



Caldwell Securities Ltd.
Independent Investment Advisors

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There is No Place Like Home: Taxing Homes is Taxing Our Future

"Let us be like all other nations!" 1 Samuel 8:20

Taxing the capital gains on Canadians' principal residence is a bad idea. Making Canada's tax system like all other nations is also a bad idea.

It is true that Canada is highly unusual in that we exempt the gains that homeowners earn on their principal residences from tax. It has been argued that this exemption offers little economic benefit. This argument is nonsense. The simple fact Canada was unique in avoiding the worst of the 2008 housing bubble that mutated into a global financial crisis is evidence that the way Canada and Canadians approach the investment we have in our homes is better than the rest of the world. Have we forgotten this already?

The Canadian system is simple: A Canadian individual or couple can invest through mortgage payments, property taxes and improvements in the home in which they live without deducting those investments against their income taxes. When they sell their home, often to pay for their retirement, then they can do so without paying taxes on the gains they have earned. Insurance works this way, but instead of insuring against death, Canadians' homes are insurance that they can keep on living. It gives people choice. At this time in history, when the vast majority of the damage done to seniors in this country was done in government subsidized seniors' residences, how can we possibly limit the choices of retirees as to how and where they will live?

The American system is more complicated than ours. If we drift toward an American-style system of taxation such as taxing the gains on people's homes, then we also risk an American style of discontinuity between rich and poor. No country has tried harder to "tax the rich" than America – and this effort has failed spectacularly as the gap between wealth and poverty continues to grow while the middle class has been hollowed out.

The Prime Minister of Canada, the Premier of Ontario and other wealthy Canadians do not store most of their savings in their homes, but the vast majority of middle and working class Canadians do. A tax on the gains realized from their homes is an attack on these people who have worked and invested their whole lives for this one asset.

For younger Canadians, their ability to own better homes as their families grow and their financial resources improve is dependent on using the gains from their starter homes to help buy the next one. Taxing them as they go will curtail their ability to have the same benefits and homes that their parents enjoyed.

Canada works so well because more of our citizens feel that they have ownership of the national dream than is common in any other country on our side of the world. Home ownership and national ownership are linked.

Any financial institution that argues in favour of taxing gains on principal residences is not doing so as an impartial observer, rather it is aware that the deductibility of mortgage interest will encourage homeowners to borrow more and thus buy more of the products these institutions offer – mortgages. Increased demand for mortgages will lead to upward pressure on interest rates and, when times are good, housing prices. As rates rise against more leveraged homeowners, they will be more at risk of losing their homes.

The present Canadian system encourages the measured accumulation of savings as people enjoy their lives in their own homes. More Canadians own their own homes than do the Americans, British, Europeans and Japanese. This is not an accident. More Canadians kept their homes, their savings and their sense of ownership in our country than any of those other nations during the 2008 financial crisis. This was not an accident either. If we make people's homes just like any other investment bought for gains and speculation, then they will increasingly treat them this way. Most people are not good at speculation. More people will lose their homes during economic downturns and the gap between rich and poor will widen, contributing to the national destabilization that we see in the republic on our southern border and elsewhere in the world.

We encourage Canada's governments at all levels to consider how Canada is different than other nations and how this difference empowers our people's investment in our national prosperity. Tampering with our collective sense of ownership has health, economic and political risks that are far greater than any benefit that a short-term increase in tax revenues might bring.

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