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Budget 2024 — good news and bad news for real estate

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First the good news ...

One of the overarching themes of the federal budget tabled on April 16, 2024 was the increase of affordable housing supply. Accordingly, a new measure proposed by the Liberal government, which will catch the attention of the homebuilder and developer communities, is the introduction of a temporary accelerated capital cost allowance (CCA) i.e., deductions that a business may claim in respect of the capital cost of its depreciable property for “eligible new purpose-built rental projects”.

The proposal increases the CCA rate from 4% (currently applicable to Class 1 depreciable property) to 10%, with the stated goals of increasing after-tax returns and, thus, incentivizing builders. For clarity, the measure does not change the total amount of deductions that may be claimed, but allows for such deductions to be claimed at an accelerated rate.

This proposal will apply to projects which commence construction after the date of the budget and before January 1, 2031, and the homes are move-in ready prior to January 1, 2036. Eligible projects include new purpose-build housing that is a residential complex

- with at least four apartment units, or 10 private rooms or suites
- at least 90% of residential units are held for long-term rental

Additionally, conversion projects (from non-residential to residential) also will qualify, as long as the above conditions are met. Accelerated CCA, however, is not intended to apply to renovations of existing residential complexes, but the cost of a new addition to an existing structure would be eligible (subject to compliance with the above conditions).

Eligible projects will continue to benefit from the accelerated investment incentive, which suspends the half-year rule and provides for a CCA deduction at the full rate for properties put in use before 2028.

Now the bad news ...

Budget 2024 proposes to increase the capital gains inclusion rate from one half (50%) to two-thirds (66 2/3%) for corporations and trusts.

The rate for individuals (including capital gains realized indirectly through a partnership or trust) will remain 50% for the first $250,000 of capital gains in a taxation year (net of capital losses, including those carried forward or back from other taxation years, and certain specified capital gains, including those in respect of which the lifetime capital gains exemption is claimed — which Budget 2024 proposes to increase). Capital gains realized by individuals in excess of $250,000, net of the amounts listed above, will be subject to the 66 2/3% inclusion rate.

This measure is getting a lot of negative publicity, especially from the business community, as it may well discourage investment. While it is one thing for a tech or other business to relocate to a more tax-friendly jurisdiction like the U.S., a Canadian real estate asset is not as mobile. And if more businesses choose to start up in foreign jurisdictions, there will be less demand for Canadian real estate, especially the already wounded office sector.

The changes to the capital gains inclusion rate are proposed to apply to capital gains realized on or after June 25, 2024. The $250,000 threshold for individuals applies on an annual basis and will not be prorated for 2024.

This measure is forecasted to increase federal revenues by $19.4 billion over five years starting in 2024–25, and to increase provincial and territorial revenues by up to approximately $11.64 billion.

For further details, please contact a member of Osler’s Commercial Real Estate or Tax groups.