

June 28, 2019

Select Standing Committee on Finance and Government Services  
Room 224, Parliament Buildings, Victoria, B.C.  
V8V 1X4  
*Submitted online through the Budget 2020 consultation portal*

Dear Committee members:

The Canadian Home Builders' Association of British Columbia (CHBA BC) is pleased to provide this pre-budget submission for 2020.

### **About Canadian Home Builders' Association of BC (CHBA BC)**

CHBA BC represents over 2,100 member companies in the residential construction industry who work as home builders, renovators, tradespeople, suppliers, service professionals, and others. CHBA BC members are small and medium-sized businesses creating jobs and economic benefits in all areas of the province.

Overall, the residential construction industry represents over 200,000 on-site and off-site jobs, \$11.9 billion in wages, and \$25 billion in investment value.

### **Market Housing Affordability - It Matters**

Housing affordability is the top issue across British Columbia and the rest of Canada. It deserves our utmost attention and collaboration towards solutions. This includes policies that benefit all aspects of the housing system, from homelessness to market ownership.

Last year, we advocated for more attention to market rental and ownership housing. We are pleased that the provincial government has looked at this area in several ways.

The first is the speculation tax exemption for properties under development. There was a clear need to work together to find a solution for properties subject to the speculation tax as they could not be rented while being built, and determined by approval and construction timelines that can be out of the builders' control. CHBA BC brought several solutions to the Ministry of Finance and the exemption was included in the Fall 2018 legislation. We would like to make one additional recommendation regarding this exemption, included in item 5 below.

The second is the Development Approvals Review Working Group, announced last year by Minister Robinson at UBCM. CHBA members across the province have contributed to technical working groups, and shared their expertise on how to reduce barriers to development, continue to provide meaningful community consultation, and help alleviate the supply shortage in many areas of the province. Increasing housing supply is one part of the solution, but we look forward to these proposals and how we help implement them across the province. This sort of review is needed, and welcomed by industry.

In the context of Budget 2020, there are other options for the provincial government to support and encourage market housing in B.C. With this in mind, please consider the following recommendations.

CHBA BC met with Dr. Peter German and the Expert Panel on Money Laundering in February and March 2019. One area of focus for our discussions was the underground economy. This is not a unique problem in B.C., nor directly connected to money laundering, but any area where cash activity can thrive is susceptible to money laundering and illicit activity in the form of tax evasion.

We note that Dr. German specifically acknowledged the merits of our submission in his report, where he notes “CHBA BC provided some very helpful ideas with respect to dealing with the underground economy and other matters.” As a result, we have included this idea for review below.

### **1. Tax credit or incentives for proper material disposal**

A recurring problem across British Columbia is dumping of construction materials. Based on a survey conducted by the [Recycling Council of British Columbia \(page 3\)](#) (RCBC) there are two main factors that contribute to illegal dumping: cost or inconvenience of proper disposal (especially when facilities are located on the outskirts of cities) and lack of education. In the same study, there are also millions of dollars spent by cities to deal with illegal dumping.

Proper contractors and businesses take care to properly dispose of materials and maintain safe workplaces. However, it is clear that penalties do not dissuade these activities, whether that be by underground economy contractors or even homeowners.

In addition, this problem area has been noted by several provincial ministries:

- The Ministry of Agriculture is “[cracking down on the dumping of construction debris, toxic waste and other fill in the ALR.](#)”
- The Ministry of Labour consulted with stakeholders on “[Keeping Workers, the Public and the Environment Safe from Asbestos](#)” and reviewed the possibility of an incentive for the safe removal and disposal of asbestos.

### **Recommendation**

- Create a tax credit incentive tied to proper removal and disposal of construction materials.

This approach targets both issues identified by the RCBC. First, it mitigates the cost of proper disposal. There is no doubt there is a cost involved to doing things the right way, and affordability is a key concern for British Columbians everywhere.

It creates an education opportunity to inform homeowners about proper disposal and their requirements. In order to receive the incentive, proper paperwork from the disposal site should be required and a receipt of the work performed. The paperwork also encourages homeowners to work with professional contractors that will provide receipts - a key aspect to dissuade underground economy activity.

Not all renovations or construction materials are cosmetic either. For example, this incentive could also benefit landlords or homeowners making needed upgrades or emergency repairs.

By introducing an incentive, this will bring together many identified problem areas under one solution, and help to bring more renovations away from the underground economy. When homeowners are educated, this takes place. Municipalities may be able to decrease their costs tied to illegal dumping, and potentially hazardous materials may be properly disposed of rather than left in communities.

## **Costing Estimates for Recommendation 1**

### ***Funding Model***

We recommend using the same framework as the [Home Renovation Tax Credit for Seniors and Persons with Disabilities](#). In this case, the credit is a percentage of the qualifying renovation expense and it is refundable, which means if the credit is higher than taxes owed, the difference is paid as a refund. This may allow for greater flexibility with this broad topic, by outlining several items that would qualify rather than trying to estimate a separate grant for each activity.

The tax credit for seniors is 10% of qualifying activity, up to \$1,000 credit. However, given the seriousness of the issue, and commitment to worker and community safety, we would suggest a higher credit percentage (20% or higher) or amount per household. This is to ensure as much work as possible stays out of the underground economy, where it may be left unresolved or handled in an unsafe manner.

### ***Qualifying Work***

Sample suggestions for qualifying documentation and activities may include (in addition to principles in the [WorkSafeBC Abatement Contractors' Checklist](#)):

- Address of the asbestos removal project;
- Name of the asbestos contractor who performed the site inspections and removal;
- Description of the scope of work that was performed (what was removed and when);
- Reference to the hazardous material survey;
- Reference to the WorkSafeBC Notice of Project number;
- Proof of waste disposal (this may be outside of B.C. as some landfills will not take materials from contractors); and
- GST number of the contractor.

### ***Homes***

Existing data does not provide an exact picture of the number of qualifying homes, but rather a frame of reference. If potentially 240,000 homes were insulated with asbestos from 1920-1990 across Canada, and B.C. is approximately 13 per cent of Canada's total occupied private dwellings (2016 census data), then approximately 31,000 units potentially have asbestos insulation and could qualify over time. This doesn't include asbestos-containing materials, such as tile and other building materials. However, this number may fluctuate as it does not account for the rate of residential construction and renovations that may have occurred. In addition, not all homeowners will conduct a renovation during the same time period or at a specific point of ownership.

Data from BetterHomes BC may also provide relevant averages for how many private dwellings participate in the program on an annual basis.

### ***Funding Ask***

That the provincial government apply a minimum of \$5 million to this program in B.C. Budget 2020, and provide any top up funding as needed. If the maximum credit was \$5,000, this means 1,000 homes at minimum could participate. The \$5,000 maximum is comparable to other funding grants through Better Homes BC, as it covers a larger proportion of activities and not an isolated item or exchange. It is not uncommon for the costs of testing, removal, and disposal can be as high as \$30,000 - or higher.

### **Expansion of Scope**

Should this program be successful, future expansion for the credit could include material disposal or recycling costs for non-hazardous materials during a renovation, or other hazardous materials outside of asbestos. As retrofits continue to be a target area—especially with the CleanBC targets—the other costs to the renovation, such as recycling and disposal, must be part of the incentive conversation.

In addition, CHBA BC and its renovator membership would be pleased to participate in any further conversations regarding material disposal. For example, a productive conversation or working group on the systemic barriers to proper recycling and disposal (by contractors and homeowners) can potentially lead to other policy recommendations that are not financial in nature.

## **2. Continue to fund Better Homes BC and Better Buildings BC incentive programs**

The Better Homes BC program (previously known as EfficiencyBC) allow homeowners to access funding for residential projects. In Budget 2019, additional funding was allocated in order to reach more homes and businesses. This is an important sign that industry and consumers are responding to this program, and that it should continue to be funded and expanded.

Upgrading our existing housing stock is a key area of opportunity for the province. Existing homes use significantly more energy than new homes built today. The benefit of allocating funds through an incentive-based program is that homeowners can evaluate what changes are right for their families during a renovation, and builders can review options with their clients for their new home projects.

In addition, this program requires that homeowners will work with businesses that provide a GST number and statements of the work performed in order to access the funding. This is important to ensure the associated increase in renovation work goes to professional renovators and contractors, and not the underground economy.

### **Recommendation**

- Maintain and/or increase funding for residential home renovations and new homes through the Better Homes BC program to ensure the maximum number of British Columbians can benefit.

## **3. Provide an exemption for annual school tax on new housing projects**

The additional school tax introduced in Budget 2018 for properties over \$3 million indirectly impacts the cost of new construction as it does not separate land acquired for development versus a large, luxury property. This ultimately impacts the price paid by new home buyers.

Home builders are required to purchase land in advance. It's an essential raw material to the development process. However, development timelines are often out of a company's control, yet are subjected to the annual school tax through this process. In addition, assessment values can dramatically increase throughout the project life cycle, impacting the amount of tax to be paid.

CHBA BC was pleased to work with the Ministry of Finance in 2019 to develop specific exemptions for the speculation and vacancy tax for properties under development or where building activity is taking place. It also covers phased developments and vacant new inventory. Examples of eligible building activity includes applying for a permit, clearing or excavating the site, and constructing a residence on the

property. This was a critical step for housing affordability and we applaud the government for this exemption.

We believe this framework may work for the annual school tax, using the classifications of development and relevant building activity. If we want to impact housing affordability, this is a tool available to the provincial government and we encourage the committee to consider this exemption.

### **Recommendation**

- Exempt properties in the development process from the additional school tax using the same policy framework created to exempt development projects from the speculation tax.

#### **4. Adjust Property Transfer Tax thresholds to reflect increase in average home prices**

Home buyers across the province must consider their closing costs when evaluating a home purchase. This includes the provincial property transfer tax (PTT). This tax structure was first implemented in the 1980s with few amendments. A modern adjustment to today's prices is warranted.

- a) *Increase the first-time home buyer exemption threshold to \$750,000.*

Increasing the program threshold to at least \$750,000 would allow more first-time home buyers to take advantage of the significant tax savings in this program. Qualified first-time home buyers are critical for a healthy housing continuum in British Columbia. It would also create consistency by keeping the thresholds the same for all housing exemptions, including the newly-built home exemption. These programs could then be adjusted concurrently as necessary.

- b) *Review the PTT thresholds annually for the 2% and 3% thresholds, the First-Time Home Buyers program, and the Newly-Built Home Exemption.*

We recommend using a transparent formula to make ongoing adjustments to these thresholds to ensure the maximum number of British Columbians can benefit as prices change.

- c) *Grandfather existing contracts and encourage industry consultation when introducing any changes to tax measures on housing.*

Home buyers can commit to newly-built projects months and years in advance, using the knowledge and financial information available at the time of purchase. It is unwise to make changes and not honour contracts in place, for both home building businesses and the purchasers, in order to avoid unnecessary panic. The federal government, for example, exempted existing contracts from the mortgage stress test.

#### **5. Review speculation tax legislation annually with broader stakeholders**

A critical milestone in the speculation tax legislation will take place this summer, when the first round of submissions and payments is complete. There are likely going to be cases or calls for specific exemptions as a result - which is likely of any new form of public policy. For example, one issue which our members have brought to our attention is the Section 44 exemption for vacant new inventory in projects with 5 or more units over one or more properties. The vacant new inventory concept is appreciated and

well-intentioned. However, the 5-unit threshold impacts small home builders who have constructed one, two, three or four homes awaiting sale, and cannot claim this exemption.

The provincial government committed to reviewing the tax with concerned Mayors on an annual basis. We believe this scope could also include affected industries such as residential construction. We would be pleased to provide annual updates on the on-the-ground trends across the province, and any relevant proposals to ensure the development exemption and tax is functioning as intended.

### **Recommendations**

- Commit to review the speculation tax legislation and trends with broader stakeholders, in addition to Mayors, on an annual basis.
- Remove the 5-unit minimum to qualify for the section 44 exemption for vacant new inventory.

### **Conclusion**

Home builders and renovators are a key group that will build the homes we need across British Columbia. However, there are many provincial policy options to directly impact the costs paid by home buyers. Some of these solutions were outlined in our aforementioned recommendations.

Builders today are also impacted by rising costs of construction, including building code changes, local government fees, trade disputes, trades shortages, product costs and availability and municipal bylaws. This reality exists for all projects in the housing continuum, whether that be government-owned units, rental projects, or market ownership developments.

Industry and government have worked together on some key changes in the interests of market housing affordability. These include the speculation tax exemption for land under development and the Development Approvals Review Working Group. The expansive affordable housing investments undertaken by the Government to date are to be commended, but the whole housing continuum must continue to be part of the policy conversations.

We encourage you to continue to review our recommendations. Please let us know if we can provide any additional feedback to the committee.

Sincerely,



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