HERITAGE CANADA FOUNDATION

LA FONDATION HÉRITAGE CANADA

A RECOMMENDATION FOR USING THE TAX SYSTEM TO PROMOTE PRIVATE SECTOR INVESTMENT IN HERITAGE PROPERTIES

Executive Summary

Canada's communities are made up of heritage properties that define our national identity and give shape and texture to our urban and rural neighbourhoods. These heritage properties have the potential of stimulating the economy, revitalizing communities, attracting tourist dollars, creating jobs, and supporting sustainability. The federal tax system is a significant instrument shaping the direction of the Canadian economy.

HCF's recommendations to the House of Commons Committee on Finance focus on actions to stimulate the economy in a way that will also support climate change goals and contribute to more liveable and sustainable communities.

Recommendation 1: Introduce a federal rehabilitation tax incentive for heritage properties in Canada.

Recommendation 2: Build on the success of the National Historic Sites of Canada Cost-Sharing Program funding, introduced as an economic stimulus in the 2009 Budget, by creating a national heritage conservation endowment fund.

Canada's Landmarks are Becoming Landfill

In its recent Economic Action Plan, the Government of Canada recognized the importance of Canada's cultural heritage and tourism sectors as means for stimulating growth across Canada. National Historic Sites contribute to tourism in over 400 communities across Canada through direct spending, visitor spending and spin-off economic activity. The rehabilitation of historic buildings and sites represent an important opportunity to stimulate private investment and create new jobs, with significantly less environmental impact than other stimulus measures – and with the added benefit of preserving and enhancing liveable neighbourhoods and communities and attracting tourism spending.

Yet every day, these places are lost to desertion, decay, and demolition. In the past 30 years, more than 20 percent of Canada's pre-1920 heritage buildings are demolished, despite polls that consistently show Canadians care deeply about these places. [1]

[1] For example, a 2007 Canada West Foundation poll asked "Your city should protect historic buildings rather than demolish them to make space for new buildings." 8 out of 10 respondents from Edmonton, Calgary and Toronto agreed with this statement; and 7 out of 10 in Vancouver, Winnipeg and Regina.

The many "sticks" or disincentives that exist make it challenging to save historic places especially when there are very few "carrots" to counteract those barriers. This dynamic is further compounded by an unpredictable bottom line for heritage building rehabilitation projects which deters developers and lenders, rising land values in Canada's big cities, and the lack of development activity in smaller centres. Canada's federal tax system, with its built-in disincentives for rehabilitation, is also a factor.

Recommendation 1:
Introduce a federal rehabilitation tax incentive for heritage properties in Canada.

Most historic properties are best protected and more sustainable over the long term when they have a viable use in their communities. The federal government can help create a better financial climate for reusing Canada's existing building stock by introducing a tax measure to attract developers to invest in them. The great benefit of this kind of measure is its potential to turn historic places into revenue-generating, self-supporting enterprises, and reduce the reliance on the voluntary sector to keep heritage properties alive.

A tax incentive is particularly preferred in the fast-paced and competitive environment of the commercial property development sector. Tax measures would provide the predictability that developers and property owners require.

There is broad support for such a measure. In 2005 the Provincial-Territorial Ministers responsible for Culture and Heritage called on the federal government to introduce tax incentives to preserve historic places. Since January 2007, 33 city councils have passed resolutions requesting that the federal government introduce financial incentives which would encourage private sector investment in the rehabilitation of historic places, including Vancouver, Winnipeg, Region of Niagara, Region of Waterloo, Toronto, Whitby, Hamilton, Charlottetown and St. John's. The board of the Federation of Canadian Municipalities (FCM) and the Royal Architectural Institute of Canada (RAIC) have also passed resolutions calling on the federal government to introduce tax measures for heritage property rehabilitation.

The Current Federal Tax System Does Not Have any Provisions for Heritage Properties.

Through special tax measures (made even more favourable in the 2006 federal budget), the Minister of the Environment actively encourages appropriate private sector action in the preservation of Canada's environmental heritage. Both the Eco-Gifts Program and the ecoAUTO Rebate Program are designed to help Canadians help the environment. We have also noted with interest the government's recent significant investment in funding programs for the land conservation movement ($225 million made available as matching funds to secure 500,000 acres of ecologically significant lands in southern Canada). Similarly, the Minister of Canadian Heritage uses tax measures to encourage the retention of cultural objects in Canada.

However, there is no tax measure to encourage private sector action for another type of national treasure – Canada's heritage buildings.

The Current Federal Tax System Actively Discourages Heritage Rehabilitation

Projects that introduce new housing units as part of the sensitive rehabilitation or restoration of a historic building are not eligible for the GST New Housing Rebate, because the program stipulates that the owner must remove 90 percent of the non-structural fabric of the existing building, and that major new additions must fundamentally change the character of the existing property. This discourages renovators who follow heritage conservation standards.

A further issue is the lack of a codified definition of expensable rehabilitation in the *Income Tax Act*. That means that building owners cannot get a clear explanation from tax officials about which types of rehabilitation work is repair and maintenance (currently deductible for tax purposes) or an expenditure which must be capitalized and depreciated for tax purposes over future years under the capital cost allowance system. This distinction is important to the owner of a building. A restoration expenditure, after tax, can jump by 60 percent if Revenue Canada disallows the cost as a deductible repair and requires the cost to be capitalized. This uncertainty makes it difficult to develop a balance sheet and get financing for a project.

These situations distort the economics of rehabilitating buildings, and can promote demolition. Perhaps more importantly from an economic standpoint, the economic life expectancy of millions of dollars in assets is being unnecessarily cut short and the productivity of the Canadian economy diminished.

Tax Measures for Rehabilitation Would Help the Environment and Other Goals

Aside from the contribution this would make to protecting national treasures, the rehabilitation of historic buildings has many spin-off benefits. A rehabilitation tax incentive will:

<u>Reduce Greenhouse Gas Emissions</u>: A 2004 study in Montreal found that the rehabilitation of a heritage building consumed less than half the energy and produced half the CO_2 than if it had been demolished and a new building erected. The Prince's Regeneration Trust in the UK found that rehabilitation generates 38 times less energy and carbon than new construction.

<u>Support Sustainable Development</u>: The reuse of heritage buildings supports urban intensification, capitalizes on the energy already invested in these structures, reduces construction and demolition waste, and avoids the new infrastructure (road, sewer, hydro grid) associated with new development.

<u>Act as a Revitalization Catalyst</u>: The renewal of income-producing properties attracts new businesses and residents, and increases property values. A 2003 study showed that investments in the rehabilitation of the historic Stanley Theatre in Vancouver, B.C. stimulated: a 21 percent increase in restaurants, cafes and bars in the nearby area; retail sale increases of 107.7 percent, or $112 million, which generated an additional $8 million in sales taxes and $9 million in GST; and real estate price increases of 72 percent outstripped Vancouver residential market increases.

<u>Improve Overall Economic Prosperity</u>: The economic benefits of incentives include the creation of jobs, revitalization of older communities, and generation of net tax revenue for municipalities, provinces and territories, and the federal government. Looking south of the border, between 2002 and 2005 the Rhode Island Historic Preservation Investment Tax Credit generated 5 times the value of tax credits in total economic activity.

Federal Tax Measures for Rehabilitation are a US Success Story

In the United States (US), a booming and competitive preservation industry exists because 25 years ago the US established a 25 percent federal tax credit for rehabilitation of heritage buildings (later reduced to 20 percent), and a 10 percent tax credit for the rehabilitation of non-heritage, non-residential buildings built before 1936. The US Historic Rehabilitation Tax Credit Program is internationally recognized for its continuing success at stimulating private investment and revitalizing communities. Results are visible in every region of the United States:

- over 36,000 properties rehabilitated by the private sector;
- over $55 billion in private investment in historic buildings leveraged (with a 5 to 1 ratio of private investment to federal tax credits);
- an average of 45 new jobs created by each project;
- over 400,000 housing units created, 105,000 of them low and moderate income housing
- reduced landfill; and
- increased property values and enhanced state and local tax revenues.

The US federal tax credit has led the way for other levels of government. Half of the states now have a state tax credit for rehabilitation that can often be 'stacked' with the federal tax credit. These have also achieved remarkable success. In Maryland, the heritage tax credit program assisted more than 1,000 rehab projects, leveraging $400 million in private investment from $90 million in tax credits. Virginia and Missouri report similarly impressive ratios of private investment to tax credits.

A Canadian System is Already in Place to Support a Tax Measure

In a pilot program designed to 'test' the appetite and benefit of a potential tax incentive, the former Commercial Heritage Properties Incentive Fund (CHPIF) offered financial incentives to attract developers to rehabilitate historic buildings. The results were impressive: a total of $21.5 million in federal contributions spread across 49 projects leveraged more than 8 times that amount in private sector investment ($177.2 million) and gave empty, derelict buildings vibrant new uses. Thanks to the CHPIF program pilot, the tools are in place to administer a Canadian rehabilitation tax credit:

- the Canadian Register of Historic Places is online and being populated with properties eligible for incentives;
- heritage conservation standards have been published and adopted nationally; and
- trained agents are in place in every province to certify whether the work meets these standards.

<u>Recommendation 2</u>:
Build on the success of the National Historic Sites of Canada Cost-Sharing Program funding, introduced as an economic stimulus in the 2009 Budget, by creating a national heritage conservation endowment fund.

The recent renewal of the National Historic Sites of Canada Cost-Sharing Program, with a budget of $20 million over 4 years provided in part by Canada's Economic Action Plan, reflects the government's desire to support job creation in the built heritage sector by providing funding for the conservation of National Historic Sites. The Cost-Sharing Program is a contribution program providing up to 50% of eligible costs incurred in the conservation and presentation of a national historic sites to a maximum of $1,000,000.

The renewed Cost-Sharing Program has already proven its worth as a stimulus measure that supports the local economy while helping preserve and improve Canada's irreplaceable national historic sites, and stimulate growth in the tourism sector. For the 2009- 2010 and 2010-2011 funding rounds, 202 applications were received from a potential universe of 700 eligible properties, seeking a total of $53 million in stimulus that would leverage an impressive $280 million in construction investment. Unfortunately only $8 million in stimulus funding is available each year, making it possible to respond to less than one-quarter of the demand.

A modest increase of $10-20 million per year to the budget for the Cost-Sharing Program would build on the success of this stimulus measure. This, or additional funding, could become the seed funding for a more substantial National Heritage Revolving Fund or National Endowment Fund. Seed funding to kick start a national fund could be used to attract private sector funders, and could ultimately result in a high profile and sustainable source of assistance for projects and organizations saving Canada's historic places. HCF would be prepared to play the role of facilitator, fundraiser and private sector partner.

Conclusions

The rehabilitation of Canada's heritage buildings dovetails with the Government of Canada's current environmental and sustainability goals as well as fostering economic revitalization. Polls consistently show that Canadian's want their governments to support the preservation of heritage properties. The two measures recommended in this brief are proven approaches to encouraging and leveraging private sector investment and kick-starting viable and sustainable futures for Canada's historic places.

About the Heritage Canada Foundation

The Heritage Canada Foundation is a registered charity and voluntary organization created in 1973 as Canada's National Trust to encourage the conservation and use of heritage buildings and historic places for the benefit of all Canadians.

We believe that historic places are an integral part of memory, community and identity, telling the stories of who we are and where we come from. Every citizen benefits from a dynamic environment that includes historic places, and shares the responsibility to help protect and sustain that environment. www.heritagecanada.org

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