Unlocking Property Reinvestment

REALTOR® POSITION

Allow the capital gains tax and the recaptured capital cost allowance to be deferred when an income property is sold and the proceeds are reinvested in another income property within one year.

Many average Canadians are reluctant to sell in order to reinvest in another income property because of the tax consequences. Paying the capital gains tax and recaptured capital cost allowance leaves investors with insufficient equity to acquire a property of similar value.

Removing the disincentive to reinvestment, by allowing tax deferral, would rapidly trigger a chain reaction of benefits for the economy, communities and the environment. Moreover, this would occur without program delivery slowdowns caused by complex implementation issues.

This is a Main Street proposal that would help restore fairness to the tax system. Dr. Thomas Wilson of the University of Toronto found those with net incomes of $50,000 or less account for approximately 58 percent of those reporting rental property capital gains.

The combination of tax advantages available to larger investors and the increasingly restrictive tax treatment of real estate investment over the past 25 years have created inequities for small income property owners.

Furthermore, tax deferral is allowed under various circumstances, such as when a business relocates and reinvests in a replacement property.

This proposal would help the commercial real estate sector and other industries to recover from the recent global economic recession. A healthy commercial real estate market spins-off opportunities for trades people in renovations and redevelopment; fees for professionals; income for industries that mine, harvest and manufacture construction materials; as well as tax revenue for all levels of government.

In fact, Altus Group estimates the typical multi-unit residential income property transaction in the Greater Toronto Area, Greater Calgary Area and Greater Vancouver Area generates $287,850 in ancillary spending. The Altus study also found more than one job was created for every two transactions.

Tax deferral would help create additional housing capacity to meet the demands of rental housing and community development. Purpose-built rental housing starts across Canada have declined over the last 35 years from an average of 60,000 starts per year to an average of less than 15,000 starts per year, despite population growth.

This proposal would also assist Canadians saving for retirement, as well as retirees dependant on regular income, by making real estate a more viable investment vehicle. It would also enable Canadians to relocate their real estate holdings to correspond with a move, something that is easily done with a stock or bond portfolio.

There is widespread support for this proposal, including the National Trade Contractors Coalition of Canada, the Canadian Construction Association, the Appraisal Institute of Canada, the Canadian Federation of Apartment Associations and REALpac – the Real Property Association of Canada. The Canadian Chamber of Commerce has passed a policy resolution recommending tax deferral on property reinvestment.