



January 24, 2022

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Dear Ministers:

RE: Policy Priorities Contained in the Liberal Government's Housing Plan

The Liberal Government's Housing Plan includes several initiatives and reforms aimed at addressing concerns related to Canada's housing market. Included in the Housing Plan, and in the Prime Minister's recent mandate letters to you, is a proposal to review the tax treatment of Real Estate Investment Trusts (REITs), and a proposal to introduce a tax-free First Home Savings Account (FHSA). Both these proposals have a direct impact on retail investors. We, therefore, bring to your attention the additional considerations below.

Proposed Reforms to the Tax Treatment of REITs

The Liberal *Housing Plan* includes a review of, and possible reforms to, the tax treatment of REITs. The proposed policy changes are aimed at certain residential REITs to cool off rising rent prices.

While we appreciate this concern, overall, REITs have benefited many sectors of the Canadian economy, including residential, retail, commercial and industrial spaces. For example, residential REITs invest in properties (such as apartment buildings, manufactured housing, single-family homes, and other multi-

family structures) and finance developments that might not otherwise occur. REITs can provide both the funding and the property management expertise that drive quality standards and lead to higher quality accommodations and a higher quality of life. Indeed, there may be large incentives to provide a high level of maintenance to attract new tenants and the interest of the investing public.

These factors may explain why rental rates charged by REITs are generally higher, but within 10 percent of the industry average calculated by CMHC, according to industry analysis.¹ Rents have been rising for a variety of reasons, including a shortage of housing supply and surging house prices, leading to increased demand and need for rental housing in general – a demand that REITs may help to fulfill.

In addition, REITs have provided benefits to retail investors at large which include generally stable and dependable income flow with attractive yields. They trade on public stock exchanges, offer good liquidity, provide industry and geographical diversification and are subject to close regulatory oversight. As a result, many Canadians depend on REIT income to help fund their retirement and lifestyle, either directly or through Exchange-Traded Funds composed of REITs.

These benefits to many Canadians and the many sectors of the Canadian economy have been encouraged and supported with tax benefits. We believe the government can contribute further support to the REITs industry to stimulate capital formation in Canada and otherwise meet the needs of Canadians. For example, REITs could be part of the solution to expand and upgrade retirement homes and long-term care facilities to meet the necessities of the growing and aging population in communities across Canada, as well as social housing requirements. For example, in Australia, where housing affordability is a growing concern, the government extended tax concessions to eligible REITs that invest in affordable rental housing.

The Proposed Introduction of Tax-free First Home Savings Accounts (FHSAs)

The Liberal government's *Housing Plan* includes the introduction of the FHSA to help young Canadians save for a down payment faster.

Financial services firms, which comprise our membership, are important intermediaries in delivering the many tax-assisted savings programs available to Canadians including RRSPs, RRIFs, RESPs, RDSPs and TFSAs. The FHSA would be an additional tax savings plan that our government must rely on the financial sector to deliver to eligible Canadians.

Few details are currently available surrounding the FHSA's framework, its status and timing. Our members will need to undertake considerable work before they can make available FHSAs to clients. This work depends on receiving the required program details from your department in a timely manner and with a sufficient implementation period.

To ensure the success of the FHSA, close collaboration between the financial services industry and your department is critical. Prior, timely consultation with the financial services industry is a key step to collaboration.

¹ Scotiabank Global Equity Research. Mario Saric, Managing Director, Real Estate and REITs.

Our members wish to assist you in ensuring a FHSA framework which maximizes simplicity and efficiency for Canadians. Should the government decide to proceed with this new savings program, Appendix A attached identifies some essential program details that would assist industry in planning

I would welcome the opportunity to discuss with you and your staff at your convenience.

Yours sincerely,



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Encl: Appendix A

c.c.:

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APPENDIX A

SOME REQUIRED DETAILS FOR TAX-FREE FIRST HOME SAVINGS ACCOUNTS

Program Eligibility

- Which financial institutions will be able to offer FHSAs to eligible Canadians?
- What are the eligibility criteria for individuals interested in opening a FHSA?
- Will a Taxpayer be permitted to open more than one FHSA?
- Can the FHSA be opened in joint name? (eg. can a married couple open one shared FHSA?)

Documentation

- What documents will financial firms need to collect from clients to open or close a FHSA?
- What documents will the industry be required to provide to the clients in relation to their FHSAs? (Plan agreement, contribution receipts, annual statements)?

Qualified Securities

- Which classes of securities will be deemed eligible for holding within the FHSA?

Tax Reporting

- What reporting will industry need to provide the FHSA holder and/or tax administrators to detail any contributions or withdrawals made to/from the FHSA?

Anti-avoidance Rules

- How will the General Anti Avoidance Rules (GAAR) be extended to FHSAs?

Contributions/Withdrawals

- Does the annuitant require RRSP contribution room to contribute to the FHSA?
- Is there a maximum dollar limit that can be contributed to the FHSA each year?
- Is there a penalty for over contributions? What is the mechanism for withdrawing the over contribution?
- Can contributions or withdrawals be made “in-kind”?
- Is a rollover permitted from an RRSP to an FHSA? If so, are there tax implications?
- Will only the annuitant be permitted to contribute to the FHSA?

Maturing/Closing FHSAs

- What is the maturity period for FHSAs?
- What roll-over provisions will be available for FHSA’s that have matured?
- What provisions will be available for investors looking to close their FHSA?
- Will industry need to withhold tax on withdrawals not directed towards a home down payment?

Death of FHSA holder

- How will FHSAs be administered in the event of death of the FHSA holder?

Registration with Tax Administrators

- How will FHSAs be registered with CRA and Revenu Québec?
- If registration fails, what are the industry provisions to remedy the account?
- What records will the financial sector need to supply CRA/RQ to support their audits of FHSAs?