



RESPONSE TO DISCUSSION PAPER ON NEW BRUNSWICK'S TAX SYSTEM

Presented by:
The New Brunswick Real Estate Association

July 2008



Response to Discussion Paper on New Brunswick's Tax System

SUMMARY

This brief is submitted in response to the Legislative Assembly of New Brunswick's Select Committee on Tax Review's invitation for comments on the options presented in A Discussion Paper on New Brunswick's Tax System.

The Government of New Brunswick's belief that fundamental restructuring of the tax system is the foundation to the province's long-term economic goals is supported by the options presented. Taken individually, the options support expansion of the provincial economy through reduction in the overall tax burden to citizens and business and promotion of investment and population growth. However, the options proposed could impede the government's desired affect if the provincial property tax burden simply shifts from one area to another.

The NBREA recommends that the government eliminate the provincial tax on residential non-owner occupied properties. This measure would:

- deliver tax fairness to citizens;
- stimulate the provincial and local economies by creating jobs and promoting investment;
- attract immigrants and skilled workers.

It would also leverage significant growth in key economic sectors, including real estate, which help ensure a high quality of life across the province.

This brief focuses on the taxation system. Please note our Association is also willing to work with the government of New Brunswick to also improve another major issue for property owners: assessment procedures. We suggest researching best practices in property assessment with the outcome of accurately assessing properties and addressing the current inequities with the taxation of New Brunswick properties.

The real estate profession encourages the government to further consult with citizens and knowledgeable stakeholders to address outstanding questions with respect to some of the options presented, particularly an increase in the HST. There must be a detailed analysis of the potential impact new taxes and/or increased taxation rates would have on citizens and business.

With this presentation, the New Brunswick Real Estate Association:

- **calls for the reduction or elimination of the provincial tax on non-owner occupied properties;**
- **supports in principle the reduction of provincial property taxes for all property types;**
- **supports the government's initiatives to clarify property assessment policy;**
- **urges the government to include a detailed review of commercial property taxation policies as part of this process;**
- **urges caution, careful analysis and a public report on any increase to the HST;**
- **urges caution and careful analysis in consideration of a carbon tax.**



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WHO WE ARE

The New Brunswick Real Estate Association (NBREA) represents over 1,000 REALTORS®. The association serves its members through a variety of educational programs, publications and special services. The NBREA through private legislation provides all pre-licensing real estate courses and continuing education. The Association also co-regulates the industry in partnership with the Department of Justice.

Most REALTORS® in New Brunswick are also members of one of the five local real estate Boards, which provide local professional services including the Multiple Listing Service®, or MLS®. The MLS® trademark is held by The Canadian Real Estate Association, and is licensed to these individual Boards and REALTORS® for their use in the trading of real estate. The MLS® is developed and paid for by REALTORS®.

REALTOR® is also a national trademark, which identifies real estate professionals who are members of the Canadian Real Estate Association and subscribe to high standards of professional service and a strict Code of Ethics.



The New Brunswick Real Estate Association and its member REALTORS® are committed to the philosophy of enhancing the quality of life in the province, and its communities. This philosophy incorporates ensuring economic vitality, preserving the environment, protecting property owners, and building better communities. REALTORS® have always been active in their communities, and Quality of Life ensures NBREA reflects that work.

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THE ECONOMIC IMPACT OF REAL ESTATE

While the economic impact of real estate transactions is usually measured by value of sales or units, our national association (The Canadian Real Estate Association) also measures the economic activity generated by each residential real estate transaction. This study is conducted on behalf of the association every two years by the independent research firm, Altus Clayton.

During the period between 2004 and 2006, the Altus Clayton report estimates that \$20,325 in ancillary spending (i.e. spending by purchasers on items other than the actual house and land) was generated by each MLS® residential property transaction in Atlantic Canada¹. Nationally, the average was \$32,200 in ancillary spending with each MLS® residential sale.

These purchases involve services and products usually associated with a move, or new household. They have been identified by Altus Clayton to include furniture, appliances, renovation supplies such as paint, cleaning supplies, and moving and cleaning services.

The report says that each MLS® transaction in Atlantic Canada generated an average of \$5,150 for renovations alone during that period.

Altus Clayton also estimates in their latest report that based on MLS® residential sales activity in the 2004-2006 period, a total of 1,515 full time jobs were created in New Brunswick. This included 885 direct and 630 indirect jobs. In Atlantic Canada, approximately 5,225 full-time equivalent jobs were created because of the residential real estate activity.

Overall these statistics demonstrate the considerable economic importance of real estate to the overall New Brunswick economy, in terms of job creation and consumer spending.

¹ *Economic Impact of MLS® Sales 2004-2006, Altus Clayton for The Canadian Real Estate Association, June 2007.*



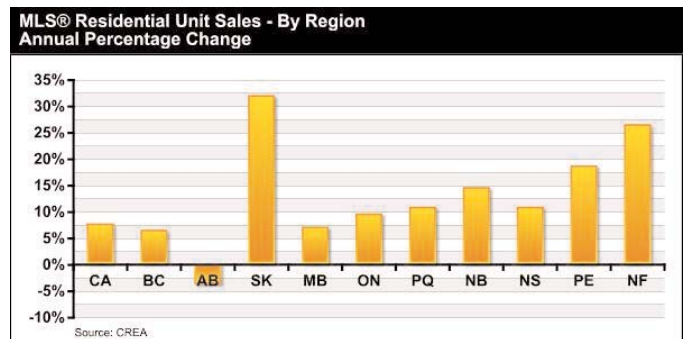
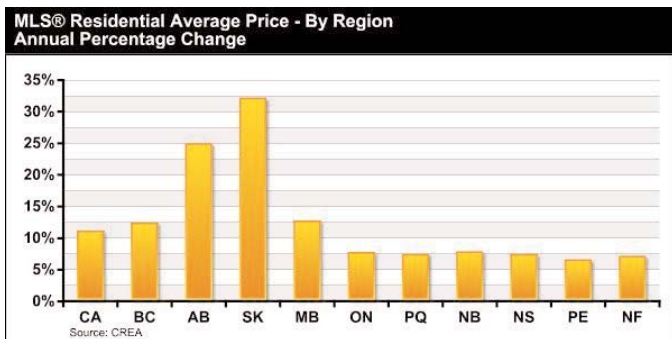
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THE NEW BRUNSWICK REAL ESTATE MARKET

The real estate market in New Brunswick incorporates both single family and multi-tenant housing, and investment, commercial and business properties. The purchase and sale of most existing properties can be tracked through the sophisticated Multiple Listing Service® database systems owned and operated by the five real estate Boards in the province. Each real estate Board compiles aggregated data into residential MLS® sales, and total MLS® sales. The latter incorporates agricultural, investment industrial and retail properties – in other words, everything, including residential.

For the first time in 2007, total real estate sales processed through the MLS® systems of the real estate Boards in New Brunswick surpassed the one billion dollar mark. Total MLS® sales in 2007 hit \$1.2 billion, representing a 24.9 per cent increase over total MLS® sales reported in 2006. That represents the largest annual increase in total MLS® sales in New Brunswick since 1984.

The value of all residential properties sold through the MLS® systems in New Brunswick totaled \$1.1 billion, a 23.3 per cent increase from total MLS® residential sales reported in 2006. In real estate terms, the residential real estate market was very active. It was not, however, active beyond reason, as several markets in western Canada were.



This is reflected in the average residential price. At the end of 2007 the average residential price was \$129,532, the highest ever recorded in the province. That represented an 8.8 per cent increase from 2006. Despite that, New Brunswick has the second lowest average MLS® residential price among the Atlantic provinces: only the average price in P.E.I. was lower at \$121,795.

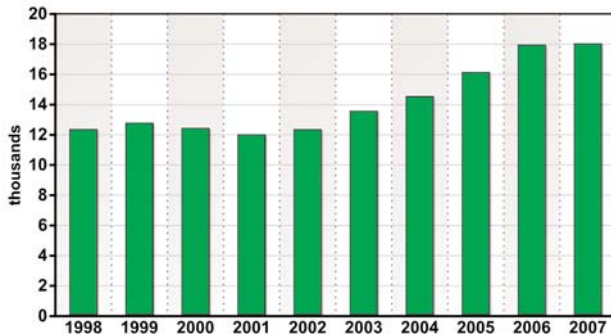


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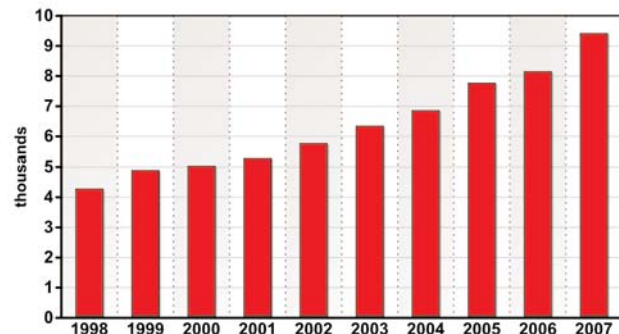
THE NEW BRUNSWICK REAL ESTATE MARKET continued

In comparison to other markets in Canada, the residential market in New Brunswick represents affordability. The national residential MLS® price at the end of 2007 was \$304,670, an increase of 11 per cent from 2006. **It is the continued availability of affordable quality housing that has helped the province reverse years of population loss, so there must be care and detailed analysis of any change in the provincial tax structure that would erode that affordability.**

MLS® total new listings



MLS® total unit sales



While winter weather conditions contributed to cooler resale housing activity in the first half of 2008, the overall growth trend continues. In June 2008, the real estate market in New Brunswick defied national trends and posted records for increased Multiple Listing Service® (MLS®) activity and average price. There were 1,046 properties sold in June through the MLS® in the province - a two per cent increase from the number sold in June 2007, when the previous record was set. The total value of those sales hit \$154.9 million, also a monthly record. That represents a nine per cent increase from total MLS® sales in June 2007.

Residential property sales processed through the MLS® in New Brunswick also set records in June. There were a total of 923 residential properties sold, with a total value of \$145.3 million. This represents a 12 per cent increase in the value of residential property sales compared to June 2007, when the previous record was set. Sales activity in both Saint John and Fredericton helped push the monthly totals to these record levels in June.²

The average MLS® residential price in New Brunswick in June was \$157,505, up 10 per cent compared to the average price in June 2007. This was also contrary to the national trend, where the national MLS® average residential price was unchanged in June in comparison to the same month last year. By comparison, however, New Brunswick remains extremely affordable. The national MLS® average price in June 2008 was \$314,028 virtually unchanged from a year ago. The latest MLS® statistics show that New Brunswick remains the second most affordable market in Canada.

² New Brunswick Real Estate Association, news release, July 2, 2008.

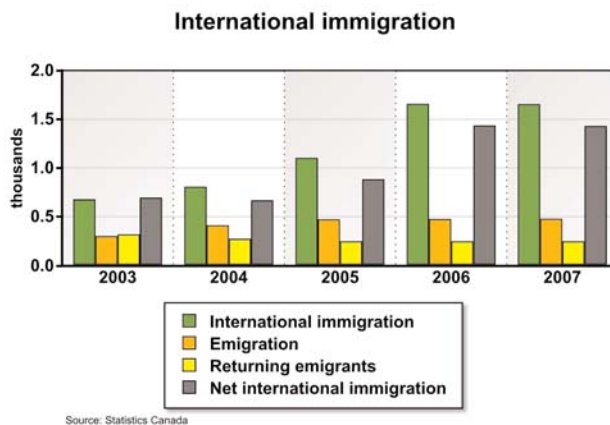
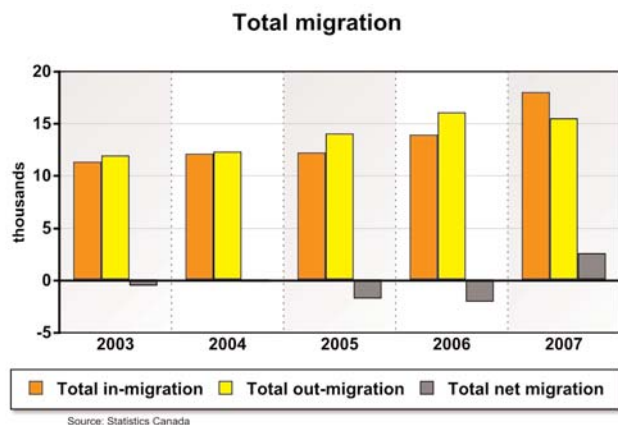


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REAL ESTATE AND THE PROVINCIAL GOAL OF WELCOMING MORE IMMIGRANTS

Both migration and immigration have been key elements to the continued, steady growth of the real estate market in New Brunswick. According to Statistics Canada, 2007 marked the first time that the province recorded a net gain in overall migration (the combination of international immigration and inter-provincial migration). In fact, the gain in population of 2,519 was the largest annual increase since records began. This is, in part, a tribute to the government of New Brunswick's goal of attracting more immigrants to the province.

In addition, 2007 research by Professor Michael Haan of the University of Alberta and Genworth Financial reported that just over half of all immigrants to Canada (52 per cent) successfully purchased a home within three years of arriving. But in those first three years, they were tenants.



That is another reason why New Brunswick must take steps to encourage the private sector development of quality, affordable rental housing available if the province's stated plan to attract more immigrants is to be successful. A critical element is the one to five year "bridge" period when studies show the majority of immigrants rely on rental housing. Because of the provincial property tax on residential non-owner occupants, the current tax structure actually penalizes immigrants during this "bridge" period as they work to build a new family life in New Brunswick.

"The government's tax policy contradicts the government's stated goal of attracting immigrants to New Brunswick" says NBREA President Dwayne Hayes. "Research shows immigrants rent their first home when they come to Canada. If they settle in New Brunswick, we welcome them with a special property tax because they live in a home they don't own."

When it comes to increasing immigration, there are three key housing-related factors:

- economic opportunity, so they can find jobs.
- affordable housing – both rental and owned, to help immigrants establish their new home in a new country.
- the community ingredient, providing immigrants with the physical attributes of belonging.

When they have established credit and a career and are ready to buy a home, immigrant families in the Genworth study indicated that well-priced and conveniently-located detached dwellings in safe neighbourhoods were the top pick. That preference was followed by townhouses and semi-detached dwellings. Condominiums were fourth on the list of housing preferences. These preferences are reflected in the existing resale housing market in New Brunswick today.



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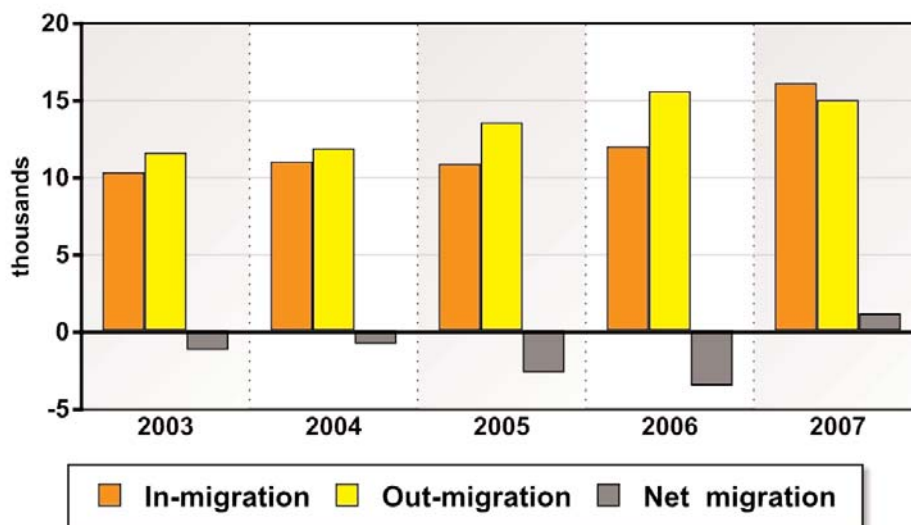
REAL ESTATE AND THE PROVINCIAL GOAL OF WELCOMING MORE IMMIGRANTS continued

The combination of a strong provincial economy and affordable housing are among the reasons why for the first time since 1990, New Brunswick reported a net gain in inter-provincial migration in 2007. According to Statistics Canada, the majority of those moving to New Brunswick from another province were from the eastern half of the country.

Year	Inter-Provincial in-migration	Inter-Provincial out-migration	Net inter-Provincial migration
2003	10,262	11,539	-1,277
2004	10,942	11,809	-867
2005	10,784	13,492	-2,708
2006	11,942	15,516	-3,574
2007	16,035	14,935	1,100

Source: Statistics Canada

Inter-provincial migration



Source: Statistics Canada



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ISSUES RAISED BY TAX PROPOSALS

The New Brunswick Real Estate Association (NBREA) applauds the Government of New Brunswick's initiative to review and modernize the way taxes are collected in the province. NBREA agrees that fair and competitive taxation can help build an economy that will:

- attract investment and generate well-paying jobs
- attract and sustain a dynamic and growing population
- provide more money for citizens' discretionary spending
- generate enough revenue to sustain quality public services

The *Discussion Paper on New Brunswick's Tax System* outlines tax options based on the principle that economic benefits could be achieved through reduced government reliance on income taxes and increased revenue through consumption taxes.

NBREA believes that the proposals described in the Discussion Paper could contribute significantly to existing efforts to strengthen the provincial economy, attract people and improve the quality of life in communities across the province.

Through this submission, the Association supports one proposed tax reduction and demonstrates how when combined with market forces, it could generate significant economic activity for New Brunswick. With respect to other proposals, reasons for caution are also noted.

A Problem: Residential Non-Owner Occupied Property Taxes

Currently, non-owner occupied residences pay both provincial and municipal/local property taxes, while owner-occupied residences pay no provincial property tax³. NBREA believes that this differential treatment reflects a serious imbalance in the property tax system. It is an impediment to the expansion of the rental or multi-tenant market, previously identified as an essential ingredient towards success for the government's stated objective of attracting more immigration to the province. In addition, it treats hundreds of people unfairly and is an enormous impediment to economic growth. This situation must be corrected.

Nearly one third of New Brunswick residents, approximately 250,000 people, are non-owner occupants who rent their living accommodations⁴. This classification includes people in need — seniors, students, low-wage earners and people with special needs. It also features people poised to make significant contributions to the province's economy and quality of life — young families, immigrants, entrepreneurs, recent college graduates and skilled workers.

3 In New Brunswick, there are two levels of property taxation - provincial and municipal/local and two classifications of property – residential and non-residential. Residential property is sub-classified as either owner-occupied (i.e. principal residence) or non-owner occupied (i.e. cottages and apartments). Department of Finance, Government of New Brunswick.

4 New Brunswick Apartment Owners Association, press release, June 2008.



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ISSUES RAISED BY TAX PROPOSALS continued

New Brunswick Residential Property Tax Rates 2008⁵

Municipal				Local Service Districts			
Property Type	Provincial	Avg. Local	Total	Provincial	Provincial /Local	Avg. Local	Total
Owner Occupied	\$ 0.0 (tax credit provided)	\$ 1.51	\$ 1.51	\$ 0.00	\$ 0.65	\$ 0.28	\$ 0.93
Non-Owner Occupied	\$ 1.50	\$ 1.51	\$ 3.01	\$ 1.50	N/A	\$ 0.28	\$ 1.78

In New Brunswick, non-owner occupants pay the highest provincial property taxes in the country⁶. They also earn 40 per cent less than the average homeowner but endure nearly twice the tax burden.

Moreover, property tax accounts for nearly 50 per cent of annual expenses for a non-owner occupant, according to the New Brunswick Apartment Owners Association. This impedes access to future housing options, negatively impacts affordability and stifles enormous economic potential.

While the principal focus on this issue has been on the tenants in existing rental units in New Brunswick, REALTORS® also want to emphasize the impact it has on other aspects of economic development. For example, land developers must pay non-owner occupied tax rates on land as soon as it is serviced, but before any structure has been built. The existing policy says that in the tax year following the year when improvements are made to the land, the taxes for the individual lots are set at the full non-owner occupied tax rate. This means the province is imposing a maximum occupancy tax rate on a lot that has no structure for anyone to occupy. These are costs that a developer must pass on to the eventual buyer. In today's real estate market, it can take as long as five years for a serviced lot to sell.

"The government's current tax policy can discourage development and the creation of jobs," says NBREA President Dwayne Hayes. "We're taxing a serviced lot before anything is built on it, so of course the owner can't live there. It simply means higher costs for consumers when they want to build, or buy a new home."

⁵ Discussion paper on New Brunswick's Tax System, Department of Finance, Government of New Brunswick, June 2008.

⁶ Comparison of 2004 Property Tax Rates Across Canada, New Brunswick Apartment Owners Association, June 2008.



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ISSUES RAISED BY TAX PROPOSALS *continued*

The NBREA Recommendation

REALTORS® believe that elimination or significant reduction in the provincial property tax on non-owner occupied properties should be a provincial government priority. Elimination of the provincial property tax on residential non-owner occupants will correct a serious imbalance in the property tax system, deliver tax fairness to thousands of citizens and make the province more attractive to skilled workers. It will also initiate a significant economic stimulus by leaving more discretionary income in citizens' pockets.

REALTORS® know real estate, and know their communities. They know the negative impact this tax has had. In a survey of New Brunswick REALTORS® conducted by NBREA in June 2008, 90 per cent said elimination or a significant reduction in the provincial property tax on non-owner occupied properties should be a priority. One REALTOR® assessed the situation with this comment: "Since N.B. and P.E.I. are the only two provinces that penalize property owners for owning a property that is not their residence, I believe that the practice of double taxation needs to be stopped. If we are trying to attract people to the province we need to reduce the cost of living and make investing in rental properties as attractive in N.B. as it is elsewhere in Canada."

A Problem: Commercial Ownership and Development Issues

Commercial real estate involves multi-tenant residential, retail, industrial, office and investment properties. For investors and commercial property owners in New Brunswick there are several levels of taxation that impede economic development, including the provincial non-owner occupied property tax.

Current federal capital gains tax law discourages the leveraging of underutilized wealth in the economy, and acts as a barrier to the labour mobility that is essential to Canada's economic prosperity. As a result, Canada's international competitiveness suffers. The New Brunswick Real Estate Association is working with The Canadian Real Estate Association on detailed proposals that call on the federal government to amend the Income Tax Act to promote increased reinvestment in real property. REALTORS® recommend the federal Income Tax Act be amended to enable a deferral of both the capital gains tax and the recaptured capital cost allowance recovery for all real property investments when an investment property is sold and the proceeds are invested in another real property within a one-year time period.

The current capital gains situation actually creates a disincentive for property holders who otherwise might consider a sale and reinvestment, but choose not to because of the impending tax burden. The situation is particularly punitive for small investors.

Taxation issues also impede the re-development of sites or structures known as "brownfields". These are identified sites, usually industrial, that require some form of remediation before they can be developed again. There have been a number of recommendations published by the National Roundtable on the Environment and the Economy (NRTEE) since 2004, including one dealing with transfer liability that the Canadian Council of Ministers of the Environment (CCME) endorsed. The NRTEE also recommended a simple, consistent and coordinated approach to removing crown liens and tax arrears on qualifying sites. This would reduce upfront costs to developers and provide greater certainty of funds at the earliest stages of project development, when it is difficult to obtain financial assistance.

To date, this has not been addressed by the Government of New Brunswick nor the municipalities in the province, and we encourage this situation be considered during the current review of the provincial tax system. These sites may hold little or no value to the government or to the municipality if left undeveloped.



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ISSUES RAISED BY TAX PROPOSALS *continued*

For commercial investors and developers, especially those involved in multi-tenant structures, these scenarios are compounded by the current property tax policies in New Brunswick. This is again due, in part, to the residential non-owner occupied property tax.

Caution Advised for new Taxation Options

In the Discussion Paper, the Government of New Brunswick outlines several options to address issues and through fundamental shifts in the tax regime. NBREA cautions the government against introducing significant changes to current tax policy or introducing new taxes without the benefit of a comprehensive cost benefit analysis.

Consultation with stakeholders who would be impacted by changes and other provincial governments, who have experience to share, should be pursued. Any tax policy changes must be proven fundamentally sound, transparent and provide certainty for citizens, local governments and the private sector.

Property Assessment

NBREA agrees that escalating property assessments for all types of property usually leads to higher tax bills. Although property owners benefit over the long run with the appreciation in property values, short run increases can create confusion and heavier tax burdens.

NBREA supports measures that simplify assessment calculations and deliver a higher degree of predictability for property owners. The Association is pleased to work with the government to improve property assessment policy.

The issue of assessment has also been identified by REALTORS® in New Brunswick as a major issue impeding economic development. Currently, new construction is assessed at 100% of purchase price, whereas resale properties are typically assessed at 75% of the sale price. This discourages new home purchases and real estate development.

Provincial Property Taxes

NBREA supports in principle the reduction of provincial property taxes for all property types. However, balancing the net revenue loss through an increase in the Harmonized Sales Tax (HST) could introduce new financial impediments to investment.

NBREA encourages the government to assess and publicly report on the potential economic impact an increased HST would have on the provincial economy. The Association is prepared to partner in initiating an assessment of how it would impact the province's housing economy and will share this data with the government.

Carbon Tax

NBREA supports measures that protect the environment and require citizens and industry to pay reasonable amounts of tax. The Association is concerned about the impact a carbon tax could have on individuals, communities and industry in New Brunswick. NBREA suggests that the government perform a comprehensive study by monitoring the introduction, management and impact of carbon taxes in other provinces before it commits to such a course in New Brunswick.

In a consumer survey conducted by IPSOS Reid for The Canadian Real Estate Association, the majority of Canadians 18 plus said they did not agree with the concept of a carbon tax despite expressed concern about environmental issues.



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WHAT NEW BRUNSWICK REALTORS® SAY ABOUT TAXATION ISSUES

The New Brunswick Real Estate Association conducted a survey of REALTOR® members in June to get their views on property assessment and taxation issues. REALTORS® work with these issues every day, in both commercial and residential transactions. They hear the concerns of potential buyers or clients as they develop the financial implications of each transaction. Some of the survey results were as follows:

Do you agree that there is a need to reduce non-owner occupied residential taxes?

Strongly Agree	75.0%
Agree	15.0%

Do you think recreational property taxes are reasonable?

Yes	27.1%
No	72.9%

Do you agree there should be a cap on property assessment?

Strongly Agree	42.4%
Agree	30.3%
Neutral	9.1%
Disagree	14.1%
Strongly Disagree	4.1%

Do you agree new construction assessments are calculated fairly?

Strongly Agree	3.2%
Agree	26.3%
Neutral	42.1%
Disagree	16.8%
Strongly Disagree	11.6%

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