National Scene
CANADIAN HOME BUILDERS' ASSOCIATION
March 2018

2018 Federal Budget Relaxes Passive Investment Rules

With the unveiling of this year's federal budget, the final form of various tax changes affecting private corporations are largely settled. CHBA has worked hard, both through its own advocacy efforts and as a member of the Coalition for Small Business Tax Fairness, to push back on the Minister of Finance's initial proposed rules that would have unfairly impacted members. And this work has resulted in a number of successes.

Provisions that would have made it difficult and expensive to pass business ownership to the next generation were scrapped. And rules around 'income sprinkling' were modified to have less impact. Taxation of passive investment income was the last outstanding issue, and this was addressed in the recent budget.

As initially proposed by the Minister of Finance, new tax rules on passive investment income were both punitive and would have resulted in a non-refundable tax burden. Budget 2018 delivered positive changes from the Minister's initial proposals. The government has brought forward a simplified approach to treatment of passive investment income and access to the small business tax rate.

The budget laid out simpler rules which will come into effect on January 1, 2019, providing affected corporations time to adjust. As of 2019, if you're a private corporation with passive investment income exceeding $50,000, you will face a straight-line reduction of your $500,000 small business deduction. And once the CCPC hits $150,000 of passive investment income, that deduction will be eliminated altogether.

This simplified approach appears much more straightforward for companies, and the changes made reflect many of the concerns that CHBA put forward to the government. For more insight into how Budget 2018 impacts businesses, view the recording of CHBA's Post-Budget webinar with CEO Kevin Lee and MNP LLP's Peter Bangs at chba.ca/webinars.

Highlights from CHBA's National Conference in Victoria

It was a memorable week-long whirlwind of meetings, followed by CHBA's 2018 National Conference, all at the Victoria Conference Centre and the Fairmont Empress Hotel.

From left to right: Kevin Lee, Bob Finnigan, Greg Hussey, Eric DenOuden, Nathan Stone, Miles Kohan, Stefanie Coleman-Dias, Larry Clay

CHBA's 2018 Executive Committee

President: Nathan Stone, Langley, BC

1st Vice-President: Stefanie Coleman-Dias, St. Thomas, ON

2nd Vice-Presidents: John Meinen, Mitchell, ON; Larry Clay, Langley, BC.

Treasurer: Greg Hussey, Paradise, NL.

Past President: Eric DenOuden, Belleville, ON

Presidential Appointees: Bob Finnigan, Toronto, ON; Miles Kohan, Edmonton, AB.

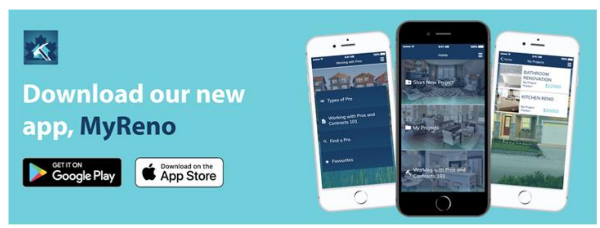
Pre-Conference Committee and Council meetings were well attended, and concluded with the Board of Directors meeting and Annual Meeting of Members, followed by the swearing in of the 2018 Executive Committee. The conference kicked off with Wednesday's Garden Party Welcome reception and picked up steam from there. Notable moments included: Graham Sherman of Tool Shed Brewing Company sharing his story of the resilience and creative thinking required for entrepreneurs to succeed, especially when confronting nonsensical regulations; Incoming President Nathan's Stone's inaugural address; looking back at 75 years of CHBA history at Housing Night in Canada, and a variety of informative business sessions.

For many, the highlight of the week was Friday evening's CHBA National Awards for Housing Excellence Gala. Forty awards were presented and Calgary-based companies stole the show this year, bringing home 12 new home, renovation, and marketing awards, including the night's top two honours: the Design Excellence Award and Marketing Excellence Award. Homes by Avi (Canada) Inc. of Calgary earned the **2018 Design Excellence Award** for their impressive accomplishments in the new home categories. Homes by Avi received three individual awards for Detached Home – Production (2,201 to 2,500 square feet); Mid- to High-Rise Condominium or Apartment Unit (1,000 sq. ft. and over); and a marketing award for Interior Decorating.

Stepper Homes Ltd. of Calgary earned the **2018 Marketing Excellence Award** for their overall success in the marketing categories. Stepper Homes also received two individual marketing awards for Print Ad and Direct Promotion – Print.

The national awards were highly competitive, and Calgary was not the only location to celebrate impressive results. Builders and renovators from lower mainland BC won 11 awards, and Ottawa-based companies collected 9 awards.

It's Here! Introducing the MyReno app



CHBA is proud to announce the launch of a new app for prospective clients of CHBA renovators, another addition to activities to support RenoMark™. **MyReno** is an easy to use step-by-step early planning tool for customers considering a home renovation.

A more informed, 'pre-qualified' prospective customer creates a better experience all around. When people download and use the app to start their home renovation planning process, they are equipped with a step-by-step tool that lays the foundation for building a solid plan and making early decisions. And for CHBA and RenoMark contractors that means a faster front-end process and the potential for a more successful project!

When consumers use **MyReno**, they can simply send their project plan developed on the app to any CHBA member renovator or trade contractor directly. That's right. After they complete their planning, they can search the database of CHBA members in the app and then email them their project scope – with their ballpark budget, ideal timing, dream photos and other early decisions.

Promoting Association professionals who care is the best way to increase customer confidence. The CHBA is a widely recognized and respected – so it makes sense that we would lead the industry in creating an innovative, easy to use renovation planning app for Canadians. While **MyReno** is for homeowners, it's also for members. It was designed with guidance and valuable input from CHBA professional renovators, so you can feel confident – it's built with you in mind.

Download the app from Google Play store or the App Store and try it for yourself! Then tell others – share it on Facebook, Twitter and through your website. Want to find out how to promote it – and get some easy-to-use tools for sharing? We'll be coming out with content soon on the CHBA Members section at www.chba.ca.

Canadian real GDP rose 3.0% in 2017, following 1.4% growth in 2016. Much of this growth was attributable to the first two quarters of 2017, with deceleration observed toward the end of year.

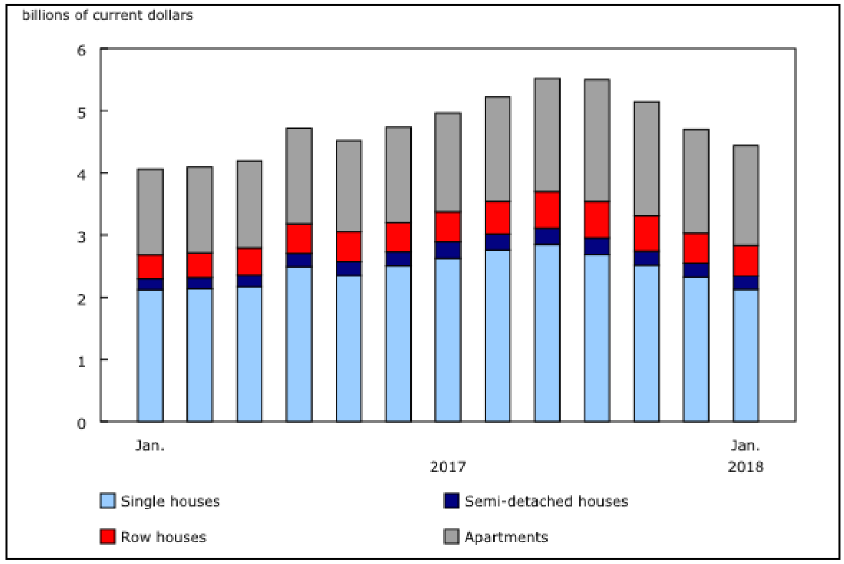
New construction bucked the slowdown trend in Q4 due to pull-forward activity ahead of the new mortgage rules and interest rate hikes. That strength is continuing through the first quarter of 2018 before it likely starts to follow the declining trend in resale activity, which has seen significant drops in activity and listings across the country since the beginning of the year.

New housing construction investment (see Chart) totalled $4.4 billion in January, up 9.4% compared with January 2017. Investment was up for all dwelling types. Spending rose in eight provinces, led by Quebec (+$139.1 million), British Columbia (+$128.3 million) and Alberta (+$82.6 million).

Continued strength in housing starts and permits in January and February has surprised some observers who were expecting residential construction to trend lower due to rising interest rates, more restrictive mortgage lending requirements and declining affordability in some markets.

Investment in new housing construction, by type of dwelling

Source(s): Statistics Canada CANSIM table 026-0017



But it seems that years of pent-up demand since the great recession, and a lack of family-oriented supply, could keep housing starts stronger for longer than anticipated.

In February the Organisation for Economic Co-operation and Development revised its November forecast for Canadian GDP growth from 2.1% to 2.2% in 2018. It also raised its 2019 forecast 1.9% to 2.0%. The OECD cited trade protectionism as a key risk that could negatively affect confidence, investment and jobs.

The Bank of Canada also observed that "trade policy developments are an important and growing source of uncertainty for the global and Canadian outlooks" in its decision to maintain its overnight interest rate target 1 and 1/4%.

The Bank recognizes that consumer spending is still critical for economic growth – and much of that spending over the past decade has been tied to housing. The Bank also observes that household credit growth has decelerated for three consecutive months, due to higher interest rates as well as restrictive housing policy.

Finally, Canada and Mexico avoided U.S. steel and aluminum tariffs which could have had a significant impact on regional economies in Ontario and Quebec, where steel and related-product companies are concentrated.

It's unknown if this Tariff relief means anything in relation to the ongoing NAFTA negotiations, which, if terminated, could have economic effects country-wide. According to the Conference Board of Canada, if NAFTA is terminated Canada would see a 0.5% decline in the economy, resulting in the loss of about 85,000 jobs within a year.