Canadian Home Builders' Association
Newfoundland and Labrador

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Opening Statement by Des Whelan, President
Canadian Home Builders' Association – Newfoundland and Labrador
Standing Senate Committee on National Finance
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Thank you for the opportunity to speak with you today. I have with me Victoria Belbin, the CEO of our CHBA-NL office.

Mister Chair, esteemed Senators, and colleagues, the residential construction industry in Newfoundland and Labrador is responsible for over 11,231 jobs, $725 million in wages and over $1.6 Billion in economic activity. I would add that 4 years ago these numbers were double, meaning that our industry has seen a 50% decline over this timeframe. Our Provincial residential construction and renovation industry is mainly made up of small family run businesses, over 95% of whom have 5 or less employees. This industry is cyclical in nature and vulnerable to regional economic conditions.

Additionally, with the nature of the residential construction and renovation business, the ability of our members to keep equity in their businesses that can be easily liquidated to invest in acquisition of property for development purposes cannot be overstated. As well, like many industries equity that can be accessed in tougher economic times becomes an issue of survival.

These factors also mean that the industry is particularly sensitive to changes in the business environment.

We certainly welcome the spirit of the announcements made in October however, it cannot be stressed enough that certainty is a must for small business owners, like the members of our association. These announcements could be good for our members but without the details required for each business owner to assess their possible outcomes, they represent promises that can only be evaluated when the details are released.

The tax code in Canada has not seen significant changes in over 50 years, and one could ask after 50 years, why does the Government of Canada seem to be in a rush to make sweeping changes without taking into consideration the possible unintended consequences of these changes. In fact, our members are still unsure how this will impact them because the nature of being small even micro-sized businesses is that they do not have the expertise to determine the effects.

For instance, over the last two years, the Government of Canada has made significant changes to the rules for prospective homeowners to qualify for mortgages. These changes were proposed to slow the heated markets in large urban centers like Toronto and Vancouver. The effects on the large urban markets have been negligible however in Newfoundland and Labrador with an already tough economic situation, our members are seeing 50% of clients be declined in their mortgage applications. This reality has further contributed to year-over-year housing starts decline at a time we should be promoting home ownership to see households increase equity and wealth. We will see additional mortgage changes in January 2018 that will further decrease sales in the secondtime homebuyers market. These are the sorts of unintended consequences our members would warn against.

We hope that the new rules on income sprinkling recognize the dynamic contribution of family members to a business, and we are encouraged by the government's references to capital and equity contributions, as well as taking on financial risk, in determining "meaningful contributions" to creating and running a business. However, when you consider the joint investment and financial responsibility of spouses of small business owners – what some consider income sprinkling could also be termed - a return on the investment that the spouse holds with equity contributions and liens on personal property.

Additionally, we hope that the government will agree to periodically revising the passive income threshold to ensure that it is targeting only the very top earners and at the same time limiting impact on the real business requirements for passive investments.

We understand there will be new rounds of discussion and consultation, a process CHBA looks forward to participating in, on how to address what the government sees as problem issues related to intergenerational transfers of business ownership.

While the plans to reduce the small business tax rate are welcome, 'downside' protection is more important to small businesses than a lower tax rate. Lower taxation of profits certainly helps when business is good, but it doesn't help in tougher times. In a similar way, uncertainty is always bad for business, and the government's proposals have created a great deal of uncertainty within the industry. That uncertainty is still with us today.

It is imperative that the government release final and detailed rules and implementation timeframes for the provisions that are moving ahead, so that businesses can make any necessary adjustments.

It is also critical for the Department of Finance, Canada Revenue Agency and private industry to work together to ensure that interpretation guidance for the legislation is clear, so that implementing the new rules does not create confusion and a whole new set of problems.

Finally, CHBA and CRA have done great work together to address the underground economy in residential construction and renovation. In fact, we are co-chairing an Underground Economy committee with our Provincial Department of Finance to seek ways to mitigate the issue. But higher tax rates and perceived unfairness are known to drive more cash deals. It would be a shame if the result of tax changes was more people operating in the underground economy, and therefore government realizing less tax revenue.

Our goal, is to ensure a fair and balanced tax system without hurting our members, who along with small business people across our great country are responsible for over 70% of employment, representing a very important component of our economy.

Thank you very much for your time today.