



BRITISH COLUMBIA
REAL ESTATE
ASSOCIATION

Hand Delivered

October 17, 2005

Massimo Pacetti
Chair, Standing Committee on Finance
Sixth Floor, 180 Wellington Street
Wellington Building
House of Commons
Ottawa ON K1A 0A6

Dear Mr. Pacetti:

Re: Federal Budget 2006 Consultation Paper

The British Columbia Real Estate Association (BCREA) represents the 12 real estate boards and nearly 15,000 REALTORS® across BC. BCREA provides an extensive communications network, required licensing and continuing education courses, standard forms and government relations for REALTORS®, and is a member of The Canadian Real Estate Association (CREA).

BCREA is committed to improving the Quality of Life in BC communities by promoting economic vitality, housing opportunities, preserving our environment, protecting property owners and building better communities across the province. BCREA commends the Government of Canada for recent actions that will help improve the Quality of Life in BC:

- Assistance in helping remediate the mountain pine beetle on municipal and provincial crown land.
- New Deal for cities, which shares a portion of the federal gasoline tax with municipalities and provides funding for critical infrastructure.

The Quality of Life in BC is impacted by factors that influence our country's productivity: entrepreneurial capital, human capital and physical capital. CREA addresses these factors through recommendations in its submission to the committee. BCREA supports those recommendations and encourages the Government of Canada to act on them.

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The Real Estate Sector in BC

The real estate sector continues to be a pillar of both our provincial and national economies. In BC, more people bought homes in 2004 than in any other year on record. BCREA reported that 96,316 homes sold on the Multiple Listing Service® (MLS®) last year, over 2,700 more than the previous record set in 1992. Consumers invested a record \$27.8 billion in residential real estate across BC in 2004, shattering the 2003 record by more than \$3.6 billion, or 15 per cent.

In September 2005, residential sales across BC topped the \$3 billion mark for the sixth consecutive month, with 10,410 homes worth more than \$3.48 billion sold.

Record low interest rates, rising consumer confidence and other factors have helped to create a thriving housing market and cement the province's economic recovery. Research from the Economic Planning Group indicates that, from 2001 to 2004, home sales across BC generated about \$9.4 billion in related spending and created nearly 78,000 jobs. It also estimates that every home sold on the MLS® in BC in 2003 generated almost \$28,000 in related spending, contributed more than \$12,500 to the province's gross domestic product and generated \$5,400 in tax revenue.

The Credit Union Central of BC indicates that the BC housing market will continue to post positive numbers for the remainder of 2005 and into 2006.

Budget Matters

Defend Private Property Owners Against Mountain Pine Beetle Infestation

BC REALTORS® commend the government for taking aggressive action to address the worst natural disaster ever to hit BC forests—the mountain pine beetle infestation. Remediation of areas impacted by the pine beetle represents a huge challenge for all levels of government.

Approximately \$201 million has been designated by the provincial and federal governments to help attack and remediate beetle-infested municipal properties and provincial crown land, creatively market affected wood and help impacted communities plan for their future. However, the real estate profession is concerned that measures and financial resources to address infestation on private property have not been introduced.

The Insurance Bureau of Canada advises that property owners are obliged to do their best to mitigate potentially hazardous situations, including removal of beetle-infested trees. Whereas insurance providers may consider beetle-damaged trees when they underwrite insurance policies, private property owners have to bear the full cost to cut infested trees and safely remove and dispose of the resulting debris. This cost is a hardship for private property owners.

For example, one property owner in Prince George received an estimate from a private operator for the cutting of four infested trees. The estimated cost was \$460, including taxes, and did not include removal or proper disposal of the debris. Another property owner found that some contractors would not remove trees from private properties at all, due to cost and safety factors.

The direction and spread of the infestation is impossible to predict. Mountain pine beetle outbreaks do not respect property lines. They can develop in residential backyards and subdivisions the same way they strike in wilderness areas, on municipal properties and on provincial and federal crown land.

The provincial government has indicated the infestation will have economic implications for at least 30 communities across the province and impact thousands of families.

BCREA recommends the Government of Canada:

- Work with other levels of government and private sector organizations to determine private property owners' needs and designate a portion of all financial resources, designated to mitigate the effects of the northern pine beetle infestation, to remediate infested trees on their properties.
- Act on the recommendation made in the Union of British Columbia Municipalities resolution *A5 – Pine Beetle Infestation*, declaring the pine beetle infestation in BC a natural disaster and providing financial assistance to municipalities and individual property owners to help eliminate the associated hazards.

Resolution A5: That the provincial and federal governments declare the pine beetle infestation in the province of British Columbia a natural disaster and provide the needed financial assistance to municipalities and individual property owners to help eliminate the hazards associated with pine beetle infestation.¹

Address Proposed Changes to the *Income Tax Act*

BCREA remains concerned with the Department of Finance Canada's proposed changes to the *Income Tax Act* that would limit the deductibility of interest and other expenses.

The proposals would move the current test for deductibility—which currently says owners must have a possibility of profit—to a probability of profit, which is a more exacting standard. As well, profit would be redefined to exclude potential capital gains. Therefore, an investor who expected to realize a profit on the sale of a property, but not on a regular income stream such as

¹ "Resolution A5", Union of British Columbia Municipalities, September 2005

rental revenues, would be unable to deduct losses from other income sources. Clearly, this would have a severely negative impact on small investors who choose to invest in real estate.

The Federal Minister of Finance acknowledged the profession's en masse opposition to the proposed changes and asked federal government staff to re-draft the proposal to reflect "a more modest legislative initiative" to address deductibility situations where there was clearly no expectation of profit.

As expected, a new proposal is emerging. Under the new scenario, which has not yet been tabled by federal government staff, deductibility of interest and expenses will be limited to situations where it can be shown that they were incurred "for the purpose of earning net income from a business or property." In this context, deductibility will depend on whether the taxpayer's purpose was to have a positive income stream from the particular investment, and it will be made clear that an intention to receive a capital gain will no longer count in the determination.

The impact of this revised proposal will have the same impact as the original. It will devastate real estate investments made in good faith and depress real estate markets. Moreover, lending institutions would likely discourage future investment in real estate by refusing to provide loans to investors since disallowed expenses could affect repayment.

In summary, BCREA is concerned the proposal would:

- generate overall uncertainty in the real estate market,
- fail to recognize that small investors factor capital gains into the calculation of profit,
- prevent small investors from using their eligible deductions,
- significantly discourage future investing in real property, and
- unfairly favour larger, cash-rich investors who might not require financial leveraging.

BCREA recommends the Government of Canada:

Urgently recommend to the federal Minister of Finance that the proposed amendments to the *Income Tax Act* not be tabled, and amendments that reflect the Minister's directions be drafted.

Provide an Inflationary Adjustment to the Home Buyers' Plan

The Home Buyers' Plan (HBP) enables individuals to borrow up to \$20,000 (\$40,000 per couple) from their Registered Retirement Savings Plans (RRSP) to purchase their first homes. This withdrawal limit was established when the plan was created in 1992. Since that time, home prices have escalated in BC. Unfortunately, the HBP withdrawal limit has not been adjusted to reflect either the increase or the rate of inflation. As a result, the HBP accounts for a shrinking portion of the down payment required to purchase a home in BC. It also forces plan users to finance larger mortgages, causing their debt burden to rise even as interest rates remain low.

The maximum loan available under the HBP has been losing ground as a percentage of rising average resale home prices for more than a decade. CREA reports that, between 1992 and 2004, the national average home price rose 51 per cent. During the same period, the Consumer Price Index climbed 25 per cent. If the maximum loan available under the HBP were adjusted to account for inflation, it would stand at \$25,000.

BCREA recommends the Government of Canada:

Update the HBP by raising the maximum loan available to \$25,000 and adjust this amount every five years to account for consumer price inflation.

Thank you for this opportunity to bring our budget concerns forward. For a more detailed discussion of our recommendations, please contact Stephen Olmstead, BCREA Manager of Government Relations, by telephone at 604.742.2793 or email, solmstead@bcrea.bc.ca.

Yours sincerely,



Dave Barclay
President