



The Gammer Report



The Capital Gains Tax is strangling our cities

Our cities are not suffering from under funding of social housing from federal and provincial governments. Cities are being strangled by a regressive tax called Capital Gains which has created a lock-in effect on rental properties owned by small investors across the country. This tax is preventing local communities from revitalizing and rebuilding the rental housing stock we so desperately need.

Let's say mom and pop saved up their money and bought a little apartment building in Cloverdale in 1975 for \$60,000 and managed it and planned on it helping fund their retirement. Today mom and pop are semi-retired and each have an annual income of under \$50,000, and if they sold it today for \$1,560,000 they'd be charged over \$300,000 in capital gains taxes on the sale of the building! So, they say to themselves, "Why pay that much tax when we can just keep collecting our \$65,000 per year in rent cheques?"

Well, a few years later the building needs a few structural repairs and pop is getting too old to do it and even if they paid to fix it they couldn't increase the rents enough to justify the cost of getting the work done. So what do they do? Nothing. And why would they? It's not like they are going to earn more income from the building to recover the cost. Soon you have a derelict building that is paid off and earning less money than it should because it needs fixing, and it is really pulling down the neighbourhood. If mom and pop lived down the street from their apartment building, say in Saskatoon, and then move to Surrey to avoid the long winters, mom and pop become absentee landlords and further degrade the social fabric of the city they used to love.

This scenario is playing out all across the country and wreaking havoc on our cities. It doesn't matter what city planners and local politicians say they want to do about revitalizing our cities; no one can do anything if land owners are in a straight jacket created by the Capital Gains Tax.

Current city planning buzz words like 'eco-density' and 'smart growth' all have as a goal an attempt to contain urban sprawl and get us to take more transit. But properties like the one owned by mom and pop need to be bought and sold in order to be moved toward the highest and best use planners would like to achieve. When owners are locked-in because of tax reasons, buyers/developers move their money to places

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outside downtown cores – to bare land, or residential land and get it rezoned it into higher uses.

The Capital Gains Tax is an incentive for small investors to hold onto under performing investments in order to avoid paying tax. The tax discourages investors such as mom and pop from putting their money into investments with higher economic and social returns because they've been locked-in. This in turn shuts out new small investors from entering the market and revitalizing a community.

The Canadian Real Estate Association has been lobbying the federal government to change the tax laws affecting Capital Gains, and is urging the government to bring in a Capital Gains Roll Over on rental properties. This would allow an investor to defer paying the tax if they bought another property within 12 months. Bringing in a deferral of the Capital Gains Tax will remedy the lock-in effect by allowing an investor to upgrade or change asset classes, or change locations without incurring a tax penalty against the value of his/her assets. This in turn would allow cities to revitalize down trodden neighbourhoods.

Bringing in a Capital Gains Roll Over will actually bring in new tax revenue for the government and allow mom and pop to buy a different building, or a similar one in a different Canadian city, and defer paying the tax. What a Roll Over will allow them to do is move and grow their rental property assets without paying Capital gains along the way. They aren't avoiding paying the tax, they'll pay it when they decide to cash in their chips and sell their property for good. It would be the same as a person buying and selling stocks inside their RRSP. You don't pay income tax on the transactions you make in the RRSP until you actually take the money out and use it as income.

The Conservative Party promised a Capital Gains Roll Over in their pre-election platform and didn't deliver on the promise again in the most recent budget. The Liberal Party is finally taking a serious look at adding a Capital Gains Roll Over provision to their platform... even the NDP should be able to see how this will benefit their mom and pop blue-collar backers. We'll wait to see if any of the parties stop talking and act to remove the straight-jacket from small investors and truly help rebuild rental properties and our cities' downtown areas.

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