

Federal Tax Expenditures Favour Homeowners

By: Frank Clayton

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The Economist magazine, in a provocative special report on housing, advocates for countries like Canada to stop pursuing homeownership as a policy goal: “The West’s obsession with homeownership undermines growth, fairness and public faith in capitalism”.¹ Indeed, the President and Chief Executive Officer of the Canada Mortgage and Housing Corporation (CMHC) pre-empted The Economist in December of 2019, stating that: “Over-promotion of homeownership is both economically and socially counter-productive, contributing to the increasing division between rich and poor.”²

Are these sources right in that we in Canada are subsidizing homeownership to a much greater degree than private renter accommodation?

Government subsidies to renters paled in comparison to those to homeowners in Ontario in 2009

Yes, we are providing huge subsidies to homeowners.

A study I undertook in 2010 estimated that the three levels of government subsidized Ontario homeowners and renters together to the tune of \$8.9 billion.³ Stunningly, 94% of these subsidies benefited homeowners, while only 6% benefited private renters. This gap is even more extraordinary given that renter households earn average incomes about half the average of homeowners.

Most of these subsidies to homeowners are what economists refer to as “tax expenditures” as opposed to “direct outlays”. Tax expenditures refer to measures aimed at achieving a public objective through preferential tax rates, exemptions, deductions, deferrals or tax credits at the cost of lower tax revenues.⁴ This contrasts with direct outlays which subsidize housing through direct expenditures.

What are the largest federal tax expenditures to homeowners and renters in 2017?

Homeowners remain by far the biggest beneficiaries of tax expenditures on housing from the federal government, accounting for nearly 90% of the national total of \$18.2 billion in 2017, the latest estimates published (see Figure 1).⁵

Figure 1: Federal Government Tax Expenditures to Homeowners and to Renters, 2017, \$ (Millions)

	Homeowners	Renters
Net imputed rental income on owner-occupied housing	8,000	N/A
Non-taxation of capital gains on principal residences	7,520	N/A
Exemption of rents from GST	N/A	1,970
GST Rebate for new housing	510	150
First-Time Home Buyers' Tax Credit	110	N/A
	16,140	2,120
Total homeowners and renters	\$18,260 million	
Homeowners as % of total	88.4%	

Source: CUR, based on data from Canada Ministry of Finance and Statistics Canada

The two largest tax expenditures for housing:

- Non-taxation of capital gains on principal residences (\$7.52 billion)**
 In Canada, 50% of all capital gains are taxable (capital gains being the difference between the purchase and the sale price). There is no tax levied, however, on capital gains from the sale of a principal residence (an owner-occupied home); and
- Non-taxation of net imputed income on owner-occupied housing (\$8 billion)**
 The concept of net imputed income is harder to grasp. Let us say a renter household purchases a home (as opposed to equities or bonds) as an investment and rents it out. The household pays rent monthly to a landlord while receiving rent from the tenant of the home it is renting out. This rental income net of expenses is taxable income for the household. However, if the household moves into its investment property, it now becomes an owner-occupant of this home. The household no longer is paying rent to a landlord, nor is it earning taxable rental income. Effectively, the household is renting from itself.

Taxation theory tells us that the loss in net income from the household occupying the home it owns instead of renting it out should be regarded as net income to the household (imputed, not cash) and should be taxed. Since imputed incomes is not listed as a tax expenditure by the Department of Finance, we have made a conservative estimate of its size.

Other federal tax expenditures estimated by the Department of Finance include:

- Exemption of residential rents from the Goods and Services Tax (GST)**
 (\$1.97 billion)

Residential rents have not been subject to the GST since it was implemented in 1991. In contrast, most consumer goods and services are subject to GST;

- **Rebate for new owner-occupied housing** (\$510 million)

Builders or purchasers of new owner-occupied homes are eligible for a GST rebate for the portion of the new home price below \$450,000. Most other services and goods purchased by consumers are not exempt from the tax;

- **Rebate for new rental housing** (\$150 million)

Builders or investors in new rental housing are eligible for the same rebate as the builders or purchasers of new owner-occupied housing; and

- **First-Time Home Buyers' Tax Credit** ((\$110 million)

First-time buyers of owner-occupied homes purchased after January 27, 2009 can claim income tax relief up to \$750 under this tax credit.

Should the Federal Government Be Thinking of Reducing this Subsidy Bias in Favour of Homeownership?

The Economist argues that the tax system should be neutral in the rent/own decision. It uses Switzerland as its poster child since it “comes close to treating home-ownership and renting equivalently in its tax system.” The Economist discounts claims that have long favoured homeownership, asserting that (a) owning is not necessarily the route to riches that many believe, and (b) the evidence that homeownership is good for society is weak.

Whether or not one agrees with the premise that the personal income tax and the GST should be neutral with regards to the rent/own decision, I think most would agree that current federal government housing subsidies favour homeownership. This is true even if the scope of the analysis was expanded to include social housing subsidies.

Sources

¹ The Economist (2020). “The Horrible Housing Blunder: Home Ownership Is the West’s Biggest Economic-Policy Mistake.” [Online]. Available: <https://www.economist.com/leaders/2020/01/16/home-ownership-is-the-wests-biggest-economic-policy-mistake>, January 16, 2020.

² CMHC (2019). “Affordable Housing for Everyone in Canada: Speaking Notes for Evan Siddall, President and Chief Executive Officer, CMHC, National Housing Innovation Event Series.” [Online]. Available: <https://www.cmhc-schl.gc.ca/en/media-newsroom/speeches/2019/affordable-housing-everyone-canada>, December 6, 2019.

³ Frank Clayton (2010). “Government Subsidies to Homeowners versus Renters in Ontario and Canada.” Federation of Rental-Housing Providers of Ontario and the Canadian Federation of Apartment Associations. [Online]. Available: <http://neighbourhoodchange.ca/documents/2014/09/clayton-2010-subsidies-owners-and-renters.pdf> August 30, 2010.

⁴ Canada Department of Finance (2020). “Report on Federal Tax Expenditures, 2020.” [Online]. Available: <https://www.canada.ca/en/department-finance/services/publications/federal-tax-expenditures.html>, 10.

⁵ All tax expenditure estimates were prepared by the Canada Department of Finance except for net imputed rental income of homeowners which were prepared by CUR.

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