft legislative proposals which will have an impact on the housing market. We look forward to working with the government to further improve and find creative solutions to current housing challenges.



1. The Residential Property Flipping Rule

CREA has vigorously supported maintaining the capital gains exemption on principal residences so that Canadians who passively accrue wealth through the simple act of living in their home are not unduly penalized with a large tax bill when they choose, or are forced, to sell it. It is important that Canadians and governments alike treat houses as homes first and foremost. By the same logic, discouraging speculative activity through tax measures such as the 'anti-flipping rule' could be a positive, though extremely modest, tool during the current housing supply crisis. It will be important, however, to ensure that any such measures are designed carefully and don't further exacerbate the current supply crunch. To assist the rule to achieve its intended purpose, we suggest the following:

- Firstly, as acknowledged by government the key driver of high prices in the housing market is lack of housing supply. Therefore, any policy measures such as this tax should ensure that no new housing is blocked from becoming available to Canadians. For example, it is important to note that property renovations and deep home retrofits can help refurbish older uninhabitable homes and bring them back on the market increasing both market and rental supply. Moreover, during home renovations, individuals can choose to add a rental unit or a parent suite to their home, further helping housing supply problems across the spectrum by introducing more units of housing to the Canadian market. Therefore, the rule should consider exempting a property from the tax if it genuinely increases the housing stock.
- Secondly, the government needs to align its Environmental and Housing goals. For example, the government's own Green Building Strategy acknowledges that a large portion of Canada's housing stock is quite old and requires substantial energy efficiency retrofitting. Government programs such as the energy efficiency grants, and deep home retrofits tax credit are ultimately helping to improve the energy efficiency of the Canadian housing stock. An anti-flipping rule in its current state could discourage individuals from refurbishing older properties and further slow the process of making Canada's older housing stock more energy efficient. We believe the government should continue to strive for a balance which promotes energy retrofits that will ultimately improve Canada's overall housing supply while discouraging corporations that take advantage of the system. Therefore, the rule should consider exempting the renovation of any property, that is going to be renovated to be made substantially more energy efficient.
- Thirdly, to ensure the rule achieves its intended purpose of curbing speculation, reducing housing prices and making homes more affordable the government needs to re-evaluate its design and look for best practices across other countries and jurisdictions to help with its implementation. In its current state we are concerned that this rule may have an inflationary effect on prices. For example, home flippers can work around the rule by building in the cost of the flipping tax into the sale price of the house, ultimately passing down the new costs to future home buyers. This will increase the



house price, further contributing to the housing affordability crisis across this country. Therefore, the government needs to discuss the design with all stakeholders at a National Housing Roundtable to determine a design that helps achieve its intended outcome.

- Fourthly, the design of the anti flipping rule needs to consider existing measures at the provincial/territorial and municipal level that already restrict speculation and their interaction with each other. In addition, given that real estate is provincially regulated the federal government should work together with provincial/territorial and municipal partners to minimize red tape and align information to avoid any overstepping of roles as well as undesirable duplication.

Based on the above analysis we believe that an anti-flipping rule with some modifications could help support making housing more available or affordable. The design of an anti-flipping rule needs to be such that it does not create more barriers to housing supply and assists in improving energy efficiency across the spectrum.

2. Tax-Free First Home Savings Account

High housing prices coupled with increased interest rates have especially hit young Canadians and newcomers hardest, many of whom are potential first-time home buyers and are struggling to find suitable homes to rent or buy. These first-time home buyers are often young Canadians just starting out their careers and struggling to pay off student loans while saving for a down payment. Without government incentives to save for a down payment first-home buyers can only dream of homeownership.

CREA has repeatedly advocated for opportunities to help young buyers get into the housing market. Therefore, at CREA we appreciate the government's efforts to introduce an additional tool to help Canadians save for the cost of a down payment for their first home without taking on more debt. However, we believe, the introduction of a new tool should not disincentivize any existing tools such as the Home Buyers Plan. Thus, it is important that the withdrawal limit of Home Buyers Plan (HBP) is increased from \$35,000 to \$40,000 so it matches the limit of the proposed Tax-Free First Home Savings Account. It is important to note that the HBP allows consumers to meet the twin goals of home ownership while preparing financially for retirement. To make housing more accessible to first time home buyers, the government needs to present multiple options/ programs so they can select the option that suits them the most. Tax-Free First Home Savings Account is a fiscally responsible way to help modern Canadian families finance the purchase of a home and help close the gap for young Canadians.

CREA also suggests the Department of Finance expand the definition of first-time home buyer to help more Canadians. Currently, it is defined as someone who did not live in a home owned by them or



jointly in the year of acquisition or in any of the four preceding years. In the United States the definition of a first-time home buyer includes:

- A single parent who has only owned a home with a former spouse while married; and
- A displaced homemaker who has only owned with a spouse.

CREA proposes that the definition of a first-time home buyer be expanded to include the above circumstances. Doing so will also align it with the HBP's definition of first-time home buyer whereas of 2019 it takes into consideration dissolution of marriage.

3. Home Buyers Tax Credit

Providing financial support to help Canadians fulfill their homeownership dream at a time when house prices are at a record high across the country is critical. The First-Time Home Buyers' Tax Credit (HBTC) was originally designed to compensate for some of the costs associated with the purchase of a home. However, since the program was introduced in 2009, housing costs such as closing costs have continued to rise, yet there have been no changes to the HBTC. Therefore, CREA and its members have consistently lobbied to have the non-refundable tax credit amount to be increased so it may better align with current housing/ closing costs. It is encouraging to see that CREA's input has been taken into consideration and the HBTC amount has been improved. With the fluctuating economy we hope the government will continue to re-evaluate the HBTC amount, so it is reflective of homeowners needs in leu of the rising inflation costs.

4. Multigenerational Home Renovation Tax Credit

CREA commends the government for recognizing the needs of rising multigenerational households in Canada. As per census 2021, about 7% households (approx. one million Canadian households) are composed of multigenerational families¹. The desire for families especially with young children to live together with their grandparents is ever increasing. About 9% of all children aged zero to 14 live in a home with one or more of their grandparents, up from 7% in 2001¹.

Living in the same home can make it easier for families to support people who require care. Multigenerational housing allows families to consolidate housing costs and improve affordability for aging parents as well as young families. The Multigenerational Home Renovation Tax Credit offsets the costs associated with the creation of additional space in a home and is a needed support for the rapidly growing number of multigenerational homes.

Furthermore, it helps increase housing supply as it gives multigenerational families the opportunity to live together in a single home and essentially free-up the other home to be rented or sold. For example,

¹ <https://moneywise.ca/managing-money/healthy-home-tax-credit>



grandparents could move in with their children and provide new homeowners the opportunity to live in their previous home, consequently increasing housing supply.

Conclusion

Thank you for the opportunity to provide feedback on the draft legislative proposals. We are encouraged by government's interest in ensuring housing is available and attainable for all Canadians. We have provided several recommendations that we believe could help ensure the rights of both buyers and sellers are protected in the housing market. REALTORS® will always focus on helping Canadians find homes and look forward to presenting this Department of Finance with policy solutions that make homeownership more affordable in the future.