

REALTORS® propose changes to capital gains tax

Government urged to extend tax rollover to small investors

OTTAWA, Ontario, November 20, 2006 — The Canadian Real Estate Association (CREA) is calling on the federal government to make tax changes that would help boost Canada's productivity, expand rental housing, and encourage urban regeneration.

CREA Chief Executive Officer Pierre Beauchamp said the Association is meeting with Members of Parliament and government officials to outline a proposal to allow the deferral of capital gains tax and capital cost allowance recovery when an investment property is sold and the proceeds of the sale are invested in another investment property within one year.

"We are asking the federal government to extend a tax advantage to small investors that is already available to large companies," said Beauchamp. "Our proposal to encourage reinvestment in real property will make Canada's income tax law more consistent, neutral, and fair."

Beauchamp noted that small investors are holding onto their investments because of the tax consequences associated with selling and reinvesting. "Small investors are avoiding capital gains tax by not selling their real property investment, and this is unduly influencing typical market activity," noted Beauchamp.

Members of CREA's Canadian Commercial Council, a group of REALTORS® who specialize in commercial and industrial properties, believe a deferral would trigger economic activity as small investors typically undertake renovations and make related purchases when they reinvest. In many communities, small investors are at the heart of community development and redevelopment initiatives.

The Canadian Real Estate Association has commissioned expert research, which has identified three significant benefits from a rollover of capital gains tax for small investors:

1. It will enhance Canada's productivity because taxation is one of the factors weighting down the investment climate. The World Economic Forum Index that measures competitiveness has dropped Canada from 16th to 13th place over the past year. One of the reasons cited for the decline is the lock-in effect that occurs with real property investments when they are retained to avoid taxation.
2. It will reduce tax discrimination that is deterring investment in rental housing in Canada. A series of tax changes over the past 25 years has discouraged the private sector from building and maintaining rental housing. Rental housing is as productive as other forms of investment, producing a future flow of accommodation services.
3. It will facilitate the management of real estate investment portfolios for Canada's aging population. The Canadian worker must be more self-reliant in retirement and this proposal allows small investors to best manage their risk exposure in concert with market changes.

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4. It will support increasing labor mobility that is essential to Canada's economic prosperity. Households can now move their belongings, stocks and bonds, but are unable to move their real property investments without facing substantial tax consequences.

The CREA proposal seeks to change the Income Tax Act regarding active vs. passive investors. Currently, investors employing five or more employees are deemed to be active investors and enjoy tax relief that is not available to those with fewer than five employees, who are deemed to be passive investors. CREA feels that this is an arbitrary and unnecessarily punitive measure.

CREA is asking the government to recognize the role of small investors who are the backbone of small business and whose investments offer affordable rental accommodation. Adding the transactions of small investors will not be burdensome or complex for government because the tax system already tracks the transactions of large-scale investors who qualify for tax deferral.

A criticism of extending the rollover to small investors has been the potential cost to the treasury in deferred tax. CREA notes that this criticism does not take into account the economic activity that would be generated by the rollover.

In addition, as the population ages, the government has an interest in measures that enlarge the stream of tax revenues in the future when fewer taxpayers will be earning high taxable incomes.

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