National Scene
CANADIAN HOME BUILDERS' ASSOCIATION
October 2017

CHBA Successes on Private Corporation Tax Issue

Following weeks of harsh criticism by CHBA and others for its plans to change the small business corporate tax system, the government made a number of announcements over Small Business Week in late October in an attempt to address what critics considered some of the most harmful proposals.

CHBA President Eric DenOuden testifies before the Senate Standing Committee on National Finance on October 24, 2017. The recording of CHBA's Opening Remarks can be watched at ***chba.ca/tax-planning***

Through the announcements, it was clear that the government was attempting to address the issues brought up by CHBA and others surrounding the initial proposed changes. They clearly got the message that what they planned to do would hurt the majority of private small-businesses; make it more difficult for small businesses to manage risk properly; and make it harder for residential construction firms to operate effectively.

The announcements were:

- The Small Business Tax rate will be reduced to 10% on January 1, 2018, and then fall to 9% on January 1, 2019.
- Income sprinkling restrictions will go ahead, but 'meaningful contribution' by adult family members will be expanded beyond just day-to-day operations and include investors.
- The government is introducing a $50,000 threshold on passive investment income in a year (equivalent to $1 million in savings, based on a nominal 5-per-cent rate of return).
  - All past investments and the income earned from those investments will be protected;
  - Incentives will be put in place so that venture capital and angel investors can continue to invest.
  - Unlike income sprinkling, it does not appear that new rules surrounding passive income will be ready for implementation on January 1.
- The government will "step back and reconsider" its initial plans to limit the ability of business owners to convert regular income of a corporation into capital gains (which are typically taxed at a lower rate).
  - This move, combined with the pull-back on changes to lifetime capital gains exemption rules, means the government is completely deferring its initial plans that would have sharply impacts intergenerational business transfers.

There are still many details to be clarified by the government before CHBA can carry-out a full analysis regarding changes affecting income sprinkling and passive investments. The Association will do this work once the government releases the necessary details.

As well, there will be new rounds of discussion and consultation on how to address what the government sees as problem issues with intergenerational transfers.

Overall, however, it is clear that the tremendous efforts of CHBA, members, and like-minded organizations had their intended effect. A lower small business tax rate, a significantly limited scope of higher taxes on passive investments, and a complete pull back on changes to intergenerational transfers are big wins.

CHBA Launches Home Modification Council to Help Members Tap Into the Growing Aging in Place Market

With the vast majority of Canadian Seniors intending to stay in their homes and 'age in place,' the market for professional renovation services to make this possible is growing dramatically and is significantly underserviced. Add to this an increasing number of older Canadians with more acute health-related home modification needs, and the business case is compelling—a real opportunity for CHBA members. This looming, demographic-fuelled market led to the inaugural meeting of CHBA's new Home Modification Council (HMC), which took place in late October.

The founding of the Council follows initial discussions between CHBA, occupational therapists, family caregiver advocates, and equipment manufacturers. The goal of the HMC is two-fold: it will provide the public with a much needed co-ordination point, bringing together expertise, resources and services for those wanting to age in place and their caregivers, and it will support CHBA member companies looking to do business in this sector of the market through professional development and marketplace communication. If you are a renovator or trade contractor with an interest in this area of business, stay tuned for updated information in the members' area of the CHBA website.

Count Yourself in to the 2018 CHBA/Avid Homebuyer Preference Survey

Want to know what home buyers are looking for in a new home? What features they will trade-off to get what they want? Be sure your company is part of the 2018 Survey! You'll receive a custom, confidential report on what your home buyers said, available only to you, and at no cost. Participating builders receive a 60% discount off the price of the full national survey report – a $495 value for $195 – and access to Avid's online tool that allows you to do custom analysis. Want to see the tool in action? View the webinar replay at chba.ca/member-webinars. To participate: **chba.ca/survey-participation.**

National Awards for Housing Excellence – Deadline November 10

You still have the opportunity to get recognized as a national winner! Not much time remains for your chance to enter the 2018 CHBA National Awards for Housing Excellence, Canada's premiere awards for new homes, renovations, community development, and marketing excellence. Changes for this year include: recognition for architects, designers, modular producers, etc.; new categories – Outdoor Living Renovation, Basement Renovation, and Digital Media Campaign; and increased recognition for marketing companies in marketing categories. For all the details, visit **chba.ca/housingawards**.

BoC Interest Rate and Growth Forecasts

After confirming that it would leave the interest rate at 1%, the Bank of Canada noted that it expected real GDP to slow from its robust annual pace of 3.1% this year to 2.1% in 2018 and 1.5% in 2019.

The economy expanded at an annual rate of 3.7% in Q1 2017 and 4.5% in Q2. The Bank's latest outlook now predicts real GDP to grow at an annual rate of 1.8% in Q3 and 2.5% in Q4.

After growing an estimated 0.2% in 2017, the Bank expects the housing sector to have zero growth in 2018 and shrink 0.2% in 2019.

Federal Fiscal Update

Having previously announced staged reductions of the Small Business Tax Rate to 9% by January 1, 2019, Finance Minister Bill Morneau's fall economic statement promised $14.9 billion in new spending – primarily on expansions of the Child Care Benefit and the Working Income Tax Credit. The remaining funds will be aimed at reducing annual deficits, which are projected to shrink each year starting in 2018-19.

NAFTA/WTO

The latest round of North American Free Trade Agreement renegotiations ended only with a promise to continue talks in early 2018. Part of the stalemate is that the U.S. wants to strip down the three sections that settle disputes – in particular Chapter 19, which allows companies to fight to overturn import duties.

Domestic issues like fighting anti-dumping duties on imported drywall fall under World Trade Organization rules, not NAFTA. Chapter 19 is more important to Canadian exporters who have to use the US courts.

Experts are concerned that changes to NAFTA, along with noticeably decreasing U.S.-engagement with the WTO, will make trade less predictable. In its submission to the government on NAFTA renegotiations, CHBA has stressed the need to minimize market disruptions from trade disputes and border duties.

Softwood Lumber

Softwood lumber producers are getting anxious to hear the U.S. Commerce Department's final decision on countervailing and anti-dumping duties, expected no later than Nov. 14. Lumber futures have jumped recently as trade limits, western wildfires and flooding in multiple regions spark concerns over limited supplies.