Note • Budget 2024 Measure

Accelerated capital cost allowance for eligible new purpose-built rental housing

Legislative Costing Note

Published on May 22, 2024

The accelerated capital cost allowance increases the maximum allowable rate of depreciation from 4 per cent to 10 per cent on eligible new purpose-built rental housing. Eligible properties must contain at least four private apartment units (or 10 private rooms); and at least 90 per cent of residential units must be held for long-term rental. To qualify, construction must begin after April 15, 2024, and be completed before January 1, 2036.

The accelerated capital cost allowance allows eligible new purpose-built rental housing to be depreciated at a faster rate than was previously permitted but does not change the total capital cost allowance that can be deducted over the lifespan of the building. This measure can therefore be viewed as a revenue deferral rather than a permanent revenue reduction.[1]

The PBO estimates that there will be 241,000 eligible new purpose-built rental units constructed nationwide over 2024-2025 to 2028-2029. Over that timespan, the accelerated capital cost allowance will reduce government revenue by $1,832 million.

5-Year Cost

$ millions

Fiscal year	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	Total
Total cost	2	51	341	631	807	1,832

Notes

- Estimates are presented on an accrual basis as would appear in the budget and public accounts.
- A positive number implies a deterioration in the budgetary balance (lower revenues or higher spending). A negative number implies an improvement in the budgetary balance (higher revenues or lower spending).
- Totals may not add due to rounding.

[1] In both the baseline and accelerated capital cost allowance scenarios, the building can be depreciated to zero upon demolition. Furthermore, the capital cost allowance is subject to a recapture tax if the building is sold for more than its undepreciated value. This measure therefore reduces short- and medium-term revenue with no nominal impact on permanent long-term revenue (barring major changes to tax policy).

Estimation and Projection Method

The PBO estimated the number of purpose-built rental units that will be constructed over 2024-2025 to 2028-2029 based on historical completion trends from the Canada Housing and Mortgage Corporation (CMHC). This number was then adjusted to exclude non-taxable social housing units such as those managed by governments or non-profit organisations.[2]

To account for the eligibility and timeline criteria, construction time data from the U.S. Census Bureau (USCB) was matched with data on the number of units per building from CMHC to estimate the proportion of new purpose-built rentals that would qualify for the accelerated capital cost allowance over 2024-2025 to 2028-2029.[3]

A CMHC study provided the per-unit capital costs for purpose-built rentals that were constructed at the start of 2021, which was subsequently scaled by the construction price index for high-rise apartments to the end of 2023.[4] From 2024-2025 onwards, capital costs are assumed to grow by the average construction inflation rate over 2000 to 2023.

The depreciation schedule was calculated by multiplying the projected number of qualifying rental units by the per-unit development costs over 2024-2025 to 2028-2029. Under the baseline scenario, the buildings were depreciated at a rate of 4% whereas buildings were depreciated at a rate of 10% under the accelerated scenario. The depreciation schedule accounts for the suspension of the half-year rule until the start of 2028.

Under the assumption that purpose-built rentals are depreciated by the full annual amount permitted, the fiscal impact was calculated by multiplying the increase in the capital cost allowance by the average effective tax rate for the real estate industry.

Sources of Uncertainty

Budget 2024 included other housing measures that impact the construction sector. The interaction of these measures may cause a break from historical trends in purpose-built rental construction as developers reallocate resources toward the most profitable projects.

Per-unit development costs vary depending on material and design choices. Some developers may choose to build more or less expensive projects than the scenarios in the CMHC study, which could result in the under or overestimation of the cost, respectively.

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[2] Includes social housing managed by crown corporations such as the Société d'habitation du Québec (SHQ).
[3] The U.S. construction timelines were adjusted to match the average Canadian construction timeline.
[4] Capital costs include the cost of construction, municipal fees, developer profit, and other applicable taxes. It excludes land costs since land cannot be depreciated. Sales taxes have been excluded wherever applicable.

The construction price index is more volatile than other common price indices. Unforeseen increases in material or labour costs may result in an underestimation of the cost.

This note assumes purpose-built rentals are depreciated by the entire allowable amount. Some owners may decide to declare a lesser amount to defer the depreciation deduction to later years. This would result in an overestimation of the cost of the measure.

The effective tax rate may vary depending on the ownership structure of the building. A higher or lower effective tax rate would result in the under- or overestimation of the cost, respectively.

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Data Sources

Development Cost per Unit
New Purpose-built Rental Housing (CMHC, 2021)

High-rise Construction Price Index
Building Construction Price Index (StatsCan, 2024)

Completions, Rental Market Only
Housing Market Information Portal (CMHC, 2024)

Social Housing by Ownership Type
Social and Affordable Housing Survey (CMHC, 2024)

Social Housing in Exploitation
Dashboard - December 2023 (SHQ, 2024)

Start to Completion Time
New Residential Construction (USCB, 2024)

Apartment Completions by Structure Size
Housing Market Data (CMHC, 2024)

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