by Aron Spector

REGRESSIVE IMPLICATIONS OF FEDERAL WITHDRAWAL FROM SOCIAL HOUSING

Ottawa a récemment retiré son appui au logement social sous prétexte qu'il doit reprendre le contrôle de sa situation financière. Pourtant, les nombreux crédits d'impôt reliés à la possession d'un domicile restent en place, de sorte que les personnes à faible revenu qui dépendent du logement social doivent supporter une part plus que proportionnelle du fardeau imposé par les compressions budgétaires du gouvernement.

The federal government's withdrawal from new social housing commitments in 1992 and the present move to devolve existing administrative responsibility to the provinces and territories corresponds with an increasing housing affordability problem for low- and moderate-income Canadians. Given the limited fiscal capacity of the provinces and their lacklustre past record in providing housing-related support to low- and moderate-income Canadians, federal withdrawal has meant the removal of almost all government commitment to new social housing. With our growing population and a gradual loss of existing housing units, social housing is slowly becoming less and less a factor in the housing choices available to low- and moderate-income households. The implications of an increasing dependence upon the private rental market as the source of shelter for low-income Canadians has been made abundantly clear in the 1990s. It is becoming more expensive — in 1995, households in the lowest income quintile renting non-subsidized housing spent an average of 54 percent of their income for shelter, up from just under 50 percent in 1989, and increasingly, many low-income households are finding themselves with no option except emergency shelters or the street.

Federal cutbacks in social housing have been justified as part of the effort to restore federal finances. At the same time, the federal and various provincial governments have encouraged middle- and upper-income households to become home owners by increasing access to the mortgage market, by sheltering savings to be used to purchase new housing and by allowing the temporary use of registered retirement savings as down payments. It is less well know that once a middle- or upper-income household owns a home, the existing income tax system shelters the resulting benefits. This presentation shows that tax revenue lost from middle- and upper-income Canadian households far exceeds the modest subsidies to low- and moderate-income households who are fortunate enough to find accommodations in social housing. As a result, the costs of programs that encourage home ownership more than offset the savings purported to have been made by reducing the commitment to low- and moderate-income households through social housing.

It is relatively simple to calculate the direct "savings" accruing to government treasuries by curtailing the commitment to social housing. Canada Mortgage and Housing Corporation has provided the data that makes this possible for two large programs — Public Housing and Non-profit Co-operative Housing in its recent program evaluations. Estimates of the taxes avoided through home ownership are somewhat more difficult to understand. Fortunately, data to make these estimates is also readily available. Calculations developed for this purpose are developed using data in the most recently available Family Expenditures survey, completed in 1992 and corresponding Homeowner Repair and Renovation Expenditures and the Household Income, Facilities and Equipment surveys, all produced by Statistics Canada.

Advantages to homeowners in the tax system

To understand the advantages of home ownership in the income tax system, housing has to be considered an investment, providing a flow of goods and services (shelter) over an extended time period. From this perspective, home ownership as an investment, two tax advantages are immediately evident. First, the benefits or "profits" of home ownership are not taxed. Secondly, the sale of this capital asset is not subject to capital gains tax. Each of these requires some explanation.

1) *Imputed rent*: Because housing lasts a long time and continues to provide benefits over this time, it should be considered as a type of investment. But unlike other forms of investment (for example, bonds, stocks, GICs, machines or rental properties), money used to purchase owner- occupied housing does not in turn produce money income in the form of dividends, interest or profit. Rather, we receive "in-kind" benefits including a roof over our heads and protection from the elements. If we are sufficiently wealthy, these benefits may extend to luxuries such as exclusive access to a tennis

court or a swimming pool. Dollar estimates of these "in-kind" benefits are termed "imputed" rent. These benefits are so considerable that they currently make up a significant part of Statistics Canada's estimate of the nation's Gross Domestic Product.

In Canada, any returns on the investment that owners receive from the money they themselves have invested in their housing is not taxed because no financial transaction is seen to have taken place. In contrast, when money changes hands for the privilege of living in a dwelling at some point, our income tax system "kicks in." Thus when either rent goes to pay for the right to use a landlord's premises or when mortgage interest payments are made in order to use a lender's money to purchase housing:

• these payments are made using income that was first subject to income tax and

• the landlord and mortgage holder's profit is subsequently subject to income tax.

An easy way to estimate imputed rent is to calculate the income resulting from investing homeowner's equity in an alternate way. A particularly simple and attractive choice is to examine the returns from applying the average of current mortgage interest rates to accumulated homeowner equity. In other words, what would have happened had homeowners invested their money in other people's mortgages. This also provides a ready indication of an amount homeowners are presently willing to pay others for the benefits of using their dwelling. Thus, estimated imputed rent is equal to total contributions to owner equity minus the cost of ongoing maintenance, multiplied by the average interest rates on mortgages currently held by homeowners.

The tax benefit of imputed rent can be readily estimated by adding it to the income of the person considered as the primary household maintainer and estimating the additional income tax that would be owing to federal and provincial/territorial governments had it been invested elsewhere. Table 1 indicates that using this method, taxing imputed rent would have yielded an estimated $4550 in 1992 from the average homeowner. For the country as a whole, taxing 1992 imputed rent, holding all else equal, would have yielded approximately $29 billion.

Table 1 **Estimated Imputed Rent and Tax Savings, Average Canadian Homeowner, 1992**

Average Household Income, Owner Occupied Dwelling	Average Primary Maintainer Income	Average Equity Accumulated in Home	Average Imputed Rent	Estimated Additional Income Tax
$54,735	$38,879	$108,840	$11,108	$4,550

2. *Capital gains resulting from the sale of a principal dwelling*: In Canada, the value of existing owner-occupied urban residential property has increased during much of the last half century. This trend largely reflects the considerable economic growth and development that occurred during that time. Simply put, most existing residences reap benefits as their surrounding communities develop more and more opportunities, amenities and services (work, shopping, forms of recreation) and as public services improve. Thus, these residences tend to increase in value. Further, as more and more people come to reside in an area, older, more centralized locations become relatively scarce and therefore even more valuable.

When an owner-occupied house is sold for more than the net capital cost of the dwelling, the owner receives a capital gain. Net capital costs of a property includes the purchase price, the costs of renovations and improvements and selling costs (including, for example, legal, real estate fees and land transfer taxes). Unlike the proceeds of other such transactions, neither capital gains nor capital losses upon the sale of owner-occupied property is subject to income tax consideration.

Table 2 shows estimated capital gains and potential tax revenue for those selling their homes in 1992 and potential tax revenue, had gains and losses been subject to income tax consideration. Since capital gains are considered to occur only at the point of sale and since only a small proportion of homeowners sell in any given year (4.4 percent in 1992), it also indicates tax benefits averaged over all homeowners. The non-taxation of capital gains yielded an estimated average of $7971 to those who sold their homes in 1992, an average of $351 when spread over all homeowners. Overall, the taxation of the capital gains of home ownership would have yield approximately $2 billion in 1992.

Table 2 **Estimated Capital Gains and Tax Savings, Average Canadian Homeowner, 1992**

Average Capital Gain	Average Estimated Tax Savings, Sellers	Estimated Tax Savings, spread across all home owners
$25,949	$7,971	$351

Comparing homeowner benefits to social housing subsidies

Average per unit subsidies were published by the Canada Mortgage and Housing Corporation in 1991 and 1992 in their evaluations of public and non-profit co-operative housing, which represent just under half of all social housing stock. These subsidies reduce the costs of housing to low-income households to manageable amounts (an average of just under 30 percent of gross income in 1992) and reduce rents to moderate-income households to the average rents available in comparable rental accommodations in their locale.

Table 3 juxtaposes the total average income tax benefits accruing to homeowners against average housing subsidies, showing that the benefits to the average homeowner were an estimated 15 percent higher (or $625) than the subsidies provided to social housing households. In total, the non-taxation of imputed rent and capital gains in 1992 yielded an estimated benefit to homeowners of approximately $31 billion in 1992 — close to the size of the entire federal deficit for that year and more than six times the combined expenditures of the federal and provincial governments on social housing in that year.

Table 3 **Average Tax Benefits to Homeowners and Subsidies to Public and Co-op Housing in Canada, 1992**

Average Estimated Homeownership Benefit	Average Social Housing Subsidy	Difference	% Difference
$4,901	$4,276	$625	15%

Sources: Column 1: Sum of estimated tax savings, average homeowner from Tables 1 and 2.
Column 2: The weighted average of subsidies reported in the CMHC Evaluations of the Public and Co-operative Housing Programs inflated to 1992 dollars (using the Consumer Price Index).

Indirect implications of homeowner tax benefits

These benefits may also affect the price of housing for all Canadians. Economists well know that when an investment is provided with a tax advantage, many people are willing to "bid" more than for similar alternatives. These tax advantages may therefore have become buried in higher prices for owner-occupied housing and more universally, in the land available for any type of residential building. As a result, home ownership is less accessible to those with low and moderate incomes, especially those who have never owned a home. Thus, a portion of the subsidies now paid for social housing likely reflects the resulting higher cost of buying residential land.

Conclusion

The social and economic benefits conferred by home ownership are considerable. Unfortunately, for many low- and moderate-income Canadian, home ownership is not a possibility. Curtailing subsidized social housing programs while continuing to provide tax advantages to homeowners is thus a very selective way of chanting the mantra of deficit reduction. It constitutes an erosion of the social safety-net while accentuating regressive income-based inequality. The result is an increasingly uneven playing field, where medium- and high-income households able to afford home ownership unabatedly continue to receive their benefits at an annual cost of the magnitude of recent federal deficits at their worst. While clearly it would be political suicide for any government to consider the taxation of these benefits to homeowners, it is equally clear that the present governments have chosen political expediency over the welfare of low- and moderate-income Canadians.

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par Guy Laforest

RÉFLEXION SUR LA NATURE DU CANADA

Le livre de Ken McRoberts, et les propos qu'il a inspirés à Ramsay Cook, appartiennent tous deux à la même interrogation fondamentale : l'un et l'autre se penchent sur la nature du Canada. McRoberts trouve dans la politique canadienne des années soixante la plus grande opportunité historique pour la réalisation d'une idée très particulière, celle d'un pacte fédéral entre deux peuples, ou encore entre deux sociétés distinctes. Cook considère que cette idée est sans fondement historique, politique et sociologique. L'idée du Canada dans laquelle Cook se reconnaît, c'est celle de la nation civique. Selon l'historien de York, la Charte des droits et libertés et la révision constitutionnelle de 1982 dans son ensemble ont rapproché les institutions canadiennes de ce projet de nation civique qui est le véritable idéal politique de la modernité. Entre les sociétés distinctes de ce monde représentées par Radovan Karadzic et son projet bosno-serbe, et les nations civiques de ce monde, symbolisées par Nelson Mandela et sa vision de l'Afrique du Sud, Ramsay Cook n'éprouve aucune difficulté à choisir; le Canada doit résolument emprunter la voie civique dans la définition de l'identité politique. Cette conviction explique, je pense, la sévérité de Cook à l'égard de McRoberts. L'historien reproche au politologue non seulement son penchant nostalgique, son désir de faire revivre la politique pearsonienne des années soixante, mais il le tance en plus à propos de sa conception erronée, et viciée, de la modernité politique.

Je n'ai pas l'intention de prendre position pour l'un ou pour l'autre dans ce débat. J'essaierai plutôt de le réorienter en creusant cette question à propos de la nature du Canada qui fait partie du patrimoine commun à McRoberts et à Cook.

Qu'en est-il de l'identité du Canada ? Cette question a tellement fait couler d'encre, qu'elle constitue peut-être en fin de compte la vraie caractéristique fondamentale du Canada. Le Canada, c'est d'abord un débat sur l'identité du Canada. Avec un peu plus de rigueur, il faut commencer par dire qu'il n'y a pas une seule bonne réponse à la question posée. Le Canada est une monarchie constitutionnelle, dans la tradition britannique. C'est aussi, sur le plan politique, un régime parlementaire, en vertu de la même tradition. Le Canada est également un État libéral, qui accorde une grande importance aux libertés individuelles, de même qu'un État démocratique où les citoyens délèguent beaucoup