



SUBMISSION IN THE 2011 PROVINCIAL PRE-BUDGET CONSULTATION

January 28, 2011

John Dickie, Chair

Eastern Ontario Landlord Organization
1600 Carling Avenue, Suite 640
Ottawa, Ontario K1Z 1G3

Phone: 613-235-0101
E-mail: eolo@magma.ca
Website: www.eolo.ca

About EOLO

The Eastern Ontario Landlord Organization (EOLO) represents the owners and managers of more than 36,000 rental units in the City of Ottawa, including all of the largest landlords and multi-residential developers in Ottawa, in addition to many medium and small landlords. Our members include professional property managers, as well as owners who manage their own properties, including sole proprietors, partnerships, and corporations.

EOLO promotes policies that support a healthy rental housing sector. We are in favour of the free market, choice for tenants, and fair taxation at all levels. We also encourage education and improvement in industry standards. Our members want an ample supply of rental housing in the marketplace, satisfied customers (i.e. renters), satisfied employees, satisfied suppliers and satisfied owners and investors.

We believe that landlords and renters have a common interest in free rental markets, in fair taxation of residential rental property, in high industry standards for customer service and in housing assistance that supports tenants' rights to choose their housing and to move when and if they please.

Actions the Government should take as priorities in 2011

1. Adopt a housing benefit program
2. Provide an energy savings subsidy program for rental housing providers

Actions the government should take in the long-term

3. Rebalance the income tax system to reduce the excessive incentives for home ownership

1. Adopt a permanent housing benefit program

Ontario's social assistance system is seriously flawed. For both Ontario Works and Ontario Disability Support Program (ODSP), the shelter allowance component is the same regardless of whether a beneficiary lives in a low rent or a high rent community. In low rent communities the shelter allowance is adequate or more than adequate. However, in high rent centres like Ottawa and Toronto the shelter allowance is grossly inadequate.

In addition, most households earning wages are not eligible for any assistance with their housing costs unless they are in social housing in which case they are eligible for substantial assistance. Most other provinces use what they call a portable housing allowance to provide some housing assistance to the working poor, many of whom move on and off welfare depending on their particular work circumstances each month.

The Rental Opportunities for Ontario Families (ROOF) program provided a temporary program of housing allowances (also known as housing benefits). ROOF was a great help to 25,000 low-income Ontario families. It had certain design flaws, including having only two entry points, and paying a fixed amount to all eligible households (rather than a sliding amount depending on household circumstances).

The Long Term Affordable Housing Strategy Report indicated that the government would consider a permanent Housing Benefit program. The government should consider it quickly and adopt it.

A detailed proposal for a program was submitted to the Ontario government in November 2008, in a paper titled "A Housing Benefit for Ontario: One Housing Solution for a Poverty Reduction Strategy". This proposal was developed and supported by a broad coalition including: the Metcalf Charitable Foundation; the Daily Bread Food Bank; the Federation of Rental Housing Providers of Ontario (FRPO); the Ontario Non-Profit Housing Association; the Greater Toronto Apartments Association; and the Atkinson Charitable Foundation.

The housing benefit proposed by the coalition pays 75% of the costs of rent from a floor amount to the median cost of housing. The benefit starts to fall and gradually reduces to zero as income rises. It responds to variations in costs across the province. Under the proposed housing benefit almost 66,000 families and 129,000 individuals would receive an average benefit of \$103 per month or \$1,236 a year.

EOLO commends a housing benefit approach, and the coalition's program, to the government.

2. Provide an energy savings subsidy program for rental housing providers

Residential landlords are in a bind this year, and they and tenants will suffer because of it. The guideline rent increase is a historic low of 0.7%, but at the same time most landlords are facing cost increases of 3% to 8% for property taxes, utilities and items newly subject to the provincial component of the HST.

The main cost that landlords can control is repairs and upgrades. Yet with an aging stock of buildings there is more and more need for repairs and upgrades.

The government can address this problem in part through providing assistance for energy saving improvements like new appliances and new windows and doors. EOLO recommends the use of the structure of the now ended Federal home renovation tax credit. (That did not apply to rental buildings.) That structure would provide low cost administration for both government and the private rental sector.

3. In the long-term, rebalance the income tax system to reduce the extent of incentives for home ownership

The Ontario income tax system is based largely on the federal income tax system. Changes in the federal system automatically change the provincial tax levies.

Tax treatment of owner-occupied housing

For many years in Canada, public policies at all levels of government have promoted homeownership. Those policies include explicit incentives for homeownership and several benefits under the income tax system which accrue to homeowners. The most significant of those policies and programs include the following long standing programs:

- tax-free status for capital gains on principal residences
- lower property tax rates applied to owner occupied homes in many cities
- tax-free treatment of the imputed income from living in an owned dwelling

However, most low-income Canadians are not home-owners, and the larger part of the income tax benefits of homeownership do not accrue to low income households even if they are homeowners.

Tax treatment of rental housing

By contrast, between 1970 and 1990 the tax treatment of rental housing was made steadily worse. Here is a list of the tax changes which have disadvantaged the rental housing industry and renters:

- capital gains on rental properties become taxable, with an inclusion rate of 50%¹
- the ability to pool properties to delay recapture of CCA from the date of sale of properties is eliminated
- serious inflation results in illusory capital gains being taxed, in effect turning the tax on capital gains into a tax on capital itself
- the capital cost allowance for depreciation (CCA) for wood frame construction is reduced from 10% to 5%, advancing significantly the date taxes are payable
- deductibility of soft costs in first year is restricted
- the CCA rate is cut in half in the year of acquisition by the “half-year rule”
- deductibility of soft costs in the year of acquisition is further restricted for rental property owners not in the business of real estate.

¹ Tax becomes payable on capital gains on other income earning assets as well, but capital gains were and are a major driver for real estate investment. Setting the inclusion rate at 50% rather than higher, is alleged to allow a reward for the risk involved; however, with the amount of inflation that has occurred since 1972, the exclusion of 50% of capital gains may not even allow sufficient adjustment for inflation, let alone any compensation for risk.

- MURB rules are repealed retroactively preventing the application of CCA deduction to offset income from other sources
- the capital cost allowance for depreciation (CCA) for all buildings is reduced from 5% to 4%
- the inclusion rate for capital gains is increased to 66.67% with effect retroactive to 1972 or the date of acquisition, whichever is later
- the inclusion rate for capital gains was increased to 75% with retroactive effect (this has since been reduced to 50%)
- GST introduced and applied to rental housing construction and operation

Comparatives subsidies received

A study undertaken for the Ontario and Canadian apartment associations by economist Dr. Frank Clayton² shows that the federal government, the Ontario government and municipalities in Ontario discriminate against tenants in the private rental market. Nationally, the federal government provides an average of \$1,823 in subsidies per homeowner household, versus \$308 per renter household. The Ontario provincial government provides an average of \$493 in subsidies per homeowner household, versus \$58 per renter household. Within Ontario, all together the three levels of government provide \$2,629 in subsidies per homeowner household, versus \$395 per renter household. This is done in spite of the fact that renters on average have less than half the incomes of homeowners.

Effect of the unhealthy subsidies for home ownership

The current tax position means that Canada's housing markets are not providing the housing opportunities in the rental sector needed by households with low and moderate incomes, and by people who move between cities. Excess home ownership inhibits labour mobility and raises unemployment rates. If they become unemployed, homeowners tend to look for work within commuting distance of their homes, whereas renters tend to look for work wherever it can be found and then move if necessary.

Benefits of rebalancing the incentives

Rebalancing the tax system would make it fairer and would benefit the economy as a whole. A policy which is more neutral between housing tenures (ownership versus renting) would provide these benefits for the economy:

- higher labour mobility;
- more incentive to invest in income and growth producing assets, rather than owner-occupied housing; and
- potential government ability to lower other taxes since owner-occupied homes are currently largely exempt from income taxes (whereas rental properties produce tax revenue).

² A full copy of the report can be found at www.frpo.org or at www.cfaa-fcapi.org.