CANADA

OFFICE OF THE
PARLIAMENTARY
BUDGET OFFICER

BUREAU DU DIRECTEUR
PARLEMENTAIRE DU
BUDGET

Cost Estimate for Bill C-323: An Act to amend the Income Tax Act (rehabilitation of historic property)

Ottawa, Canada
19 October 2017
www.pbo-dpb.gc.ca

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Executive Summary

On 1 December 2016, Peter Van Loan, MP, introduced a private member's bill, Bill C-323. It would amend the *Income Tax Act* to create a 20 per cent tax credit for expenses related to rehabilitating a historic property, and to create a tax deduction for the capital cost of property used in the course of such rehabilitation.

The Office of the Parliamentary Budget Officer (PBO) based its analysis on data obtained from the Canadian Register of Historic Places on the number of eligible historic properties, and from Statistics Canada on the average cost of home repairs and renovations.

PBO estimates that the annual cost of the credit will range between $55 million and $67 million in the first five years, if the average cost of rehabilitation and take-up rate of the credit are similar to projects undertaken in the United States for a similar credit.

As Summary Table 1 shows, the major cost driver of the credit is large-scale projects (mostly commercial and industrial buildings). Even though there are considerably fewer large-scale projects, they generate a much higher cost for the credit because their costs are substantially higher than small-scale projects.

Summary Table 1 **Fiscal cost of the proposed tax credit**

YEAR	1	2	3	4	5
No. of small scale projects	342	359	377	396	416
No. of large scale projects	49	52	54	57	60
Cost of credit: small projects ($ millions)	5.5	5.7	6.0	6.3	6.7
Cost of credit: large projects ($ millions)	49.0	52.0	54.0	57.0	60.0
Total cost of credit ($ millions)	**54.5**	**57.7**	**60.0**	**63.3**	**66.7**

While there are costs associated with implementing the tax deduction for the capital cost of property used in the course of rehabilitation, PBO has deemed that they are not fiscally material. Consult Appendix D for details on costs associated with the tax deduction.

1. Background

The private member's bill, C-323, introduced by MP Peter Van Loan in December 2016, amends the *Income Tax Act* to establish a tax credit for expenses related to rehabilitating a historic property. It also establishes a tax deduction for the capital cost of property used in the course of such rehabilitation.

Mr. Van Loan told the House of Commons in June 2017 that, the objective of this legislation is to provide support to citizens who undertake, at considerable private burden, to maintain historic buildings and perform costly heritage renovations. All Canadians benefit through the preservation of their past and the places that have made the country.[1]

This cost estimate deals primarily with the first part of the bill, the introduction of a 20 per cent tax credit. While there are costs associated with implementing the tax deduction for the capital cost of property used in the course of rehabilitation, PBO has deemed that they are not fiscally material. Appendix D presents an estimate of the costs associated with the tax deduction.

The tax credit would apply only to historic properties that are listed on the Canadian Register of Historic Places, as administered by the Parks Canada Agency, or designated as a heritage or historic site or property under the laws of a province. The eligible rehabilitation expenses would include:

(a) construction costs

(b) professional fees

(c) insurance costs

(d) development fees

(e) administrative costs

(f) site improvement costs related to the character-defining elements of the property, or

(g) prescribed costs.

However, the eligible expenses would not include costs for acquiring the historic property, costs to furnish it or costs incurred solely for aesthetic or cosmetic purposes.

An architect authorized to practise the profession in Canada would have to certify that the rehabilitation of the historic property was conducted in

What is a tax credit?

Tax credits are amounts that can be used to offset an existing federal or provincial tax liability. Most federal tax credits for individuals are calculated by multiplying the tax rate of the first income tax bracket by the relevant statutory amount or expenditure. For example, a transit pass that cost an individual $800 would result in a $120 tax credit.

accordance with conservation standards. Since the credit would be non-refundable, any unused portion could be carried forward for a maximum of 10 years.

2. Methodology

To estimate the cost of the 20 per cent tax credit, we need to estimate the number of potentially eligible properties, the average cost of a rehabilitation project, and the take-up rate of the credit.

Number of eligible properties

As of April 2017, the Canadian Register of Historic Places (CRHP) contained some 13,000 unique listings. Of those listed sites, 6,855, or 53 per cent, are privately owned.[2] PBO further separated these privately owned properties into three categories: large scale, small scale and not eligible.

Thus, 2,708 sites, or 40 per cent of all privately owned sites, fall under the large-scale category; 2,960 sites (43 per cent) fall under small scale, and 1,187 (17 per cent) are deemed not eligible for the credit. Appendix A details the methodology used to determine the category for each record.

It is important to note two potential caveats that stem from using the register. First, some records are duplicated in the register. Indeed, some sites have received a provincial or municipal designation and later on received a federal designation.

In such cases, it is possible that each designation is listed as a separate site on the register. PBO identified nearly 1,000 duplicates by doing a simple query to identify sites that had identical names.

Secondly, certain records are historic districts. These districts can contain just a few properties or up to thousands of properties and buildings. We identified almost 70 listings in the register that were clearly heritage districts. Based on the information found in the register and our own approximations, we estimate these districts contain nearly 6,000 properties.[3]

However, the Ontario Heritage Trust has a list of provincially and municipally recognized districts that are not listed on the Canadian register and represent about 22,000 properties.[4] The list provides general information on the main uses of the properties within each district, but does not provide an actual decomposition by category or ownership type.

Therefore, we made some assumptions on the composition of these districts:

- When the main use is residential, we assume that the properties are privately owned single dwellings that fall under the small-scale category.
- When the main use is commercial or industrial (including industrial heritage and rural industrial), we assume that the properties are privately owned and fall under the large-scale category.
- Properties within districts listed as having more than one main use are assumed to be distributed evenly among these uses. For example, we assume that in a district with the main uses listed as commercial/residential, half the properties are of commercial use (large-scale) and the other half residential (small-scale).
- Finally, we assume that properties for which the main use is city owned land, institutional, museum, natural or transportation are not privately owned, and thus are deemed not eligible for the credit.

Using these assumptions, of the 22,229 properties contained within the Ontario districts, PBO obtained a total of 14,796 properties that are considered small scale, 7,145 large scale and 288 not eligible.

Also, Parks Canada staff estimate another 16,463 properties located in heritage districts that are not on the Canadian register should be added to the total. They have decomposed this number by province as follows: Quebec, 13,130; Prince Edward Island, 1,727; New Brunswick, 1,196; British Columbia, 389; and Saskatchewan, 21.

Since most of the properties within heritage districts are single dwellings, we have assumed that all these properties would be considered small scale. It is quite possible that large-scale properties are also contained within some of the districts. But it is most likely that these properties are already individually listed in the register. Furthermore, since it is recognized that the register is incomplete, we have not deducted the duplicates identified from our credit cost calculations.

Including these additions to the numbers previously obtained from the CRHP, we have a total of 34,219 small-scale properties (2,960 + 14,796 + 16,463) and 9,853 large-scale properties (2,708+7,145).

Average cost of a rehabilitation project

In the United States, a similar tax credit for rehabilitating historic properties has been in place since 1976[5]. The credit rate is 20 per cent.

However, it is applicable only to income-producing historic properties (such as commercial and industrial buildings, or residential buildings for leasing). It is not applicable to properties used exclusively as the owner's private residence.

For 2009 to 2016 (the latest available), the National Parks Service produced annual statistical reports on the nationwide use of the historic preservation tax credit[6]. According to the latest report, the average cost of a project (in terms of qualified rehabilitation expenditures, which are similar to those proposed by Bill C-323) in 2016 was US$5.64 million. During the period 2009 to 2016, the average project cost was US$4.97 million.

In Canada, a 2003 pilot project called the Commercial Heritage Properties Incentive Fund (CHPIF) provided funding of up to $1 million for a rehabilitation project undertaken by taxable Canadian corporations that owned a historic property listed on the CRHP.

The project was open to new applicants until September 2006; it provided funding to a total of 35 projects between 2003 and 2008.[7] In total, project costs amounted to $143.4 million, an average cost of $4.1 million per property.

Adjusting to 2017 dollars, this average cost would be slightly above $5 million, which is similar to the US figure. Therefore, for our costing analysis, we have assumed that the average rehabilitation cost of a large-scale property is $5 million.

As for small-scale projects, which are comprised mostly of privately owned single dwellings, PBO does not have adequate information on the average cost of rehabilitating or renovating such properties. Unlike commercial projects, where the entire building is usually rehabilitated and brought to current standards (in terms of electrical systems, plumbing, HVAC, and so on), it is reasonable to believe private homeowners might undertake smaller renovation projects.

Data from Statistics Canada's Survey of Household Spending (SHS) for 2000 to 2009 indicate an average annual spending of $450 on maintenance, repairs and replacements for owned living quarters.

In its current form, Bill C-323 stipulates that an architect would have to certify that the rehabilitation of the historic property was conducted in accordance with conservation standards. Since this could be somewhat costly, it is unlikely that homeowners will claim the credit for minor renovations and repairs.

The 2015 edition of the SHS introduced a new set of questions on the costs of additions, renovations and repairs for a set of different items in the principal residence (for example, the cost of reroofing, replacing a furnace, etc.).

PBO summed the average amount reported by households that had undertaken such projects during the year for all the components that could qualify as rehabilitation expenses, arriving at a total of $48,000. (We excluded amounts related to finishing the basement, adding a central vacuum or a home security system.)

It is generally believed that renovating historical properties is somewhat more costly because they require certain technical skills or materials that are more expensive. As a result, we have grossed up the previous amount by a factor of 67 per cent.[8]

Thus, our average project cost for a private homeowner would be $80,000. Appendix B provides cost estimates for different values of the average cost of a rehabilitation project.

Take-up rate of the credit relative to the number of eligible properties

This is perhaps the most difficult costing parameter to predict, as it is hard to know how people will react to this tax incentive. A 2001 study by EY (Ernst & Young) prepared for the Canadian Department of Heritage came up with a take-up rate of 0.5 per cent based on US data.[9]

More recent data from the National Park Service allow us to estimate a take-up rate that ranged from 0.26 per cent to 0.48 per cent between 2009 and 2016.[10] The US credit is only applicable to income producing properties, while the proposed Canadian credit would be available to any type of property.

Therefore, we have decided to use in our analysis a take-up rate of 0.5 per cent for large-scale projects, which are similar to the income producing properties in the United States, and 1 per cent for small-scale projects.

The take-up rate for small-scale projects is higher because we believe homeowners are more likely to undertake them, since they are less costly than large-scale projects.

Appendix C provides cost estimates using alternative assumptions for the take-up rate of both small- and large-scale projects. It is also safe to assume that the take-up rate will increase in the first few years of the credit's implementation, as more people become aware of it.

However, we have kept the take-up rate constant on our five-year cost projection. This is because the increase in take-up is already somewhat accounted for in our assumptions regarding the increase in the number of eligible properties (see next section).

One could also argue that because of the time it may take to complete the rehabilitation of a building, and the time needed to obtain the project approval by an architect, the take-up rate in the first year should be much lower, as there will be a lag.

While this is a likely outcome, the cost estimate for the first year presented in Table 1 (below) can be considered as the estimate for the first year in which most of the projects undertaken after the credit is announced are completed. This could be a year or two after Bill C-323 obtains Royal Assent.

However, since PBO does not have data on the average time it takes for a rehabilitation project to be approved and completed, we can't actually predict the time period of such a lag.

Increase in the number of eligible properties

During the 1990s and 2000s, the number of privately owned properties listed on the Canadian Register of Historic Places increased by an annual average of 5.4 per cent. Since 2011, that rate of growth has shrunk to 0.4 per cent a year, on average.

The higher increase in the 2000s was due to regular surveys conducted by Parks Canada. We believe that introducing a rehabilitation tax credit would result in an annual increase of 5 per cent in the number of sites on the Canadian or provincial registers. This is because the tax credit would be an incentive for owners of yet-to-be recognized historic properties to seek designation.

Obviously, over the short term there is a finite stock of heritage sites. In the long term, recognition criteria could evolve, or sites that do not have a heritage value right now may be recognized as having such a value in 20 years, for example.

Thus, the rate of increase in the number of properties with a heritage designation is likely to go down eventually, as all the properties with heritage value become listed. However, we believe it is safe to assume the number of eligible properties will grow yearly by 5 per cent over the five years following the introduction of the tax credit (the projection horizon used in this report).

In five years, this would increase the total number of small-scale sites to nearly 42,000 and the number of large-scale sites to 12,000.

3. Results

PBO uses these baseline assumptions in determining the results:

- 9,853 large-scale sites and 34,219 small-scale sites;
- an average rehabilitation cost of $5 million and $80,000, respectively;
- a credit take-up rate of 0.5 per cent and 1 per cent, respectively; and
- an annual increase in the number of listed properties of 5 per cent.

Thus, PBO arrives at a projected credit cost of $54.5 million for the first year, rising to $66.7 million in the fifth year.

Table 3-1 below breaks down the costs by year and by scale of project. Note that these results assume that the taxpayers claiming the credit have enough tax liability to use all the credit in the current year. Since it is likely that this will not always be the case, especially for the large-scale sites owned by individuals, the real fiscal cost of the credit should be somewhat lower.

Indeed, the amounts of credit carried forward are not indexed, and thus lose value in the future because of the time value of money. Therefore, computing the present value of future tax deductions will necessarily give a lower amount unless the discount rate used in this computation is zero.

Table 3-1 Fiscal cost of the proposed tax credit

YEAR	**1**	**2**	**3**	**4**	**5**
No. of small scale projects	342	359	377	396	416
No. of large scale projects	49	52	54	57	60
Cost of credit: small projects ($ millions)	5.5	5.7	6.0	6.3	6.7
Cost of credit: large projects ($ millions)	49.0	52.0	54.0	57.0	60.0
Total cost of credit ($ millions)	**54.5**	**57.7**	**60.0**	**63.3**	**66.7**

As Table 3-1 shows, the major cost driver of the credit is large-scale projects. Even though there are considerably fewer large-scale projects, because of their substantial cost compared to those of small-scale projects, they generate a much higher cost for the credit (since in its current form, the credit amount is not capped).[11]

As a point of comparison, the Joint Committee on Taxation in the United States estimates that for 2016, the US credit for rehabilitating historic structures amounted to a $700-million tax expenditure on the corporate income side, and a $200-million tax expenditure on the personal income tax side.

Appendix A: Project Scale Determination

The Canadian Register of Historic Places: Documentation Standards Handbook indicates that information on the historic function of a site must be provided for it to be listed on the register. Its current function, however, is optional.

Of the 6,855 privately owned sites, 969 had no information on the current function, so PBO used the historic function and assumed it was a good representation of the current function.

Also, nine sites had no information on the current or historic function. For these nine sites we assigned a project scale based on the information found in the "Description of historic place" field in the register.

The current and historic functions are listed under 17 different categories, each subdivided into different function types. The function category and function type fields are controlled vocabulary fields, which means they have to be chosen from a prescribed list. The table below lists all categories and function types that were assigned to the 6,855 privately owned properties, and the scale we attributed to each.[12]

In general, we considered buildings with current use in the commercial, industrial, education or health and research categories as large scale, as well as those with current use in the function type multiple dwellings, auditorium, cinema and nightclub.

On the other end, small scale consists primarily of buildings designated as single dwelling, and farm or ranch. Note that some sites had more than one function type. However, in almost every case at least one of the types was considered large scale; thus, we considered these sites as large scale.

Fewer than 20 sites had multiple functions types that were all in the small-scale range. These sites usually combined the function types "single dwelling" and "farm or ranch". We considered these sites as small scale. Finally, we considered as not eligible (NE) sites that would not qualify for the credit, such as nature elements, parks, cemeteries, etc.

Table A.1 Project Scale by Function Type and Category

Function Category Function Type	**Project Scale**	**# of Sites**
Commerce / Commercial Services		**1,714**
Bank or Stock Exchange	Large	27
Eating or Drinking Establishment	Large	261
Hotel, Motel or Inn	Large	298
Market	Large	4
Office or Office Building	Large	470
Service Station	Large	3
Shop or Wholesale Establishment	Large	582
Studio	Large	43
Trading Post	Large	1
Warehouse	Large	25
Community		**154**
Civic Space	NE	14
Commemorative Monument	NE	19
Cultural Space	NE	1
Public Art or Furnishings	NE	4
Settlement	Small *	11
Social, Benevolent or Fraternal Club	NE	92
Suburb	Small *	8
Town	Small *	5
Defence		**1**
Residential Facility	NE	1
Education		**71**
Composite School	Large	5
One-Room School	Small	3
Post-Secondary Institution	Large	29
Primary or Secondary School	Large	11
Special or Training School	Large	23
Environment		**23**
Nature Element	NE	23
Food Supply		**116**
Barn, Stable or Other Animal Housing	NE	33
Equipment Shed	NE	4
Farm Element	NE	3
Farm or Ranch	Small	44

Fisheries Site	NE	8
Food Storage Facility	NE	5
Grain Elevator	NE	4
Granary or Silo	NE	4
Horticultural Facility or Site	NE	5
Hunting or Resource Harvesting Site	NE	2
Rural District or Area	NE	4
Government		**52**
Courthouse and/or Registry Office	NE	10
Customs Building	NE	1
Diplomatic Building	NE	1
Office or Office Building	NE	23
Police Station	NE	3
Post Office	NE	5
Town or City Hall	NE	8
Treaty-Making Site	NE	1
Health and Research		**35**
Animal Care Facility	Large	1
Clinic	Large	18
Hospital or Other Health Care Institution	Large	14
Research Facility	Large	2
Industry		**40**
Communications Facility	Large	11
Crafts Production Facility	Large	5
Food and Beverage Manufacturing Facility	Large	10
Machinery or Other Equipment Manufacturing Facility	Large	1
Metal Products Manufacturing Facility	Large	2
Petroleum and Coal Products Facility	Large	1
Power Generation Facility	Large	2
Textile or Leather Manufacturing Facility	Large	2
Water or Sewage Facility	Large	1
Wood and/or Paper Manufacturing Facility	Large	5
Leisure		**331**
Auditorium, Cinema or Nightclub	Large	53
Exhibition Centre	Large	12
Historic or Interpretive Site	NE	40
Library	NE	11
Museum	NE	148
Park	NE	13

Park Fixture	NE	2
Pool or Beach	NE	1
Recreation Centre	NE	21
Sports Facility or Site	NE	12
Tourist Facility	NE	18
Religion, Ritual and Funeral		**484**
Aboriginal Ritual Site	NE	1
Aboriginal Sacred Site	NE	2
Mission	NE	4
Mortuary Site, Cemetery or Enclosure	NE	149
Religious Facility or Place of Worship	NE	306
Religious Institution	NE	22
Residence		**3,398**
Estate	Small	33
Group Residence	Large	22
Multiple Dwelling	Large	753
Outbuilding	NE	19
Single Dwelling	Small	2,571
Transport-Land		**5**
Bridge, Tunnel or Other Engineering Work	NE	3
Pedestrian Way	NE	2
Transport-Rail		**9**
Rolling Stock	NE	1
Station or Other Rail Facility	NE	8
Transport-Water		**15**
Landing Point	NE	1
Navigational Aid or Lighthouse	NE	12
Route	NE	1
Vessel	NE	1
Undetermined (archaeological site)		**17**
Buried Site	NE	8
Exposed Site	NE	7
Underwater Site	NE	2

* The sites with function types “Settlement”, “Suburb” or “Town” represent historic districts with multiple properties.

Appendix B: Alternate Results with Different Cost Assumptions

The three tables below present alternate results for year 1 based on different average costs of rehabilitation.

Table B.1 presents results for different cost values for small-scale projects, ranging from $10,000 to $5 million, keeping the average cost of a large project fixed at $1 million.

Tables B.2 and B.3 present the same results, but keeping the average cost of a large project fixed at $5 million and $10 million.

As we can see, the total cost of the credit could range from as little as $10.5 million to $440 million, in the case of an average cost of $10 million for large-scale projects and $5 million for small-scale projects, which is very unlikely.

Table B.1 Fiscal cost of the proposed tax credit (avg. cost of large scale projects = $ 1 million)

Avg cost of small scale prj.	**$10K**	**$35K**	**$50K**	**$100K**	**$1M**
No. of small scale projects	342	342	342	342	342
No. of large scale projects	49	49	49	49	49
Cost of credit: small projects ($ millions)	0.7	2.4	3.4	6.8	68.4
Cost of credit: large projects ($ millions)	9.8	9.8	9.8	9.8	9.8
Total cost of credit ($ millions)	**10.5**	**12.2**	**13.2**	**16.6**	**78.2**

Table B.2 Fiscal cost of the proposed tax credit (avg. cost of large scale projects = $ 5 million)

Avg cost of small scale prj.	**$10K**	**$50K**	**$100K**	**$716K**	**$1M**
No. of small scale projects	342	342	342	342	342
No. of large scale projects	49	49	49	49	49
Cost of credit: small projects ($ millions)	0.7	3.4	6.8	49.0	68.4
Cost of credit: large projects ($ millions)	49.0	49.0	49.0	49.0	49.0
Total cost of credit ($ millions)	**49.7**	**52.4**	**55.8**	**98.0**	**117.4**

Table B.3 Fiscal cost of the proposed tax credit (avg. cost of large scale projects = $ 10 million)

Avg cost of small scale prj.	**$10K**	**$100K**	**$350K**	**$1M**	**$5M**
No. of small scale projects	342	342	342	342	342
No. of large scale projects	49	49	49	49	49
Cost of credit: small projects ($ millions)	0.7	6.8	23.9	68.4	342.0
Cost of credit: large projects ($ millions)	98.0	98.0	98.0	98.0	98.0
Total cost of credit ($ millions)	**98.7**	**104.8**	**121.9**	**166.4**	**440.0**

Appendix C: Alternate Results with Different Take-up Rates

Table C.1 below presents alternate results based on different assumptions for the take-up rate (the percentage of eligible sites that would actually be rehabilitated in year 1 of the credit).

Take-up rates range from 0.5 per cent to 5 per cent for small-scale projects and 0.25 per cent to 2.5 per cent for large-scale projects, keeping the average cost of small-scale and large-scale projects fixed at $80,000 and $5 million, respectively.

As we can see, these alternate assumptions produce cost estimates ranging from $28 million to $273 million. Notice also that if the take-up rate doubles, the fiscal cost of the credit doubles as well.

This result implies, of course, that all the credit can be used in the current year and is not carried forward to reduce future tax liability.

Table C.1 Fiscal cost of the proposed tax credit with different take-up rates

	Take-up rate				
Small scale	**0.50%**	**1.00%**	**1.50%**	**2.00%**	**5.00%**
Large scale	**0.25%**	**0.50%**	**0.75%**	**1.00%**	**2.50%**
No. of small scale projects	171	342	513	684	1711
No. of large scale projects	25	49	74	99	246
Cost of credit: small projects ($ millions)	2.7	5.5	8.2	10.9	27.4
Cost of credit: large projects ($ millions)	25.0	49.0	74.0	99.0	246.0
Total cost of credit ($ millions)	**27.7**	**54.5**	**82.2**	**109.9**	**273.4**

Appendix D: Capital Cost Deduction

From a tax perspective, a building is a capital good, which means its acquisition costs are not completely expensed in the year acquired, but rather depreciated over multiple years through the capital cost allowance (CCA).

Of course, this only applies to income producing property, as a principal residence can't be depreciated for tax purposes, but is also exempted from tax on capital gains when it is disposed. Buildings are generally included in CCA class 1 or 3, which correspond to depreciation rates of 4 per cent and 5 per cent, respectively.

When repairs or rehabilitation is undertaken for a building, some types of work can be completely expensed in the current year, while others have to be capitalized and depreciated under CCA rules (at the 4 per cent or 5 per cent rate).

While it is not always clear which type of work can be currently expensed, a rule of thumb is that any repairs that bring the building back to its original state fall in this category. Expenses that increase the building's size and surface, or improve the building from its original state (betterment) will fall under capitalized expenses. For example, repairing a small section of the roof would be considered a current expense, while complete reroofing would be a capital expense.

Bill C-323 proposes to increase the depreciation rate on the capital cost of property used in the course of rehabilitation to 25 per cent for the first taxation year, 50 per cent for the second and 25 per cent for the third.

To calculate the cost for the government of this proposal, we only need to compute the difference between the present value of the CCA deductions under the actual rules and the present value of the proposed three years accelerated deduction.

Assuming that 50 per cent of the cost of a large scale rehabilitation project ($2.5 million) would actually represent betterment expenses (such as buying a new and more efficient furnace, for example), using a discount rate of 10 per cent and the federal CIT rate of 15 per cent, the present value of the CCA deductions under the 5 per cent class 3 rate would be $131,250. [13] With the proposed accelerated depreciation rates, the present value of the tax deductions would amount to $341,684. [14]

Thus, the cost of this measure for the government would be $210,434, which is the difference between the two amounts. If we multiply that cost by the 49 large-scale projects expected to be undertaken in year 1 (see Table 1), we arrive at a total cost of $10.3 million. [15]

The actual cost of the proposed measure is likely to be smaller if the building is eventually sold at a higher price. Indeed, depreciation will reduce the adjusted cost base of the building, which is subtracted from the price at which it is sold to compute the capital gain realized.

Since half of this capital gain is included in taxable income, the government will recover some of the depreciation cost in taxing the capital gain realized.

It is also important to note that we assume that the three-year accelerated depreciation of capital cost proposed in Bill C-323 would only be available for goods for which the taxpayer did not receive assistance, such as the 20 per cent tax credit.

Therefore, if we keep the assumption that 50 per cent of the costs of a large-scale project are capital costs, and that the taxpayer chooses to use the accelerated depreciation rather than the 20 per cent credit on that $2.5-million portion of the project, then the total cost of Bill C-323 would be smaller, as can be seen in Table D.1 below.

It is not clear, however, why a taxpayer would choose the deduction over the tax credit in any given circumstance.

If we suppose that the intention of the bill is to provide the accelerated depreciation on top of the 20% credit, then the total cost of the credit would be $8 to 10 million higher per year, as can be seen in table D.2 below.

For these calculations, we assumed again that half of the cost of a large scale rehabilitation project ($2.5 million) would actually represent betterment expenses, and that only 80% of that amount ($2 million) would be eligible for the accelerated depreciation, as no deduction would be available on the portion of the cost covered by the tax credit.

Table D.1 Fiscal cost of Bill C-323 (tax credit + accelerated CCA)

YEAR	1	2	3	4	5
No. of small scale projects	342	359	377	396	416
No. of large scale projects	49	52	54	57	60
Cost of credit: small projects ($ millions)	5.5	5.7	6.0	6.3	6.7
Cost of credit: large projects ($ millions)	24.5	26.0	27.0	28.5	30.0
Cost of accelerated CCA ($ millions)	10.3	10.9	11.4	12.0	12.6
Total cost of Bill C-323 ($ millions)	**40.3**	**42.7**	**44.4**	**46.8**	**49.3**

Table D.2 Fiscal cost of Bill C-323 (tax credit + accelerated CCA on top of the credit)

YEAR	1	2	3	4	5
Nb. of small scale projects	342	359	377	396	416
Nb. of large scale projects	49	52	54	57	60
Cost of credit: small projects ($ millions)	5.5	5.7	6.0	6.3	6.7
Cost of credit: large projects ($ millions)	49.0	52.0	54.0	57.0	60.0
Cost of accelerated CCA ($ millions)	8.2	8.8	9.1	9.6	10.1
Total cost of Bill C-323 ($ millions)	**62.7**	**66.5**	**69.1**	**72.9**	**76.8**

Notes

[1] Van Loan, Peter. "Routine Proceedings: Income Tax Act". *House of Commons Debates (Hansard)*. 42nd Parl., 1st Sess. (December 1, 2016) (Online) Available: http://www.ourcommons.ca/DocumentViewer/en/42-1/house/sitting-119/hansard [June 5, 2017]

[2] This number excludes properties owned by federal, provincial, territorial, and municipal administrations, First Nations reserves or not-for-profit organizations, as they are not required to pay income taxes and thus are not relevant for our analysis. It also excludes 532 listings for which the ownership type is not identified in the Register.

[3] The field "Description of historic place" in the register usually contained the information on the number of properties or buildings contained in the district. When this information was not provided, we used satellite images from Google Earth to manually count the number of buildings within the district boundaries.

[4] http://www.mtc.gov.on.ca/en/heritage/heritage_conserving_list.shtml

[5] In 1986, Congress amended the Federal Tax Code establishing the 20% historic tax credit that remains in effect today.

[6] https://www.nps.gov/tps/tax-incentives/reports.htm

[7] A total of 44 projects were initially approved, but nine projects were later withdrawn or not carried through to completion.

[8] A 2002 study (*Investing in Michigan's Future: The Economic Benefits of Historic Preservation*) indicates that in new constructions, 50% of the costs are usually attributed to labour and the remaining 50% to materials. However, in rehabilitation projects, the ratio can go up to 70% for labour and 30% for materials. Using the SHS total of $48,029 as our starting point, the cost of materials and labour would each be $24,015 (50% each). Assuming the cost of materials is still $24,015 in a rehabilitation project but now represents 30% of the costs, the total cost of the project would be $80,049, thus a 66.7% increase. In reality, the increase could be even higher as it is likely that the cost of materials would also be higher in a rehabilitation project.

[9] The authors explain that based on discussions with the National Park Service, they have estimated that approximately 280,000 buildings in the National Register were income-producing. During 22 years up to 1999 (the latest year for which data were available when the study was prepared), 27,930 structures received certification for tax credits. Thus, dividing 27,930 certified structures by 280,000 possibly eligible buildings and dividing by 22 years gives them an annual take up rate of 0.45% rounded up to 0.5%.

[10] For example, the 2016 annual report "Federal Tax Incentives for Rehabilitating Historic Buildings" prepared by the Technical Preservation Services of the

National Park Service indicates that 1.6 million buildings are listed on the National Register of Historic Places. They estimate that 20% of these buildings qualify as income-producing, thus about 320,000 properties. Since 1,039 eligible rehabilitation projects (part 3 approved) were completed in 2016, we can compute an approximate take-up rate of 0.32% (1,039/320,000). Note that a single project can involve multiple listed buildings (for example the rehabilitation of a manufacturing complex), and thus the actual take-up is somewhat higher. When the projects are presented for approval in part 2 of the process, they need to list individual buildings. Therefore, the number of part 2 applications received can be used as a proxy, but buildings can be added or removed from the scope of a project before part 3 certification, and information on the final number of buildings rehabilitated is not collected. Using the 1,521 part 2 applications received in 2016 as a proxy, we get a take-up rate of 0.48% (1,521/320,000).

[11] Table B.2 in Appendix B shows that ceteris paribus, an average cost of $716,000 for small scale projects would equal the credit cost of small scale and large scale projects.

[12] For a complete list of the possible categories and types, and a definition of each type, please refer to *The Canadian Register of Historic Places: Documentation Standards Handbook*, August 2006, Parks Canada.

[13] This result is obtained by the following formula, where PV is the present value of future tax deductions, τ is the CIT rate (15% in our example), CC is the capital cost of the depreciated good ($2,5 M), d is the CCA rate or depreciation rate (5%), i is the discount rate (10%) and n is the number of periods (which would be an infinite horizon if the property is never sold, but the result barely changes above 75 years).

$$PV = \tau\left\{½ * CC * d + 0.975 * CC * d * \left[\frac{1-(1-d)^{n}(1+i)^{-n}}{i+d}\right]\right\}$$

[14] This result is obtained by the following formula (refer to note 13 for the definition of the variables).

$$PV = \tau\left[0.25 * CC + \frac{0.5*CC}{(1+i)} + \frac{0.25*CC}{(1+i)^{2}}\right]$$

[15] Putting a lower value on future payments, that is using a higher discount rate, doesn't affect the result significantly. For example, using a 20% discount rate gives a total cost of $11.4 million. Using a higher CIT rate has a bigger impact, as a 25% CIT rate would generate a total cost of $17.2 million.