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Item No. 11.3.1

Halifax Regional Council
January 8, 2008

TO: Mayor Kelly and Members of Halifax Regional Council

SUBMITTED BY:

A handwritten signature in black ink, appearing to read "Tom Creighton". The signature is written over a horizontal line that extends to the right.

Tom Creighton, Chair, Heritage Advisory Committee

DATE: December 17, 2007

SUBJECT: Proposed Federal Tax Incentives - Preservation of Heritage Buildings

ORIGIN

December 12, 2007 Heritage Advisory Committee meeting.

RECOMMENDATION

The Heritage Advisory Committee recommends that Regional Council support the following recommendations made by the Heritage Trust of Nova Scotia and request that Regional Council, through the Mayor, write to the Prime Minister, the Minister of Finance, and the Standing Committee on Finance, recommending serious consideration to include the following tax incentives in the Federal budget:

- 1. Canada should establish a tax credit for the commercial rehabilitation of heritage buildings;**
- 2. Canada should establish an individual income tax credit for the repair of heritage buildings;**
- 3. GST and HST on the cost of qualified repairs to heritage buildings should be rebated; and**
- 4. Volunteers should be allowed a deduction for the expenses entailed in their volunteer work.**

BACKGROUND

On December 6, 2007, Mr. Phil Pacey, President, Heritage Trust of Nova Scotia, presented to the House of Commons Standing Committee on Finance during their visit to Halifax. Mr. Pacey, on behalf of the Heritage Trust of Nova Scotia, made five recommendations for tax measures to assist in the preservation of heritage buildings in Canada (as outlined in the letter from the Heritage Trust as Attachment 2).

DISCUSSION

The recommendations were discussed by the Heritage Advisory Committee at their meeting on December 12, 2007 (as outlined in the minutes extract as Attachment 1). Mr. Phil Pacey, President, Heritage Trust of Nova Scotia, was in attendance to respond to questions.

The Committee agreed to endorse the Heritage Trust of Nova Scotia recommendations 1, 2, 3, and 5 and request that Regional Council, through the Mayor, write to the Prime Minister, the Minister of Finance, and the Standing Committee on Finance recommending serious consideration to include these tax incentives in the Federal Budget.

BUDGET IMPLICATIONS

There are no budget implications associated with this report.

FINANCIAL MANAGEMENT POLICIES / BUSINESS PLAN

This report complies with the Municipality's Multi-Year Financial Strategy, the approved Operating, Capital and Reserve budgets, policies and procedures regarding withdrawals from the utilization of Capital and Operating reserves, as well as any relevant legislation.

ALTERNATIVES

Council may choose to support all, none, or select recommendations.

ATTACHMENTS

1. Extract of the draft minutes of the December 12, 2007 Heritage Advisory Committee meeting;
2. Letter from the Heritage Trust of Nova Scotia to the Standing Committee on Finance dated August 10, 2007.

A copy of this report can be obtained online at <http://www.halifax.ca/council/agendasc/cagenda.html> then choose the appropriate meeting date, or by contacting the Office of the Municipal Clerk at 490-4210, or Fax 490-4208.

Report Prepared by: _____

Jennifer Weagle, Legislative Assistant, 490-6521

Draft extract of the Heritage Advisory Committee minutes of December 12, 2008

8. ADDED ITEMS

8.1 Standing Committee on Finance, House of Commons - Councillor Harvey

Councillor Harvey indicated that last week he had an opportunity to attend, in Halifax, the House of Commons Standing Committee on Finance. He indicated that a number of presentations were made to the Standing Committee, including a presentation by Mr. Phil Pacey on behalf of the Heritage Trust of Nova Scotia.

Councillor Harvey reviewed with the Committee five recommendations for financial measures to assist in the preservation of heritage buildings in Canada made by the Heritage Trust of Nova Scotia during their presentation to the Standing Committee on Finance. The recommendations are as follows:

1. Canada should establish a tax credit for the commercial rehabilitation of heritage buildings.
2. Canada should establish an individual income tax credit for the repair of heritage buildings.
3. GST and HST on the cost of qualified repairs to heritage buildings should be rebated.
4. An owner who demolishes a heritage property should not be allowed to write-off its value in order to reduce the taxes payable.
5. Volunteers should be allowed a deduction for the expenses entailed in their volunteer work.

Councillor Harvey suggested that the Committee endorse the recommendations, and through Council, request that the Mayor write a letter to the Prime Minister, the Finance Minister, and the Standing Committee on Finance, recommending serious consideration by the Minister to include these recommendations in the budget.

Councillor Harvey clarified that heritage buildings that would qualify would be those Municipally and Provincially registered heritage properties which were also on the National Register of Historic Places.

Mr. Phil Pacey, President, Heritage Trust of Nova Scotia, addressed the Committee, noting the following:

- There was a Federal program, the Commercial Heritage Properties Incentive Fund (CHPIF), which provided grants to heritage property owners that was cancelled in 2006;
- The Federal grant program was a key element to the Barrington Street Historic District plan, and staff are now trying to identify alternative funds to move the plan forward;

Draft extract of the Heritage Advisory Committee minutes of December 12, 2008

- The proposed tax incentives could be considered during the upcoming Federal budget debate in February 2008.

Responding to questions from the Committee, Mr. Bill Plaskett, Heritage Planner, advised the following:

- The CHPIF program was through Parks Canada, and he understood the intention for the program was to mature into a tax credit program;
- A tax incentive program for heritage property owners in the United States has been very successful;
- Heritage Canada has been lobbying for such a tax incentive for years;
- HRM staff presented to the Nova Scotia Voluntary Planning Heritage Strategy Task Force in 2006 recommending increased Provincial grant funding, strengthened demolition controls, and that the Province should request Revenue Canada to accept income tax deductions for conservation easements for heritage buildings in the same way that they accept them for natural areas.

Responding to questions from the Committee, Mr. Pacey advised the following:

- With regard to recommendation #4, currently, a person demolishing a building can claim a capital deduction from their taxes, to reduce the income tax payable, which the Heritage Trust believe provides incentive to demolish buildings; and
- Provincial Heritage funding has eroded, and the Heritage Trust will be approaching the Province on this matter as well.

The Chair suggested that Provincial Heritage staff could be invited to a future meeting to discuss Provincial initiatives with the Committee.

Mr. Ryan Deschamps noted that he believes heritage property owners would best benefit from tax incentives for property tax, not income tax.

Mr. Plaskett made reference to a study from Maryland being reviewed by HRM finance and heritage staff, which includes an analysis of tax incentive programs in relation to heritage designations. He noted that the study suggests that income tax deductions are a more powerful incentive than property tax incentives.

It was noted by Committee members that recommendation #4 is more of a punishment than an incentive, and agreed not to endorse recommendation #4.

MOVED by Councillor Harvey, seconded by Mark Pothier, that the Heritage Advisory Committee recommend that Regional Council support the following recommendations made by the Heritage Trust of Nova Scotia and request that Regional Council, through the Mayor, write to the Prime Minister, the Minister of

Draft extract of the Heritage Advisory Committee minutes of December 12, 2008

Finance, and the Standing Committee on Finance, recommending serious consideration to include these tax incentives in the Federal budget:

1. Canada should establish a tax credit for the commercial rehabilitation of heritage buildings.
2. Canada should establish an individual income tax credit for the repair of heritage buildings.
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MOTION PUT AND PASSED.

August 10, 2007

Mr. Brian Pallister, MP, Chair
and Members of the Standing Committee on Finance
House of Commons

Dear Mr. Pallister and Committee Members:

Helping Heritage Properties Contribute to a Prosperous Future Executive Summary Heritage buildings are important economic assets. They enhance the quality of life for tourists and permanent residents. Conservation of existing buildings is one of the best ways of reducing energy consumption, reducing production of green house gases and reducing the creation of land fills. Heritage buildings benefit the general public, but the cost of their repair falls on their owners, who also accept restrictions on their treatment of the buildings.

Since the public benefits from these buildings, it is reasonable that the public should share in the cost of repairs. The Heritage Trust of Nova Scotia proposes five tax measures to assist in the preservation of heritage buildings in Canada.

1. Canada should establish a tax credit for the commercial rehabilitation of heritage buildings.
2. Canada should establish an individual income tax credit for the repair of heritage buildings.
3. GST and HST on the cost of qualified repairs to heritage buildings should be rebated.
4. An owner who demolishes a heritage property should not be allowed to write-off its value in order to reduce the taxes payable.
5. Volunteers should be allowed a deduction for the expenses entailed in their volunteer work.

Background

I am writing to you regarding an important economic asset in Nova Scotia and, I believe, in the rest of the country. This is an aspect of the economy where federal tax incentives can have a significant impact. This brief is intended to provide the background for an oral presentation during your visit to Halifax on October 16.

The heritage buildings in Nova Scotia are an economic asset. In an exit survey of visitors to the province in 2004, 40 % of the visitors said they had visited historic buildings and sites. This is the most popular specific activity by visitors, after walking, shopping and general sight-seeing. Visitors spent \$1,300,000,000 in Nova Scotia that year. So our heritage buildings bring hundreds of millions of dollars to Nova Scotia each year.

While tourists benefit from our heritage buildings for only a few days each, we, who live here year round, benefit to an even greater extent. Heritage buildings are important contributors to our

way of life and attract permanent residents. Our heritage buildings are among our most important economic assets.

Heritage conservation has environmental advantages. A significant fraction of the nation's energy is consumed in manufacturing construction materials - steel, concrete, brick, plastics and glass. Production of concrete alone produces greenhouse gases equal to one-quarter of the amount produced in heating all the homes in Canada. One of the best ways that we can reduce our energy consumption is by reducing our consumption of new materials by re-using our existing building stock. Rehabilitation uses very little energy when compared to new construction. On the other hand, any time that a building is demolished, its construction materials are hauled off to a land fill, creating a negative environmental effect. Some of these materials ultimately decay to produce more greenhouse gases.

A heritage building is a public asset. A beautiful building is in the care of one property owner, but it has value to the wider community. It provides the community with a sense of identity, a sense of place, a sense of history. Heritage buildings are of benefit to their owners, but they are chosen for designation because it is agreed by a Heritage Advisory Committee and by a government that they are also a benefit to the general public.

These important economic assets are in the care of all of us - governments at all levels, corporations, non-profit organizations like the Heritage Trust, and private individuals. We are all stewards of our heritage buildings and sites. An important measure of the success of this generation will be the extent to which we are able to take the legacy of heritage buildings from past generations and pass them on to future generations.

Usually the cost of repairing a building is within the means of the property owner. However, sometimes these costs are too great for one owner. Then it is reasonable that the public, who benefit from the exterior appearance of the building, should assist in the cost of repairs.

Owners of provincially and municipally registered heritage properties accept substantial restrictions on their actions. Governments make decisions regarding the property. Governments must be willing to contribute to the upkeep of these buildings.

In many cases the most appropriate repair to a heritage building is also the least expensive repair. This is because the principle of minimal intervention, the international standard of excellence in heritage preservation, is also usually the approach of minimal cost.

This principle could be paraphrased as "If it ain't broke, don't fix it." However, there are other cases where the best repair from a heritage stand-point is not the least expensive repair. This may occur if a door or window or a section of roof or decorative trim is beyond repair, and a choice needs to be made between an authentic replacement or a cheaper, mass-produced unit. The owner may not be able to afford the repairs, so the government should be prepared to assist.

If the period, style and history of the exterior of a building benefits Canada, then the nation should help to pay for repairs.

Owners of heritage properties have faced some difficult situations in recent years. There was difficulty in obtaining insurance. Some owners have had difficulty selling their properties. In some cases owners forego income that would be realized if their properties were sold for demolition and redevelopment at a greater density. An incentive for preservation would be welcomed.

The National Building Code is primarily designed for new construction. When an existing building is substantially renovated or changed in use, it is tested against the Code.

Often major changes are requested at this time to bring the building into compliance with the code. Sometimes the expense of code-mandated changes can be so costly that the viability of a project is called into question. Often these provisions require the installation of a sprinkler system, which can be expensive.

Here in Halifax, a draft Barrington Street Historic District Plan has been approved in principle by the municipal councillors. Research has shown that adoption of such a plan can have enormous economic advantages, attracting shoppers and tourists and greatly increasing property values. However, such a Plan would place additional restrictions on the property owners. A key selling point for the property owners has been the promise of tax breaks if the Plan is adopted. The viability of a number of buildings in the premier commercial district in Nova Scotia will depend on this Plan.

The federal government has a role to play in this stewardship. Parks Canada preserves a number of exceptional sites, such as Fort Anne, Grand Pre, Fortress Louisbourg and the Halifax Citadel. The Federal Historic Building Review Office studies and designates federally owned buildings. The federal-provincial Historic Places Initiative lists many heritage buildings and provides standards for good conservation practices.

These standards were established after lengthy consultations, including substantial input from the civil servants who administer a similar American program. The initiative has clear criteria, both for deciding on which buildings are eligible and for ensuring that the work is of high quality.

However, more federal leadership is needed. In Nova Scotia, a number of property owners have had their properties listed on the National Register of Historic Places. They have done this in anticipation that, if the building some day needs major repairs, the federal government will act in the public interest and assist with these costs.

Thus it is important that the budget provide assistance for the repair and rehabilitation of heritage buildings. It is important that this announcement be made as soon as possible.

The Heritage Trust would like to make five recommendations for federal fiscal actions to assist in the conservation of heritage buildings and sites.

Recommendation 1: Commercial heritage conservation tax credit

In the United States, former President Ronald Reagan and the Congress started a program of tax incentives for the repair and rehabilitation of heritage buildings. Travelling in New England one is

struck by the number of historic factories that have been converted to other uses.

In many cases, one finds a plaque on the factory saying the building benefited from Reagan's program. These buildings now form a vital, functioning part of their communities. Thousands of housing units have been created in this way. We need a similar tax incentive in Canada.

The Heritage Trust asks the Standing Committee on Finance to recommend that Canada establish a system of tax credits for the commercial rehabilitation of heritage buildings, similar to the American system. In order to ensure accountability, the program should be limited to buildings listed on the National Register of Historic Places and should be limited to work which meets the conservation standards of this program. The amount of the tax credit should be sufficient to provide a real incentive to businesses to invest in heritage properties.

This summer the Kentville Roundhouse, the last railway roundhouse in Atlantic Canada, is being demolished. In the U.S., entrepreneurs have taken advantage of the American tax credit to turn such buildings into markets and restaurants, thriving focal points for a community. In Truro, the former Normal School building needs a new use. We need a tax credit for heritage conservation in Canada.

Recommendation 2: Individual heritage conservation income tax credit

As well as businesses, it is also important to enlist private individuals in the effort to conserve heritage buildings. An individual can presently report the cost of repairing a building as a business expense and can apply that expense against rental income. However, this is only allowed under the Income Tax Act if the property makes a profit within six months of the expense being made. This may work well for a major operator who can turn properties over quickly. It does not help a person of modest means, who may repair the exterior of the building one year and the interior the next year, and who may not make a profit until the following year.

Conservation of a heritage building is a public good, whether it makes a profit or not. The Heritage Trust asks the Standing Committee on Finance to recommend that there be an individual income tax deduction or credit for expenses for the repair and conservation of heritage buildings. Again, in order to ensure accountability, the program should be limited to buildings listed on the National Register of Historic Places and should be limited to work that meets the conservation standards of this program. The incentive should apply to work which benefits the public, such as exterior repairs and structural repairs, and should not apply to interior redecoration.

Reductions in taxes for heritage properties would encourage owners to maintain the properties adequately. It would facilitate the creation of Heritage Conservation Districts if the amount of assistance to property owners in the Districts were significant. A tax credit for owners of heritage properties would also be a great incentive for persons to purchase significant properties.

Recommendation 3: Heritage GST rebate

When repairs are done on a heritage property, the government collects GST or HST on the cost of

the repairs. This is a disincentive to keeping the building in good repair. These taxes should be rebated for a building on the National Registry for work which meets the conservation standards.

Recommendation 4: Elimination of the demolition write-off

Nova Scotia loses heritage buildings every year. Last year the Kelly Building, a municipally registered heritage building a block from Province House, was demolished. When a building is demolished, the owner is allowed to write off its value as a loss to offset profits obtained on other properties. The Heritage Trust does not believe a property owner should be given a tax break for demolishing heritage buildings. This tax break should be eliminated.

Recommendation 5: Deductions of expenses for volunteers

Some of our board members must travel long distances to attend board meetings or to interact with local heritage groups. These expenses are similar to charitable donations. It would be helpful if there were an income tax deduction so that these persons could receive a partial rebate of these expenses with their income tax refund.

Heritage buildings are very important to the future prosperity of Nova Scotia. The buildings of Halifax and Chester are listed in the best-selling book, 1000 Things to See Before You Die. Annapolis Royal won the Prince of Wales Award for the best municipal heritage protection in the country. Lunenburg is a World Heritage Site.

The Heritage Trust asks you to consider these recommendations and to pass them on to the Minister of Finance.

Yours sincerely,

Philip Pacey
President
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