



July 27, 2020

Dear LBMAO Member,

Enclosed you will find a copy of the submission made to the Standing Committee on Finance on behalf of the Building Materials Council of Canada (BMCC). The submission encourages the federal government to consider a Home Renovation Tax Credit (HRTC) like the stimulus program introduced during the financial crisis of 2008-2010.

This proposal was commissioned by the four building supply associations in Canada and is thoroughly supported with factual and accurate data obtained through Statistics Canada and other credible sources. It supports the suggestion that the HRTC is an exceptional method towards a financial recovery of the economy from the COVID-19 pandemic. As we are all aware in the business community, unprecedented debt at all levels of government is unsustainable and tax revenues will be the principal tool used towards the reduction of the debt.

We would point out that much of the statistics reported in the submission is derived from aggregate data that also includes all levels of building supply, gardening retail and wholesale activity as recorded by Statistics Canada.

Key points of the recommendation are:

1. Platform is already in place using the previous HRTC stimulus program.
2. Statistics indicated in the report supports that the HRTC had a major impact in tax recovery through consumer spending both direct and indirect home renovation activity. (indirectly by employing more people, consumers spending on other core products such as housing, vehicles etc.)
3. Although difficult to measure, it was generally agreed that much of the tax recovery during the 2008-2010 financial crisis came from a reduction in the underground economy (building supply retailers at the time reported an increase of consumers/contractors requesting receipts for tax purposes).

Although this submission is being sent directly to the Standing Committee on Finance, we would encourage you to contact your local MP and forward to them a copy of this submission as they have more of an influence on their party caucuses than costly and mostly ineffective lobbying techniques. You and your business are a major contributor to the tax base, employment, and economy in the communities you serve.

If you should have any further questions, please do not hesitate to contact us.

Kindest Regards,

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Encl.



# Incentivizing home renovations: Boosting GDP and employment post-Covid-19

The case for a federal government home renovation tax credit program

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## Executive Summary

### **Size and scope of the building supplies retail and wholesale sectors**

The building supplies dealers sector across Canada is a strategically important retail sector with more than 8,300 stores employing 147,000 staff. The sector, made up of firms that are focused on retailing building supplies and materials (NAICS 444), generated \$38.4 billion in sales in 2019 (Section 2.2).

The building materials and supplies wholesale sector has over 9,900 establishments across the country, employing 134,000 workers and sales of \$108 billion (NAICS 416). This wholesaler sector provides building supplies and materials to building supplies dealers, general merchandise stores and directly to the construction sector across Canada (Section 2.5).

The economic impact of the building supplies sectors goes well beyond what happens in the stores. More than most other retail trade sectors, the building supplies dealers sector distributes many Canadian-made products supporting employment and economic activity in local economies across the country.

The economic impact model developed for this report includes estimates of the direct, indirect (supply chain) and induced spending associated with both the retail and wholesale activity of the building supplies sector in 2019.

### **Economic impact of the building supplies retail and wholesale sector operations**

Table 1 provides a summary of the building supplies sector impact on the Canadian economy. The operational expenditures of the retail sector boosted provincial gross domestic product (GDP) by \$13.7 billion, labour income by \$8.3 billion and tax revenue to governments of an estimated \$2.9 million just from operations<sup>1</sup> (Section 2.3). Through direct, indirect and induced effects, 218,000 jobs were supported across the country. Further, the labour income generated by the building supplies dealers retail sector boosted household spending by an estimated \$6.2 billion supporting businesses large and small in a broad range of industry sectors (Section 2.6).

The building material and supplies wholesale sector boosted national GDP by \$28 billion and supported 243,000 jobs across the country directly, indirectly and through induced economic effects. The sector generated \$15.3 billion in employment income and \$11.3 billion household spending across the country (from the labour income). All three levels of government received a combined \$6.5 billion in tax revenue from the wholesale activity associated with the building material and supplies sector (Section 2.4).






*NOTE: The economic impacts of the two sectors cannot be combined as the wholesale sector accounts for the bulk of the indirect activity in the retail building supplies sector.*

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<sup>1</sup> Sales taxes generated from the sale of goods and services in the stores was not estimated.

## Executive Summary (cont.)

**Table 1: Summary economic impact, building supplies retail and wholesale sectors (2019)**

	Building supplies dealers retail sector	Building supplies wholesale sector
 <b>Total number of establishments</b>	8,400	9,910
 Sales (2019)	\$38.4B	\$108B
National GDP contribution	\$13.7B	\$28.0B
<b>Employment and income</b>		
 Direct employment	147,000	134,000
Total employment (with indirect and induced effects)	218,000	243,000
Total employment income	\$8.3B	\$15.3B
 <b>Taxes generated from operations*</b>	\$2.9B	\$6.5B
 <b>Household spending</b> (generated by employment income)	\$6.2B	\$11.3B

\*Sales taxes generated from the sale of goods and services in the retail stores was not estimated.

The wholesale and retail building supplies sectors across Canada have many other positive attributes including:



**The wholesale and retail building supplies sectors benefit communities large and small across the country**

There are building supplies dealers in over 1,600 different communities ranging from communities of a few hundred people to the largest urban centres. Of the 26 main retail trade industry groups, only three have a larger footprint (i.e. more stores) than the building supplies dealers (Sections 2.2). There are building supplies wholesale establishments in more than 800 different communities across the country (Section 2.5).



**The sectors are a major employer**

Among the larger retail industry sub-sectors, only food and beverage, automobile dealers, clothing stores and general merchandise stores have more employees across the country (Section 2.2). The building material and supplies merchant wholesalers sector employs more people than all other major wholesale sectors except one. Employment in the sector has increased by 18% in the past decade (Section 2.4).

# Executive Summary (cont.)



### **They are distributing and selling Canadian-made products**

Many of the core products distributed by the wholesale sector and sold by building supplies dealers across the country are produced in Canada such as lumber, wood products, paint and other manufactured goods. By contrast, 91% of major appliances (washers, dryers, refrigerators, etc.), 98% of all telephones and other communications equipment and 96% of all men's, women's, boys' and girls' clothing are not produced in Canada (Section 2.4.1).

To illustrate the importance of this, for every \$1 million worth of Canadian-made wood products sold in building supplies stores across the country, an incremental 11.4 jobs are supported across Canada compared to international imports. (See Section 2.4.1 for details).



### **The wholesale and retail building supplies sectors offer relatively good wages**

The average weekly wage for the building supplies dealers sector across Canada is 19% higher than the overall retail trade sector. The building supplies dealers sector average weekly wage is 62% higher than clothing stores, 50% higher than food and beverage stores and 47% higher than general merchandise stores (Section 2.4.2). The average weekly earnings in the building material and supplies merchant wholesalers sector is 15% higher than the average weekly earnings in all sectors combined. (Section 2.4).



### **The wholesale and retail building supplies sectors offer a variety of career paths**

For those looking for a career path, the building supplies dealers sector offers many options. For example, one out of every seven workers in the retail sector is employed in management occupations. In the wholesale building supplies sector workforce, nearly one in five workers are employed in sales occupations and 19% are employed in management occupations (Sections 2.4.2 and 2.5.3).



### **They are fostering entrepreneurship**

More than 6% of all workers in both the retail and wholesale segment of the building supplies sector are self-employed compared to only 1.4% of workers in general merchandise stores, 4.2% in the automobile dealers sector and 4.7% of in the food and beverage sector.

## Executive Summary (cont.)

### Emerging from the pandemic: The proposed home renovation tax credit

In 2009, the federal government implemented a Home Renovation Tax Credit (HRTC) to help reboot the economy after the recession. The temporary 15% tax credit was established for eligible home renovation expenditures. In a review of the tax credit program, TD Economics concluded that renovation spending was the *only major component of GDP that grew in 2009* and credited the HRTC with the sector's strong performance. The bank stated that "along with record low interest rates, the [tax] credit worked. It helped boost renovation spending by an estimated \$3-4 billion."



Ireland, Germany and other countries have used and are using their tax systems to stimulate economic activity in the home renovations sector (Section 3.2). Ireland had an incentive program in place for five years that provided a 13.5% income tax break on eligible spending up to 30,000 euros (\$46,000 CDN). Germany recently announced a 20% income tax break on eligible spending up to 40,000 euros (\$61,500 CDN) to encourage energy efficiency and related renovations.

In Section 4, this report makes the case that a new home renovation tax credit would:

- ✓ **Help Canadians invest in their homes:** 4.5 million dwellings require minor or major repairs.
- ✓ **Help rejuvenate the Canadian economy:** the 2009 home renovation tax credit led to a major boost in home renovations.
- ✓ **Support good paying construction jobs:** If every Canadian household spent just an average \$500 on repair construction, it would support 93,000 jobs across Canada.
- ✓ **Support key export sectors at a time of weak international demand:** As a result of Covid-19, construction materials exports from Canada have declined by as much as 50% (depending on the commodity). A boost in construction at home would help offset these declines.
- ✓ **Support national climate change objectives:** Energy efficiency and other carbon emission reduction investments could be a primary objective of the tax credit program.
- ✓ **Provide broad-based support to Canadians across the country:** Over three million people benefited from the previous program in 2009.
- ✓ **Boost tax revenues for government:** It would generate more construction activity and bring a lot of home renovation activity from under the table into the formal economy.
- ✓ **And it can be done safely:** The home renovations sector is one industry for which is it easier to support social distancing and sanitation without a large cost burden on the sector or considerable efforts on the part of the homeowner.



# 1. Introduction

## 1.1 Purpose of this report

The Covid-19 pandemic has significantly impacted the economy across Canada. Millions of Canadians were left jobless in the wake of the economic shutdown. Local, provincial and national governments are expected to run large deficits as a result of weak tax revenues and increases in spending to help mitigate the effects of Covid-19.

In addition, the timeline for the eradication of the pandemic is unknown. As local economic activity starts to ramp up across the country, new stringent social distancing and sanitation protocols combined with uncertainty around household spending and export sectors will likely dampen the economic potential of the economy for an indefinite period of time.

This report makes the case that a national home renovation tax credit program could be an important tool to help kickstart economic activity in the wake of the first phase of Covid-19. Home renovations provided by the construction sector create needed jobs across the country that can be accommodated within social distancing and sanitation protocols. Do-it-yourself home renovations will also have a significant stimulative effect because a large share of the commodities and products used in home renovations are produced in Canada providing a captive market for Canadian lumber, wood products, paint, drywall, concrete and many other products in the wake of weak global demand.

In recent decades governments have realized they have an important role coming out of economic downturns to support getting back to economic growth. Public works projects, investments into infrastructure and tax relief programs can stimulate certain sectors of the economy creating jobs and spending leading to a positive cycle of private sector investment, increased public confidence in the economy, more jobs and economic security resulting in increased tax revenues.

Home renovation would be one of a select number of sectors with a high economic multiplier and that also meets the federal government's overarching goal of greening the economy and reducing carbon emissions. Hundreds of thousands of dwellings across the country could substantially reduce their carbon footprint with modest investments in technology (energy sources) and in energy efficiency.

## 1.2 Report outline

This report is broken into several sections. Section 2 contains a general overview of the building supplies sector (retail and wholesale) and its economic impact across the country. Section 3 provides a review of the 2009 Home Renovation Tax Credit (HRTC) and a summary of other international examples. Section 4 section details the potential economic impact of such a program in areas such as investment, GDP, employment, taxes, etc. Finally, Section 5 provides a discussion of how to model a new home renovation tax credit.

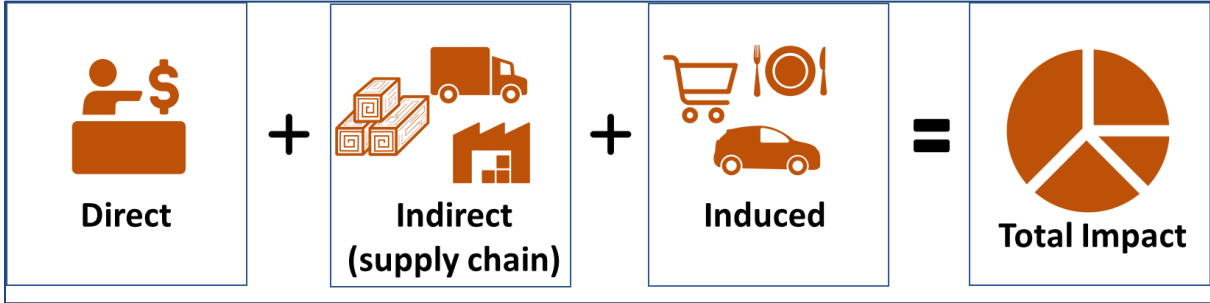
## 2. The economic impact of the building supplies sector across Canada

### 2.1 The economic impact model

The economic impact model used to estimate how the building supplies sector directly impacts the economy is based on Statistics Canada’s Input-Output (I-O) tables which provide a detailed profile of how expenditures in specific sectors flow through the provincial and national economy as well as through international trade. The I-O tables are developed using actual spending patterns within specific industries and provinces and, as a result, estimates of new economic activity are based on the expenditure profile of previous activity in those industries. The economic impact model evaluates the direct, indirect, and induced economic impacts, using the following parameters:

- *Direct impact* measures the value-added to the economy that is attributed directly from the employees, the wages earned, and the revenues generated from the industry’s spending across the country.
- *Indirect impact* measures the value-added generated within the national economy through firm and organizational demand for intermediate inputs or other support services (e.g. the supply chain). The building supplies dealers industry works with thousands of suppliers and partners across the country.
- *Induced impacts* are derived when employees in the aforementioned industries spend their earnings and owners spend their profits. These purchases lead to more employment, higher wages, and increased income and tax revenues, and can be felt across a wide range of industries.

Figure 1: Economic multipliers



The I-O tables trace the impact of economic activity (output shock) on the provincial and national economies (including imports and exports). In addition to the GDP and employment impacts, the economic impact model estimates the amount of tax revenue supported by the industry as well as consumer spending impacts.

Most of the data included in this report is published by Statistics Canada. Annual revenue, direct gross domestic product (GDP), economic multipliers and other statistics are mostly based on the industry groups: *Building material and garden equipment and supplies dealers* (NAICS 444 - the retail activity - referred to as building supplies dealers) and *Building material and supplies merchant wholesalers* (NAICS 416 – the wholesale segment of the industry).

## 2.2 Building supplies dealers: Profile

### 2.2.1 Establishments

According to Statistics Canada, there were more than 8,300 establishments in the building material and garden equipment and supplies dealers sector across Canada in June 2019 (industry group NAICS 444)\*. These establishments generated a combined \$38.4 billion worth of revenue in 2019. Table 2 shows the breakdown of building supplies dealers across Canada by province and by employment size. The sector has a good mix of smaller establishments and larger ones allowing it to have a physical presence in communities large and small across the country. Fifty-eight percent of establishments have fewer than 10 employees. The data is based on individual establishments in the communities and not on ownership. In other words, a retailer might own multiple stores across the region and each of those stores is published as an individual location.

*NOTE: These are firms that are primarily in the building material and garden equipment and supplies sector. Building supplies are also sold in general merchandise stores (e.g. Walmart, Costco, etc.) but they are classified in another sector (NAICS 452) and are not reflected in the data below. The building supplies wholesale sector does supply these general merchandise retailers (see Section 2.5).*

**Table 2: Number of building supplies dealer establishments across Canada by employment size, 2019\***

Jurisdiction:	Total*	Employment level						
		1-4	5-9	10-19	20-49	50-99	100-199	200+
Canada	8,382	2,574	2,254	1,669	1,126	399	285	75
Newfoundland and Labrador	191	55	50	59	23	-	4	-
Prince Edward Island	54	15	14	8	11	5	1	-
Nova Scotia	258	56	66	58	53	18	7	-
New Brunswick	254	85	59	48	40	14	5	3
Quebec	1,892	568	494	366	258	129	71	6
Ontario	2,782	861	743	539	374	114	113	38
Manitoba	342	85	106	74	55	9	7	6
Saskatchewan	339	117	94	65	46	8	8	1
Alberta	912	292	260	171	98	40	44	7
British Columbia	1,327	429	362	272	164	61	25	14
Yukon	13	3	5	3	1	1	-	-
Northwest Territories	16	7	1	5	3	-	-	-
Nunavut	2	1	-	1	-	-	-	-

\*Businesses with employees. Some firms have more than one establishment (e.g. chain stores).

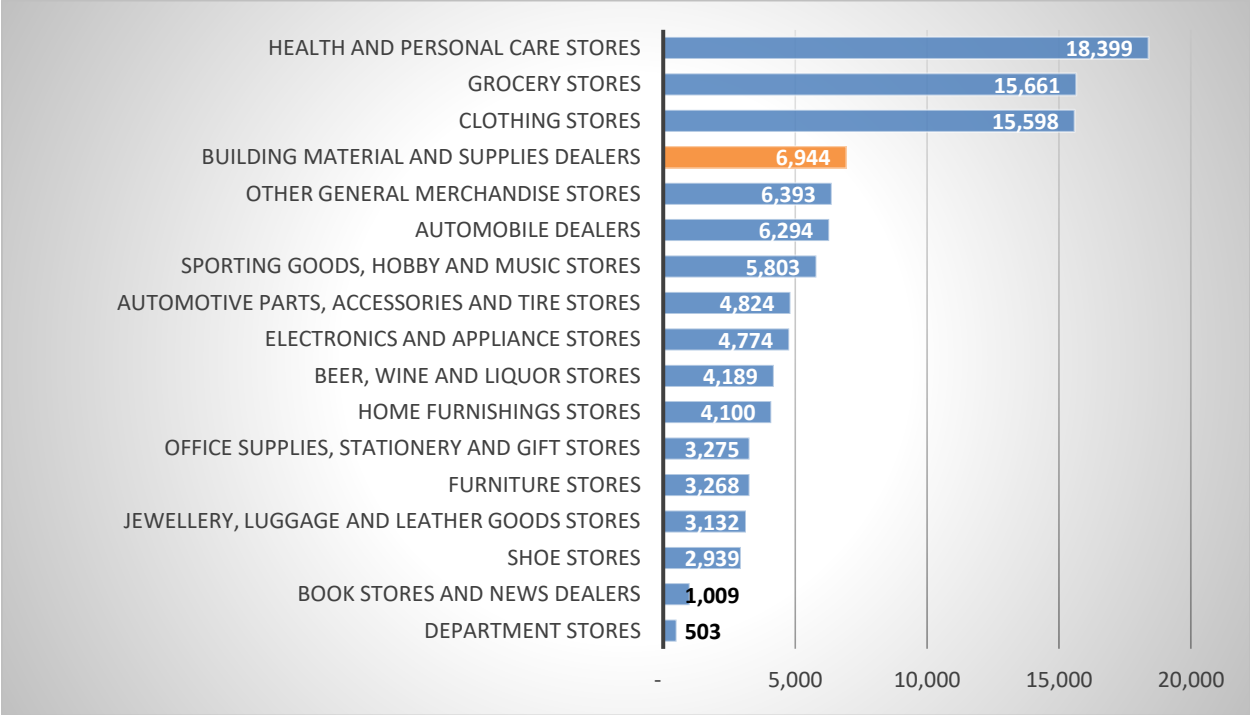
Building material and garden equipment and supplies dealers (NAICS 444).

Source: Statistics Canada business counts, June 2019.

The data on establishments is also available at a more detailed industry level. Figure 2 compares the number of establishments in the industry *NAICS 4441 - Building material and supplies dealers* (which excludes establishments that just sell garden equipment and supplies dealers) to other 4-digit NAICS industries in the retail trade industry.

There are building material and supplies dealers in over 1,600 different communities across the country, from places with only a few hundred population to the largest urban centres. Of the 26 main retail trade industry groups, only three have a larger footprint (i.e. more stores) than the building supplies dealers sector across the three provinces.

**Figure 2: Number of retail establishments by 4-digit NAICS industry, Canada\***



\*Businesses with employees. For NAIC 4441 - Building material and supplies dealers. Comparison excludes gasoline stations.

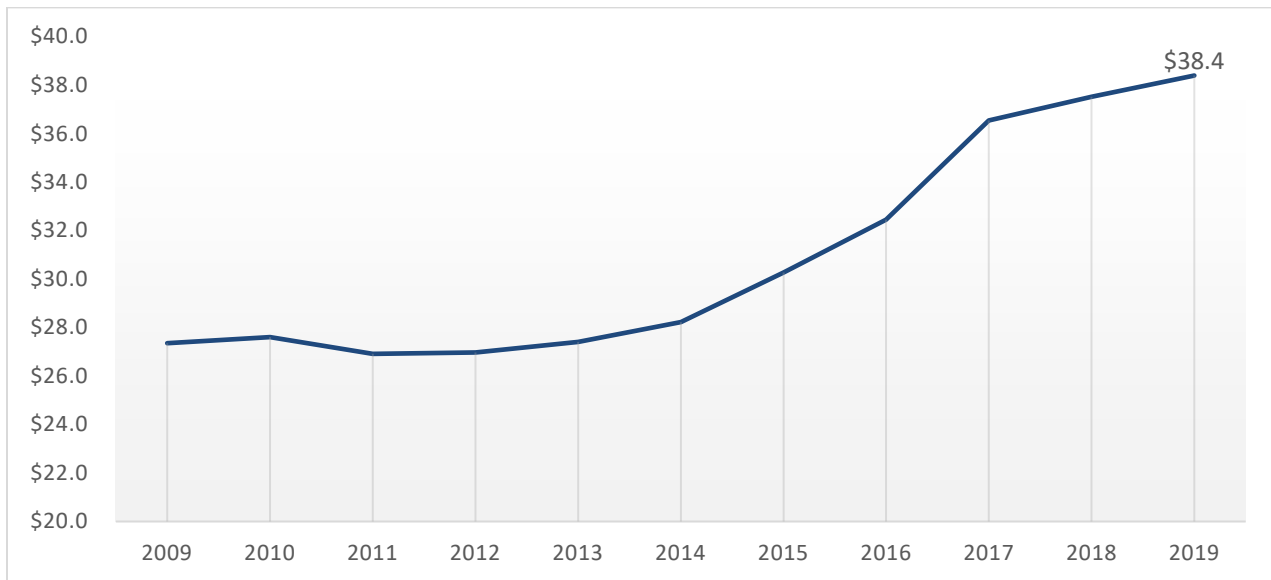
Source: Statistics Canada business counts, June 2019.

**2.2.2 Revenue trends**

Figure 3 provides industry revenue by year over the past decade. The building material and garden equipment and supplies dealers sector is one of the largest of the retail trade sub-sectors generating more revenue than clothing and clothing accessories stores [NAICS 448], furniture and home furnishings stores [NAICS 442], electronics and appliance stores [NAICS 443] and sporting goods, hobby, book and music stores [NAICS 451].

In recent years annual revenue in the sector has been rising strongly. Across the country total revenues increased from \$28.2 billions in 2014 to \$38.4 billion in 2019, an increase of 36 percent.

**Figure 3: Building supplies dealers sales across Canada by year (\$Billions)\***

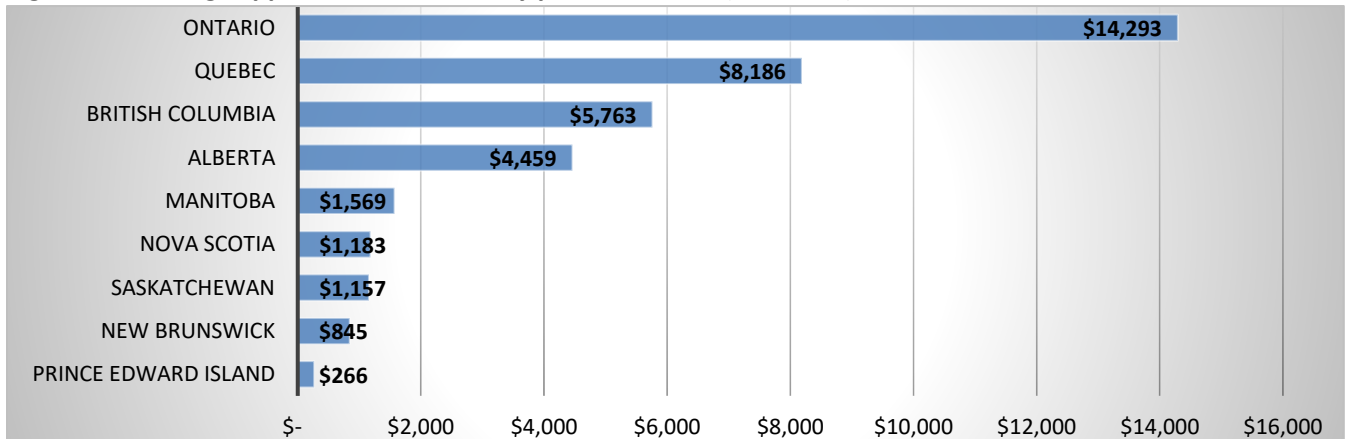


\*Building material and garden equipment and supplies dealers [NAICS 444].

Source: Statistics Canada. Table 20-10-0008-01.

Figure 4 shows the building supplies dealers revenue by province in 2019. In Ontario, there was an estimated \$14.3 billion in sales down to Prince Edward Island where annual sales was an estimated \$266 million. Revenue by province does align mostly with the size of the population. For example, building supplies dealers revenue in 2019 amounted to approximately \$1,000 per person living in Alberta, New Brunswick, Ontario, Quebec and Saskatchewan. Nova Scotia was a little higher at \$1,200 per person and Prince Edward Island generated the highest per capita sales in 2019 at 1,733 per person.

**Figure 4: Building supplies dealers sales, by province, 2019 (\$Millions)\***



\*Data unavailable for Newfoundland and Labrador, Yukon, Northwest Territories and Nunavut.

Source: Statistics Canada. Table 20-10-0008-01.

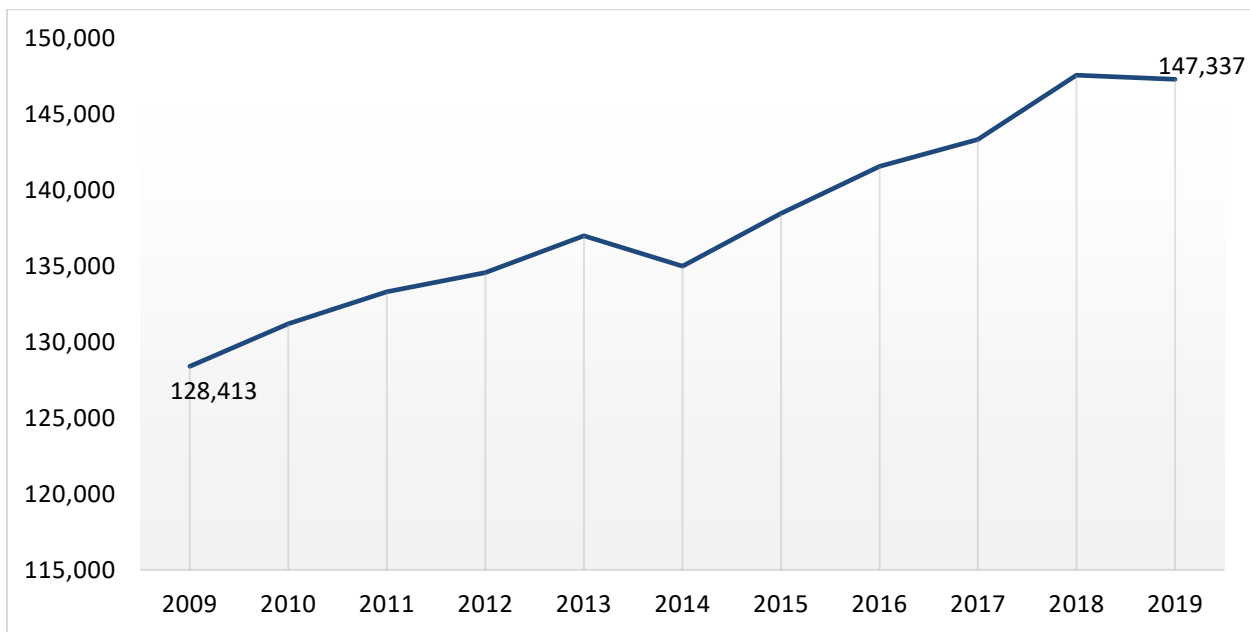
### 2.2.3 Employment trends

The building supplies dealers sector is a large employer across the country with more than 147,000 employees<sup>2</sup> as of 2019. To put this into perspective, there are more workers in this sector than the entire legal services industry, the accounting services sector, and the general freight trucking sector. Compared to other retail sectors the building supplies dealers employ considerably more than the furniture and home furnishings stores sector, electronics and appliance stores, and sporting goods, hobby, book and music stores. In fact, among the larger retail industry sub-sectors, only food and beverage, automobile dealers, clothing stores and general merchandise stores have more employees.

Across Canada, the building material and garden equipment and supplies dealers sector accounts for 87 out of every 10,000 workers across the economy. In the past 10 years, between 2009 and 2019, employment in the sector is up a strong 15 percent.

Figure 5 shows the trend in industry employment over the past decade and Figure 6 compares employment in the building supplies dealers sector compared to a number of other top retail industry groups across the country.

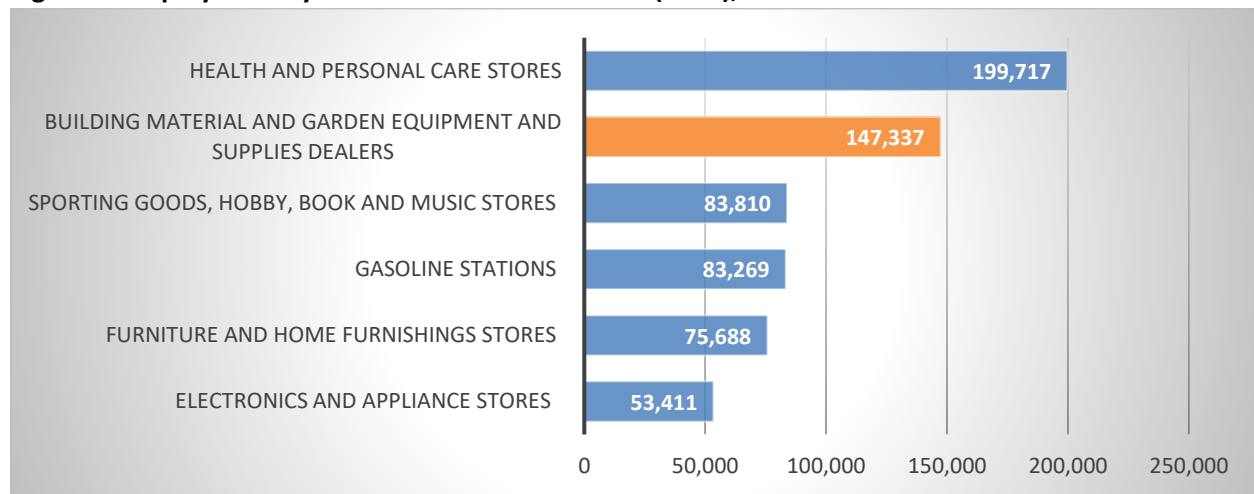
**Figure 5: Building supplies dealers employment trends, Canada**



Source: Statistics Canada Table 14-10-0202-01.

<sup>2</sup> Section 2.3 below develops the broader employment footprint including indirect and induced jobs.

**Figure 6: Employment by selected retail trade sector (2019), Canada**



Source: Statistics Canada Table 14-10-0202-01.

### 2.3 Building supplies dealers: Economic impact analysis

The building supplies dealers sector across Canada generated an estimated \$38.4 billion in retail sales in 2019. The direct economic value to the country from this retail activity is defined as the gross domestic product (GDP). GDP is the best measure to determine how much of that \$38.4 billion results in value-added economic activity across the country (such as labour income, jobs, etc.).

In the case of retail industries, the GDP impact only relates to the process of selling the products and not the value of the products on the shelves. In 2019, the operating expenses associated with the \$38.4 billion in revenue was an estimated \$10.8 billion. That \$10.8 billion in operating expenses resulted in GDP, jobs, labour income, household spending and other economic activity.

Section 2.4 will make the case that products sold by building supplies dealers across Canada generate far more value to the national economy than many other retail sectors such as automobiles, electronics and clothing. This is because a large share of the products sold by building supplies dealers are produced in Canada (lumber, paint, etc.) compared to most other retail sectors which import the vast majority of the product sold in stores.

Table 3 shows the estimated gross domestic product (GDP) created by the sector across the country in 2019. The table shows the total GDP impact which includes direct, indirect and induced effects. Direct economic activity relates to internal (non supply chain) spending. In addition to direct effects, there are indirect effects (supply chain) and induced effects (when labour income is spent on goods and services across the economy). Combining these effects, the total GDP contribution from the building supplies dealers sector was \$13.7 billion across the country in 2019. Again, this GDP does not include the economic value from the production of the goods sold in building supplies dealers stores. It does include activities such as transportation and warehousing, utilities, professional services, etc. associated with the retail sales.

As discussed above, the building supplies dealers industry is a major employer with a distributed employment base. There are building supplies dealers establishments in more than 1,600 different communities across the country. This is the opposite situation of many other retail sectors that consolidate in larger cities. Residents in smaller areas looking to shop at sporting good stores, electronics stores, clothing stores, etc. are required to drive to the larger urban centres whereas when shopping for building supplies they are far more likely to find one or more dealers in their hometown.

There were 147,000 employees working in building supplies dealers stores across Canada in 2019. Adding in supply chain and induced employment effects, the industry supported 218,000 jobs across the country.

Using Statistics Canada data, the direct payroll of the building supplies dealers across the country amounted to over \$5.7 billion in 2019. Adding in the employment generated in the supply chain and from induced economic activity, the total employment income supported by the industry was an estimated \$8.3 billion in 2019.

The employment income generated by the building supplies dealers sector in 2019 led to a substantial amount of household spending across the country. Table 3 shows the estimated direct, indirect and induced household spending activity supported by the industry by major expenditure category. The figures were derived using the average household expenditures in Canada and on the assumption that the industry's employment income would be spent in a similar pattern to the average household.

In total, the employment income generated by the building supplies dealers sector supported \$6.2 billion worth of household spending during the year. This included \$822 million on food (groceries and restaurants), \$1.8 billion in housing-related expenditures such as mortgage payments, utilities and furniture, and \$1.3 billion on transportation costs that are mostly related to vehicle purchases, operations and maintenance. As shown in Table 3, the building supplies dealers sector supported \$384 million worth of spending on recreation and another \$374 million on health and personal care across the country.

The labour income generated by the sector and other business activity resulted in an estimated \$2.9 billion in tax revenue contributed to local and provincial governments as well as the federal government. This includes personal income tax, property taxes and sales taxes paid from the spending of direct, indirect and induced labour income as well as other indirect taxes as a result of the business activity. It does not include any sales tax on the sale of products and services by the firms in the sector.



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**Table 3: Building supplies dealers economic impact across Canada (2019), summary**

Retail sales (2019)	\$38.4B
GDP contribution	\$13.7B
Direct employment	147,000
Total employment	218,000
Employment income*	\$8.3B
Household spending**	\$6.2B
Shelter	\$1.8B
Transportation	\$1.3B
Food expenditures	\$822M
Recreation	\$384M
Health and personal care	\$374M
Taxes contributed to governments***	\$2.9B

For building material and garden equipment and supplies dealers [NAICS 444]

\*includes non-wage benefits and payroll taxes.

\*\*induced by the labour income generated by the industry.

\*\*\*from labour income and business activity, excluding sales tax on product and service sales.

See Appendix A for sources and methodology.

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## 2.4 Building supplies dealers: Broader economic impacts

In addition to the economic impacts arising directly from the building supplies dealers operations, the sector is important to the economy for a variety of other important reasons.

### 2.4.1 Selling Canadian-made products

The retail trade sector in Canada generated \$616 billion worth of sales in 2019. Retail trade includes of the goods households purchase from grocery stores to vehicles and clothing and sporting goods. However, not all retail sectors are the same. The building supplies dealers sector sells much more Canadian-made product than most other retail trade sub-sectors.

Statistics Canada publishes data on supply and demand for hundreds of commodity groups<sup>3</sup>. This includes interprovincial and international trade. The data is lagged due to the effort required to gather and analyze it. The most recent data set is for 2016.

The data is *not specific to the building supplies dealers sector*. For example, a large share of paints, coatings and adhesive products is sold in building supplies stores but can also be found in general merchandise stores and other retailers. Further, construction firms can purchase these products wholesale or direct from the manufacturer.

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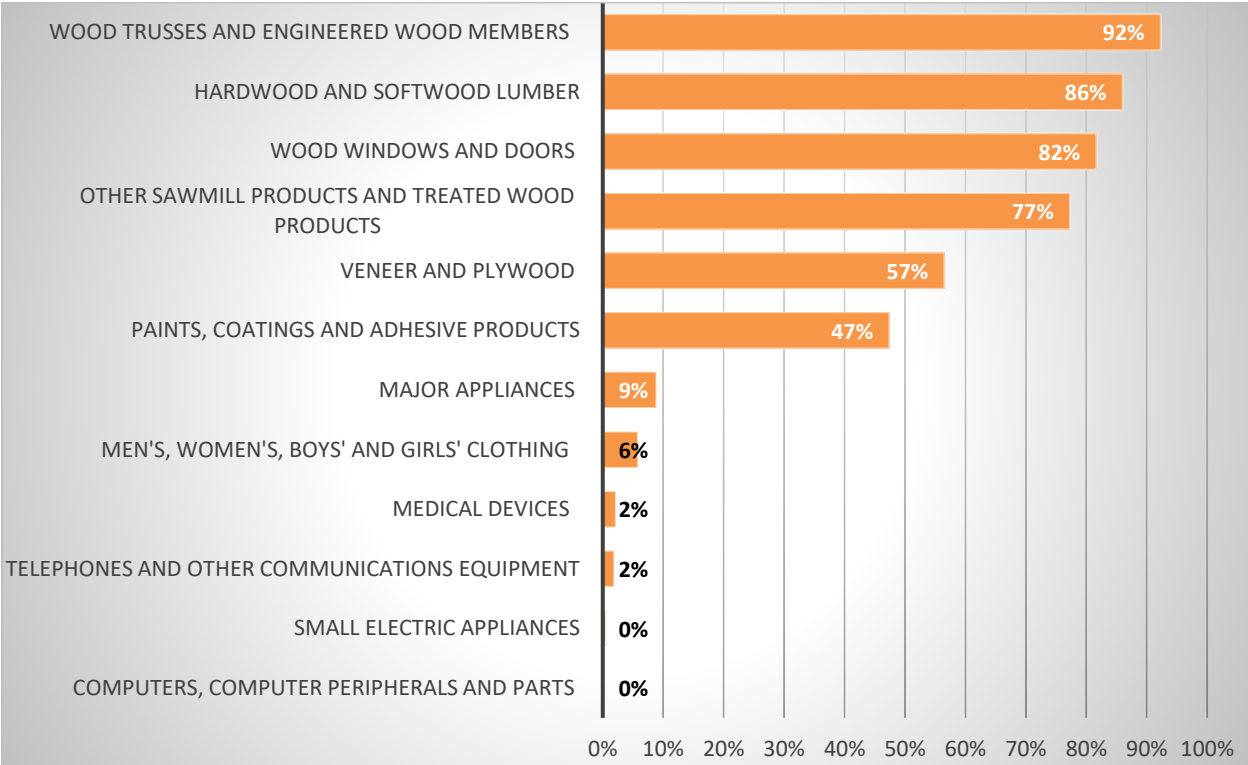
<sup>3</sup> For each province, total supply is equal to total domestic demand. Total supply is defined as the sum of production and inventory withdrawals available for own consumption plus interprovincial and international imports.

However, looking at the products that are *primarily* sold by building supplies dealers provides insight into the important relationship between the building supplies dealers and the manufacturing sector in Canada. There was \$4.3 billion worth of hardwood and softwood lumber sales across the country in 2016 and only 14 percent was imported from outside of Canada<sup>4</sup>. There was \$1.1 billion worth of wood windows and doors sold in 2016 of which only 18 percent came from outside Canada. In fact, most wood-based products – a considerable amount of which are sold through building supplies dealers to contractors or the general public – are produced in Canada.

By contrast, almost all computers and related equipment are not produced in Canada as well as 91 percent of major appliances (washers, dryers, refrigerators, etc.). The country imports from international sources 98 percent of all telephones and other communications equipment and 96 percent of all men's, women's, boys' and girls' clothing.

Figure 7 compares some of the products sold in large part through building supplies dealers to those sold in other retail sub-sectors.

**Figure 7: Share of total provincial demand supplied by Canadian-made products (2016)**



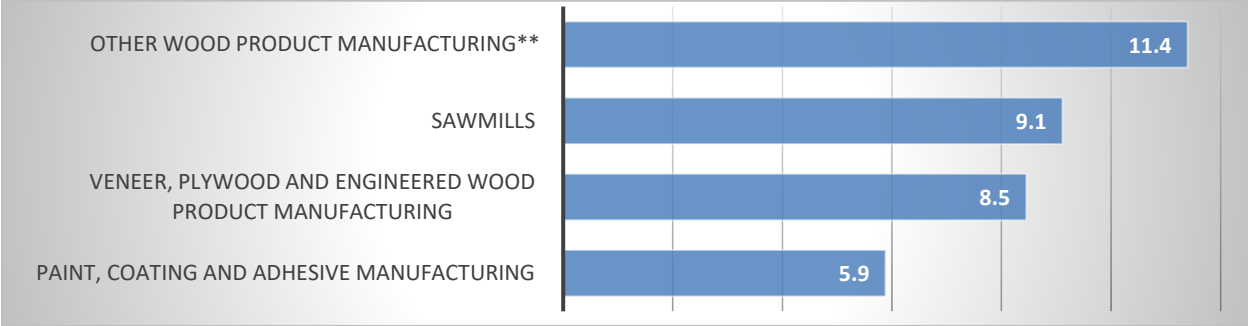
Source: Statistics Canada Table: 12-10-0101-01.

<sup>4</sup> This excludes wholesale and retail margins.

This matters because the end value to provincial and national economies from products manufactured in Canada is much higher compared to imported products. Figure 8 shows the number of jobs created (direct, indirect and induced) from \$1 million worth of sales of Canadian-made products sold in the country. These job figures do not include wholesale and retail sales activity. For every \$1 million worth of Canadian-made wood products such as windows and doors sold in buildings supplies stores, 11.4 jobs are supported across Canada compared to international imports of these products.

Further, as discussed in Section 4.1.4 below, at a time when international exports of many of these products is weak, the domestic market becomes that much more important.

**Figure 8: Total jobs created in Canada for every \$1 million worth of Canadian-made products sold, selected sectors\***



\*for 2016. Excludes wholesale and retail margins. Source: Statistics Canada Table: 36-10-0595-01.

\*\*includes wood windows and doors.

**2.4.2 A good employment sector**

Beyond the role retailing a large share of Canadian-made products, the building supplies dealers sector has a number of other positive attributes including as an important employer of Canadians. The sector offers average weekly wages considerably higher than most other retail sub-sectors. The sector also offers a variety of career paths for workers and the potential for entrepreneurship among those aspiring to own their own business.

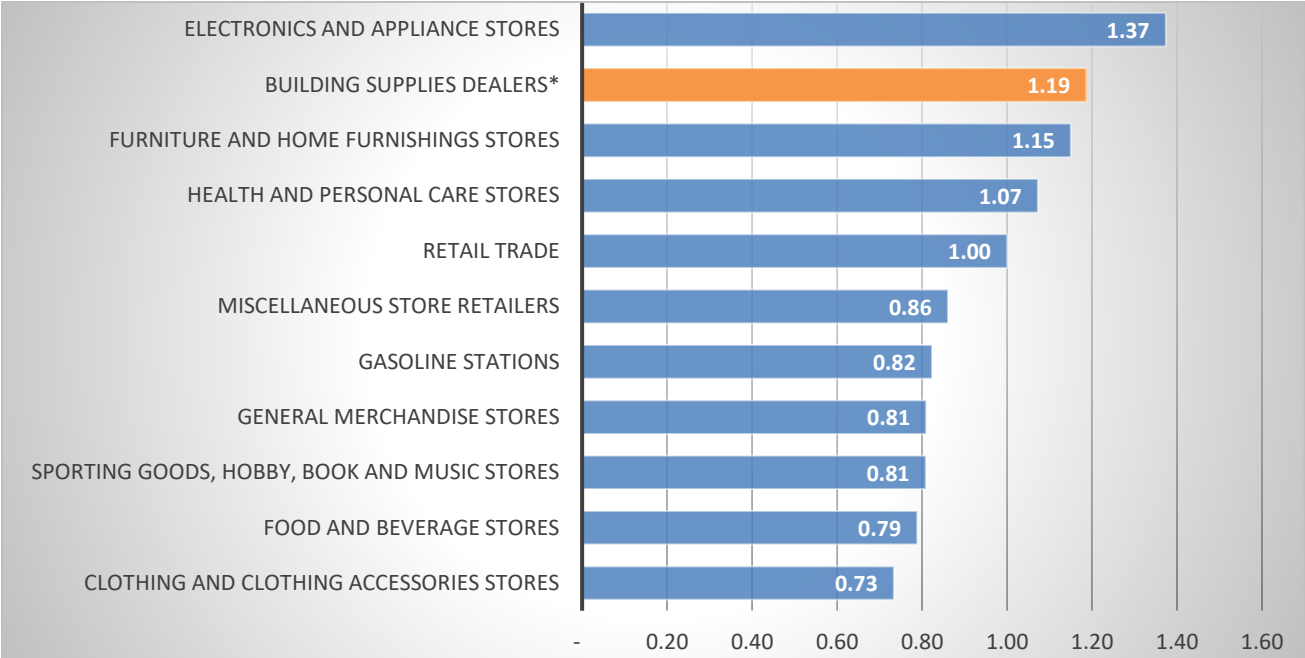
**The sector offers above retail sector wages**

The retail trade industry is not one of the higher wage industries in the Canadian economy, but it provides important employment opportunities for students, second income earners and people looking to develop a career within the industry. However, compared to most other retail trade sub-sectors, the building supplies dealers sectors stands out for offering above average wages. Of the main retail trade sub-sectors only two offer a higher average weekly wage, electronics and appliance stores and motor vehicle and parts dealers.

Using Statistics Canada average weekly wage data for 2019, Figure 9 compares the average weekly wage for the major retail trade sub-sectors across the country. The average weekly wage for all retail sectors is set at 1.00 and all other sectors are compared relative to the overall retail wage. On average, weekly wages in the building supplies dealers sector are 19 percent higher than the overall average retail wage.

The building supplies dealers sector features an average weekly wage of \$729 or an annualized amount of \$38,000. The average weekly wage for the building supplies dealers sector is 62 percent higher than clothing stores, 50 percent higher than food and beverage stores and 47 percent higher than general merchandise stores.

**Figure 9: Average weekly wage comparison, overall retail trade industry = 1.00 (2019)**



\*Building material and garden equipment and supplies dealers.

Source: Statistics Canada Table 14-10-0204-01.

**The sector offers a variety of career paths**

In the 2016 Census, Statistics Canada published data on the number of people working in 51 different occupational groups within the building supplies dealers sector. There are a wide variety of career paths for those working in the sector ranging from management roles to self-employment. For example:

- One out of every seven workers is employed in management occupations.
- One out of every nine is employed in professional or technical roles such as accounting services or administrative roles.
- One out of every seven is employed in sales support roles.
- One out of every 19 workers in the sector is self-employed.

## 2.5 Building supplies wholesalers: Profile

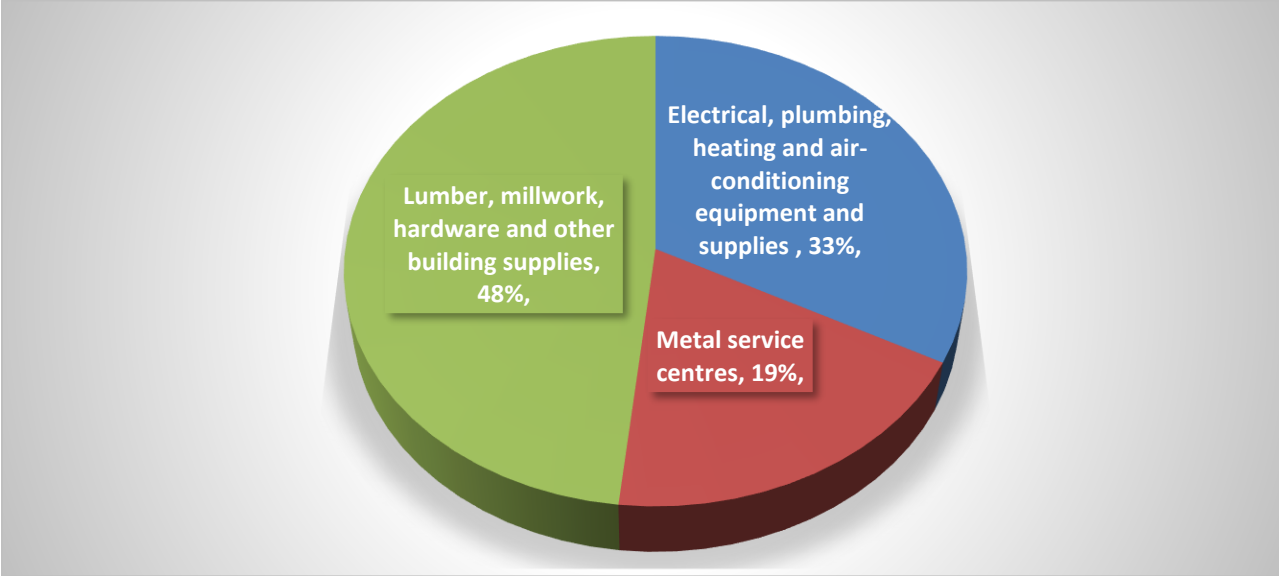
### 2.5.1 Definition

This report provides an in-depth analysis of the building supplies dealers sector across Canada. Another related and vital sector for the Canadian economy is the *building material and supplies merchant wholesalers sector* [NAICS 416]. This sector distributes building supplies materials and products directly to the construction industry and to the building supplies dealers sector (NAICS 444) – developed in Sections 2.2-2.4 above. The products distributed by the building material and supplies merchant wholesalers sector fall into three groups:

- Electrical, plumbing, heating and air-conditioning equipment and supplies merchant wholesalers [NAICS 4161]
- Metal service centres [NAICS 4162]
- Lumber, millwork, hardware and other building supplies merchant wholesalers [NAICS 4163]

In 2019, the electrical, plumbing, heating and air-conditioning equipment and supplies sub-sector generated \$35.2 billion in wholesale sales across Canada, the metal service centres sub-sector generated \$20.4 billion and the lumber, millwork, hardware and other building supplies sub-sector generated \$51.9 billion in wholesale sales. It is important to reiterate that the majority of sales in this latter category derived from products produced in Canada. Figure 10 shows the breakdown of wholesale sales as a percentage of total sales in 2019.

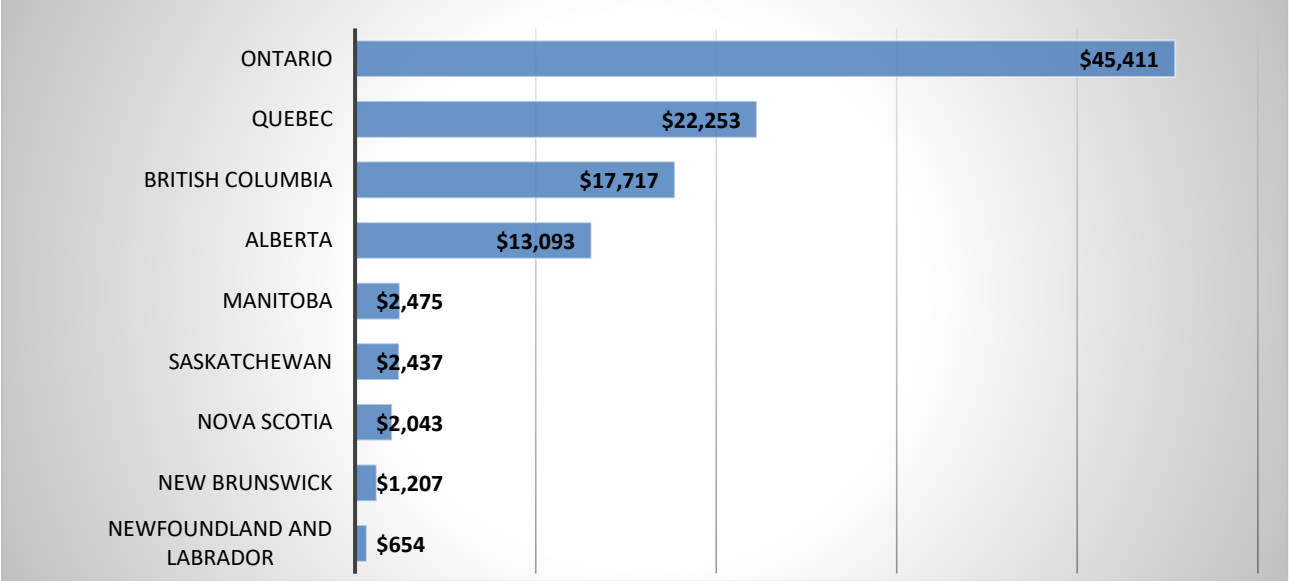
**Figure 10: Breakdown of the building supplies wholesalers sector revenue by sub-sector, 2019 (% of total)**



Source: Statistics Canada Table: 20-10-0074-01.

The building material and supplies merchant wholesalers sector generates over 42 percent of its revenue in Ontario, followed by 21 percent in Quebec, 16.5 percent in British Columbia and 12.2% in Alberta. Figure 11 shows the breakdown of the building wholesalers sector revenue by province in 2019. The data for Prince Edward Island and the northern territories was not available.

**Figure 11: Breakdown of the building supplies wholesalers sector revenue by province, 2019 (\$million)**



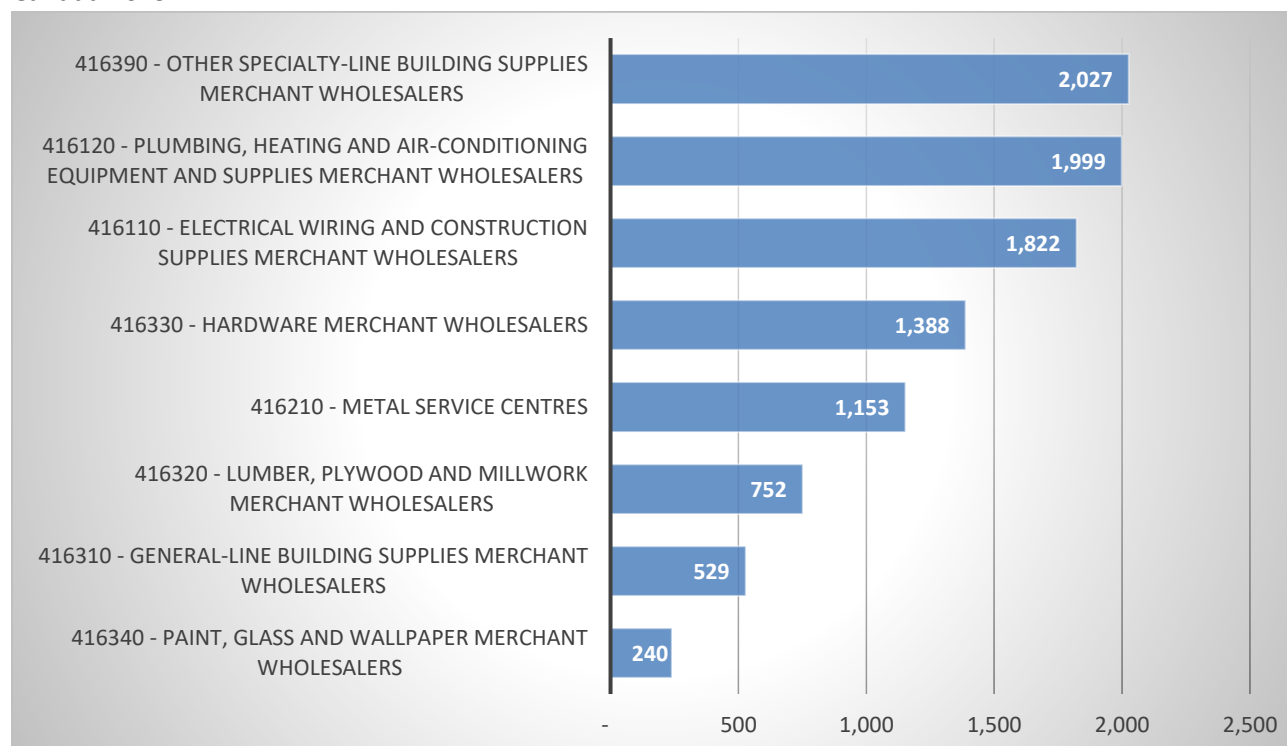
Source: Statistics Canada Table: 20-10-0074-01.

**2.5.2 Building supplies wholesalers: Establishments**

There are 9,910 different business establishments across Canada operating in NAICS: 416 - Building material and supplies merchant wholesalers<sup>5</sup>. The vast majority of them are small, with 59 percent having fewer than 10 employees. There are a number of larger, anchor firms/establishments including 37 that have more than 200 employees. Note these are individual establishments of which some can be owned by the same firm (i.e. a building supplies wholesale firm with locations across Canada).

<sup>5</sup> Establishments with formal employment.

**Figure 12: Number of building supplies wholesalers sector establishments by detailed sub-sector, Canada 2019**



Source: Statistics Canada business counts, June 2019.

### 2.5.3 Building supplies wholesalers: Employment and wages

The building material and supplies merchant wholesalers sector employed an estimated 134,000 workers in 2019, more than all other major wholesale sectors except *machinery, equipment and supplies merchant wholesalers* [NAICS 417]. Employment in the sector has increased strongly over the past decade rising by 20,500 between 2009 and 2019 or a growth rate of 18 percent.

Workers in the sector earn above average wages. In 2019, the average weekly earnings in the building material and supplies merchant wholesalers sector was \$1,179/week (annualized this is equivalent to \$61,300/year) or 15 percent higher than the average weekly earnings in all sectors combined. Within the wholesale industry, the building material and supplies merchant wholesalers sector offers a higher average weekly wage than the farm products wholesale sector, the motor vehicle and motor vehicle parts and accessories wholesale sector, and the food, beverage and tobacco merchant wholesale sector.

The building material and supplies merchant wholesalers sector also offers a variety of different careers. In the 2016 Census, Statistics Canada published data on the number of people working in 51 different occupational groups within the sector. Nearly six percent of workers were self-employed. Over 19 percent worked in management occupations and another 18 percent in administrative support occupations. One in five worked in sales occupations.

## 2.6 Building supplies wholesalers: Economic impact analysis

The building supplies wholesale sector across Canada generated an estimated \$108 billion in sales in 2019. Of the \$108 billion in sales, an estimated \$83 billion was the cost of good sold (COGS). The wholesale sector generates GDP, employment and other economic impacts associated with the distribution of building supplies products to the retail sector, the construction sector and other channels.

As discussed in Section 2.4.1, much of the lumber, millwork, hardware and other related building supplies is produced in Canada as well as paints and some plumbing and related products. The economic impact from the manufacturing of these products is not part of this analysis.

Table 4 shows the estimated gross domestic product (GDP) created by the building material and supplies merchant wholesalers sector across the country in 2019. The table shows the total GDP impact which includes direct, indirect and induced effects. The total GDP contribution from the building supplies dealers sector was \$28.0 billion in 2019. Again, this GDP does not include the economic value from the production of the goods distributed by the wholesale firms. It does include activities such as transportation and warehousing, utilities, professional services, etc. associated with the wholesale sales.

There are building supplies wholesale establishments in more than 800 different communities across the country. These establishments employed 134,000 workers in 2019. Adding in supply chain and induced employment effects, the industry supported 243,000 jobs across the country.

Using Statistics Canada data, the direct payroll of the building supplies wholesalers across the country amounted to an estimated \$9.4 billion in 2019. Adding in the employment generated in the supply chain and from induced economic activity, the total employment income supported by the industry in 2019 was an estimated \$15.3 billion.

The employment income generated by the building supplies wholesale sector in 2019 led to a substantial amount of household spending across the country. Table 4 shows the estimated direct, indirect and induced household spending activity supported by the industry by major expenditure category. The figures were derived using the average household expenditures in Canada and on the assumption that the industry's employment income would be spent in a similar pattern to the average household.

In total, the employment income generated by the building supplies wholesale sector supported \$11.3 billion worth of household spending during the year. This included \$1.5 billion on food (groceries and restaurants), \$3.3 billion in housing-related expenditures such as mortgage payments, utilities and furniture, and \$2.3 billion on transportation costs that are mostly related to vehicle purchases, operations and maintenance.



As shown in Table 4, the building supplies dealers sector supported \$710 million worth of spending on recreation and another \$691 million on health and personal care across the country. The labour income generated by the sector and other business activity resulted in an estimated \$6.5 billion in tax revenue contributed to local and provincial governments as well as the federal government. This includes personal income tax, property taxes and sales taxes paid from the spending of direct, indirect and induced labour income as well as other indirect taxes as a result of the business activity. It does not include any sales tax on the sale of products and services by the firms in the sector.

**Table 4: Building supplies wholesalers economic impact across Canada (2019), summary**

Wholesale sales (2019)	\$108B
GDP contribution	\$28.0B
Direct employment	134,000
Total employment	243,000
Employment income*	\$15.3B
Household spending**	\$11.3B
Shelter	\$3.3B
Transportation	\$2.3B
Food expenditures	\$1.5B
Recreation	\$710M
Health and personal care	\$691M
Taxes contributed to governments***	\$6.5B

For building material and supplies merchant wholesalers [NAICS 416]

\*includes non-wage benefits and payroll taxes.

\*\*induced by the labour income generated by the industry.

\*\*\*from labour income and business activity, excluding sales tax on product and service sales.

See Appendix A for sources and methodology.

### 3. The proposed home renovation tax credit

#### 3.1 The 2009 home renovation tax credit

##### 3.1.1 Background

The global financial crisis in 2008/09 and resulting recession did not spare Canada’s economy. The country officially experienced a recession with a generalized and sustained decrease of economic activity in the nine months from Q4 2008 until Q2 2009. The unemployment rate rose from 6.3 percent in October 2008 to 8.6 percent by October 2009.

The Home Renovation Tax Credit (HRTC) was introduced as part of Canada’s Economic Action Plan, a suite of tax credits and stimulus programs in the 2009 federal budget. It was described as an “essential part of the Government’s effort to stimulate the economy in the short-term.”

The temporary 15 percent tax credit was established for eligible home renovation expenditures for a one-year period and expected to provide up to \$3 billion in tax relief for Canadian families.

The program was intended to support investment in the long-term value of homes while generating broad-based economic activity, boosting energy efficiency and the value of Canada’s housing stock.

##### 3.1.2 Program Details

The HRTC was available for home renovation work or goods acquired between January 28, 2009 and January 31, 2010 for eligible expenditures valued between \$1,000 and \$10,000 providing up to a maximum of \$1,350 in tax relief. Examples of Eligible and Ineligible Expenditures included the following:

Eligible	Ineligible
<ul style="list-style-type: none"> <li>• Renovating a kitchen, bathroom, or basement</li> <li>• New carpet or hardwood floors</li> <li>• Building an addition, deck, fence or retaining wall</li> <li>• A new furnace or water heater</li> <li>• Painting the interior or exterior of a house</li> <li>• Resurfacing a driveway</li> <li>• Laying new sod</li> </ul>	<ul style="list-style-type: none"> <li>• Purchase of furniture and appliances (refrigerator, stove, couch)</li> <li>• Purchase of tools</li> <li>• Carpet cleaning</li> <li>• Maintenance contracts (furnace cleaning, snow removal, lawn care, pool cleaning, etc.)</li> </ul>

The amount eligible for credit was based on the total value of eligible expenditures. Eligible dwellings included a house, cottage or condominium used for personal purposes. The HRTC was family-based (including an individual, individual’s spouse or common-law partner) and applicable for an estimated 4.6 million families.

The program was developed to complement the ecoENERGY Retrofit Program improvements. The federal government expected the program to cost \$500 million in 2008-09 and \$2.5 billion in 2009-10.

Table 5: Excerpt, Canada's Economic Action Plan, Budget 2009

<b>Table 3.6 Action to Stimulate Housing Construction</b>				
	2008-09	2009-10	2010-11	Total
(millions of dollars)				
<b>Support for Home Ownership and the Housing Sector</b>				
Home Renovation Tax Credit	500	2,500		3,000
Enhancing the Energy Efficiency of Our Homes		150	150	300
Increasing withdrawal limits under the Home Buyers' Plan		15	15	30
First-time Home Buyers' Tax Credit	30	175	180	385
	530	2,840	345	3,715
<b>Investments in Housing for Canadians</b>				
Renovation and Retrofit of Social Housing		500	500	1,000
Housing for Low-Income Seniors		200	200	400
Housing for Persons with Disabilities		25	50	75
First Nations Housing		200	200	400
Northern Housing		100	100	200
		1,025	1,050	2,075
<b>Total—Action to Stimulate Housing</b>	530	3,865	1,395	5,790
Loans to municipalities		1,000	1,000	2,000
Timing of Home Renovation Tax Credit	-500	500		0
<b>Cash Basis</b>	30	5,365	2,395	7,790
Provincial contributions		725	750	1,475
<b>Total Stimulus Value</b>		<b>6,090</b>	<b>3,145</b>	<b>9,235</b>
Notes: Figures in this table are presented on an accrual basis, and therefore, in some cases, will not match the figures contained in the budget text when those are presented on a cash basis. Totals made not add due to rounding.				

Source: <https://www.budget.gc.ca/2009/plan/bpc3c-eng.html>

### 3.1.3 HRTC impacts

In a report to the Public Accounts Committee, the government reported that Canada's Economic Action Plan, which included the HRTC "helped to reduce the negative impact on the Canadian economy from the global and economic crisis by providing an immediate stimulus during the recession. However, these measures have longer term impact as they increase productivity, enhance the functioning of markets and contribute to improving the quality of life".

A government media release issued in January 2011 reported that over three million Canadians had used the tax credit with an average saving of over \$700 per claimant. It continued, stating that "with support from the HRTC, real spending on residential renovations rebounded strongly in Canada, increasing by an average of 18.1% from the second quarter of 2009 through the first quarter of 2010. Analysts have estimated it pumped an additional \$4.3 billion in renovation investment into the economy, at a time when the recession would have reduced investment in that sector."

Robert Dutton, RONA President and CEO was quoted saying "At RONA alone, its impact, combined with RONAdvantage's additional incentive program, resulted in over 18,000 applications representing renovation projects worth more than \$140 million. Meanwhile, Project Guide and Installation sales increased by more than 15%."

Victor Fiume, National President of the Canadian Home Builders' Association was quoted saying "the HRTC increased economic activity, created jobs and demonstrated confidence among consumers in using professional renovators. It's done a lot of good for our industry and for consumers and obviously has kept the industry stronger in these tough times and in job creation as well."

More broadly, a report on the stimulus phase of the Economic Action Plan reported that the HRTC "reduced the size of the contraction in employment in the second quarter of 2009, prevented another contraction in the third quarter of 2009 and contributed to the increase in employment from the last quarter of 2011."

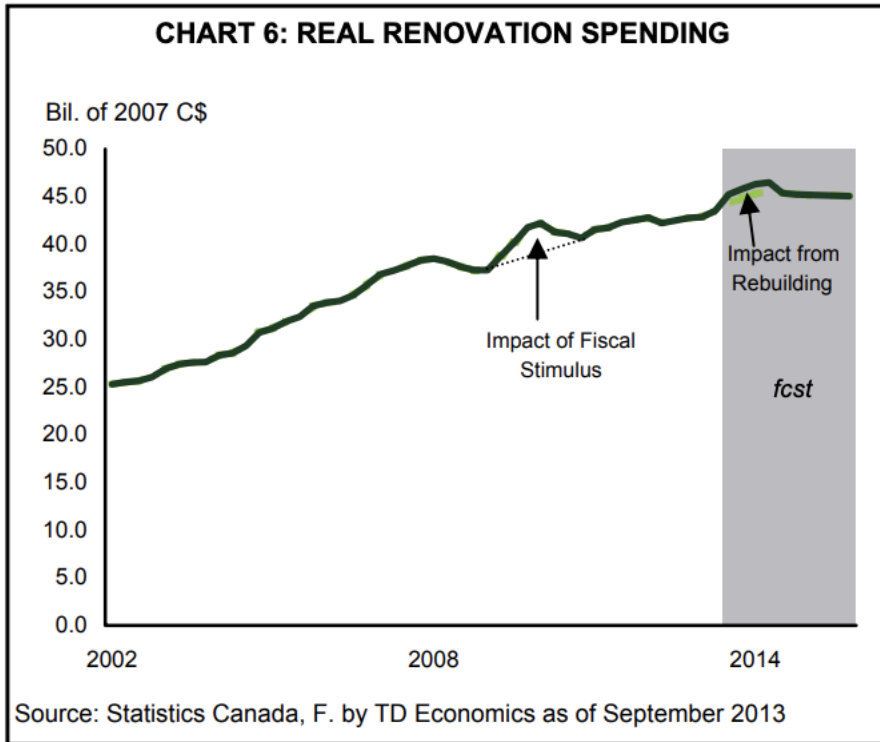
The government reported "a rebound in consumer and business confidence, despite ongoing external weakness in the global economy." Further it reported "Strong growth in residential investment, bolstered by temporary measures introduced to support the housing market. In particular, with support from the Home Renovation Tax Credit, which provided Canadian homeowners with approximately \$2.3 billion in tax relief, home renovation spending growth averaged over 18 per cent per quarter from the second quarter of 2009 through the first quarter of 2010."

A report on the results of the Economic Action Plan concluded "the HRTC has helped more than 3 million Canadians—about one out of every three owner-occupied households—improve their homes while boosting Canada's economic growth. The HRTC has been acclaimed for the timely and important support for employment in the construction, retail and forestry industries. With support from the HRTC, real spending on residential renovations exhibited strong growth, increasing by an average of 18.1 per cent over the four quarters from the second quarter of 2009 through the first quarter of 2010."

Although the report did note that "the cost estimate for the Home Renovation Tax Credit based on 2009 tax return information is approximately 25 percent lower than the cost originally projected when the measures were implemented in the 2009 budget.

TD Economics said renovation spending was the only major component of GDP that grew in 2009 and credited the HRTC with the sector’s strong performance. “That outperformance was due in no small part to the inclusion of a temporary renovation tax credit to the federal government’s economic stimulus package”... “Along with record low interest rates, the credit worked. It helped boost renovation spending by an estimated \$3-4 billion over that period.”

**Figure 13: Excerpt from TD Economics Report: Canadian Renovation Spending**

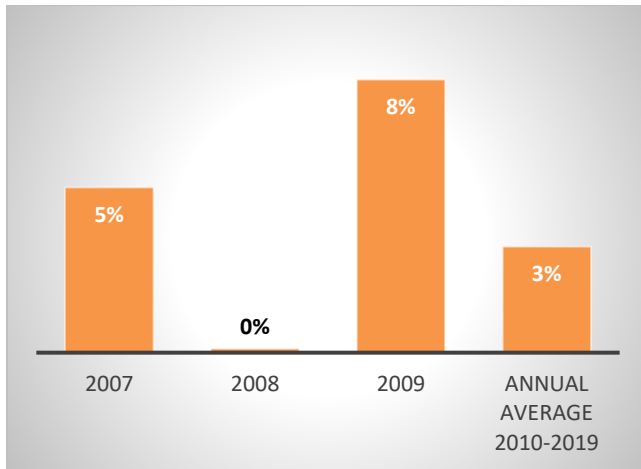


The Conference Board of Canada also recognized the positive impact of the HRTC. “The home renovation tax credit was another very effective fiscal program during the 2009 recession. This time-limited program encouraged people to spend money today by investing in their most important asset: their home. Again, a home renovation tax credit would have high local or Canadian content, an immediate impact on job creation in the renovation business across the province and positive economic multipliers.”

### Boost in repair construction GDP

As another indication of the stimulative effect of the HRTC, the gross domestic product (GDP) from the repair construction sector across Canada increased substantially in the months in which the HRTC was active. In 2007, the GDP from repair construction (NAICS 23D) rose by five percent but then dropped to zero during 2008. The HRTC was active throughout 2009 and repair construction GDP increased by eight percent. After the tax credit was removed, the average annual growth rate in repair construction GDP dropped back to an annual average of three percent through 2019.

**Figure 14: Average annual increase in repair construction GDP, Canada**



Source: Statistics Canada Table: 36-10-0434-01.

### Additional Support for the HRTC

The Ontario Home Builders' Association (OHBA) budget submission dated January 2014 recommended reinstatement of the HRTC. "OHBA recommends a broad-based permanent Home Renovation Tax Credit for contractor renovations at both the provincial and federal level which would strongly encourage consumers to use legitimate contractors and create a paper trail to deter underground activity while stimulating the economy."

## 3.2 Other international examples

### Ireland

Other countries have used similar home renovation tax credit programs to support a variety of policy objectives. In Ireland, the Home Renovation Incentive scheme was in place from 2014-2018. The HRI was a scheme that provided tax relief for homeowners and non-corporate landlords. Introduced in 2014, the scheme allowed for tax relief in the form of a 13.5 percent income tax credit on qualifying improvement works, repairs and renovations on a main home or rental property. Only households paying income tax were eligible for the program. Up to 30,000 euros worth of expenses could be claimed.

Similar to the 2009 Canadian incentive program, the Irish HRI was focused on activities that fostered construction activity rather than the purchase of fridges, ovens and other appliances. It did include extensions, garages, attic conversions, heating systems, kitchens, bathroom upgrades, insulation, solar panels, driveways, window and wardrobe fitting, plumbing, rewiring, painting and decorating, plastering and tiling.

### **Germany**

The German government recently announced it would be providing a significant tax incentive for homeowners to make energy efficiency renovations. Starting in January 2020, homeowners will be allowed to deduct 20 percent of the costs for renovations of up to 40,000 euros from their taxes. Eligible costs include insulation, new windows and exterior doors, the replacement or optimization of old heating and ventilation systems and the installation of digital energy management systems . A study by the German Alliance for Energy Efficiency in Buildings projected that the approved measures could save up to 3.4 million tonnes of CO<sub>2</sub> equivalents by 2030.

## 4. Stimulating economic activity: The case for home renovations

Like other economic downturns, coming out of the Covid-19 pandemic in the latter part of 2020 and throughout 2021, the Canada economy will need stimulus efforts to ensure a robust recovery. There are a number of tools that have been used to help rejuvenate economies after recessions such as tax cuts, cash transfers, large scale infrastructure investments and other tools to support specific industries leading to have a quick stimulative effect. The momentum from these government efforts to stimulate economic activity helps drive a quicker economic recovery.

### 4.1 The case for home renovations

A new home renovation tax credit could be an important policy tool to help boost the economy in the wake of the 2019 Covid-19 pandemic. There are eight broad reasons why a new home renovations tax credit would be a good national policy tool in the wake of the Covid-19 pandemic. Canadians are spending more time in their homes and making necessary improvements would have practical as well as economic benefits.

A new home renovation tax credit would:

1. Help Canadians invest in their homes
2. Help rejuvenate the Canadian economy
3. Support good paying construction jobs
4. Support key export sectors at a time of weak international demand
5. Support national climate change objectives
6. Provide broad-based support to Canadians across the country
7. Boost tax revenues for government
8. ....and it can be done safely

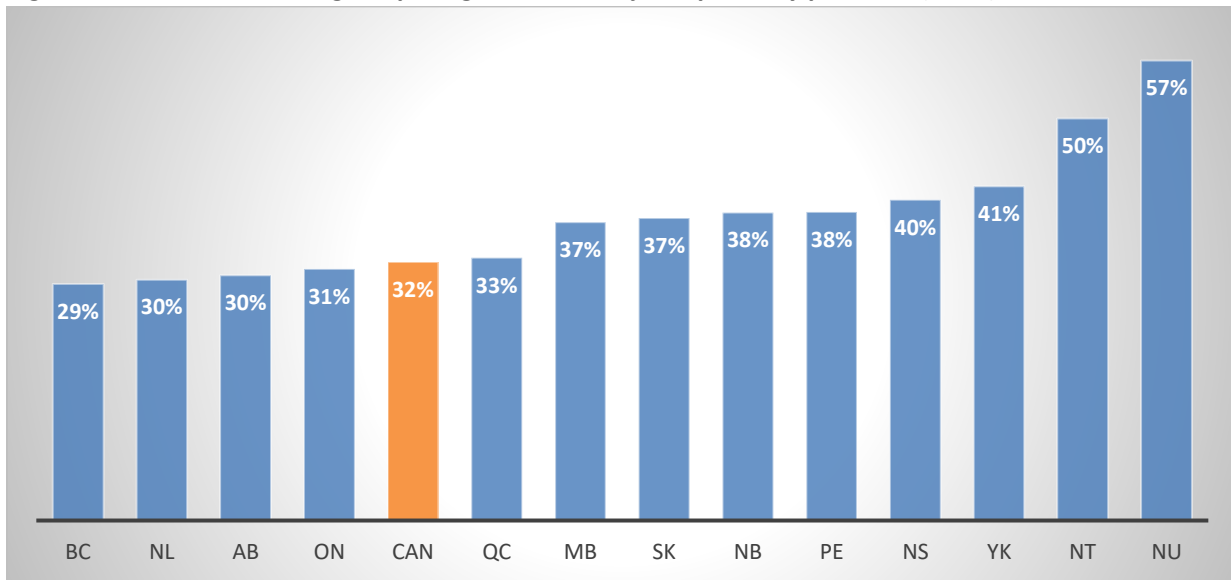
#### 4.1.1 It would help Canadians invest in their homes

At the time of the 2016 Census, there were over 4.5 million dwellings across Canada that required minor or major repairs. Over 30 percent of Canadian homes required repairs. While this data is a few years old, it does point to the need for Canadians to invest in their homes. As shown in Figure 15 below, some provinces have a much higher share of dwellings in need of repair. In the Maritime Provinces, closer to 40 percent of dwellings required repairs at the time of the Census and in northern Canada the share is as high as 57 percent in Nunavut.

Unlike more targeted economic stimulus programs, efforts to stimulate home renovations would benefit millions of Canadians across the country. At a time when Canadians are spending a lot more time at home, repair and renovation activity will help improve their quality of life while reduce ongoing costs of maintenance and operations (e.g. energy costs).



**Figure 15: Share of dwellings requiring minor or major repairs, by province (2016)**



Source: Statistics Canada 2016 Census.

#### **4.1.2 It would help rejuvenate the Canadian economy**

Governments will need to use a variety of policy tools to help the economy emerge strong in the wake of Covid-19. Home renovations is an activity that has a significant economic multiplier in addition to providing other benefits such as energy efficiency and greater productivity. First, it would help support the \$38 billion building supplies dealers sector and the \$108 billion building materials and supplies wholesale sector. As discussed in Sections 2.2.3 and 2.5.3, these sectors of the economy support 181,000 jobs across the country.

Second, it would boost home renovation-focused construction activity. The previous home renovation tax credit program targeted activities that featured large economic multipliers in Canada and avoided those activities that do not. Eligible activities such as kitchen renovations, installing new hardwood floors, painting and building an addition or fence all use products primarily produced in Canada. The 2009 incentive program excluded activities such as the purchase of furniture and appliances (refrigerator, stove, couch) and the purchase of tools which has a limited economic benefit to Canada (because these are primarily imported).

As an example of the role that home renovations could play in the post-Covid-19 economic recovery consider the following scenario (Table 6). If every household across the country spent, on average, an additional \$500 on repair construction activities, it would support \$8.6 billion worth of gross domestic product (GDP) across the country, \$5.5 million in labour income and 93,000 jobs (direct, indirect and induced).

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**Table 6: An example of the economic impact of renovation-focused construction activity**

Based on \$500 in repair construction activity per household across the country

Households	15,000,000
Renovation spending (@ \$500/household)	\$7.5 billion
GDP boost	\$8.6 billion
Income supported	\$5.5 billion
Jobs supported	93,000

Sources: Derived using Statistics Canada population data and multipliers (Table: 36-10-0595-01) - national multipliers for the Repair Construction sector.

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This is not to suggest that a home renovation tax credit would be responsible for all home repair construction activity across Canada. Using the previous home renovation tax credit program as an example, an estimate of the impact from a 2021 incentive program can be estimated. According to an analysis of the 2009 tax credit program, it was estimated to have boosted renovation activity across the country by \$4.3 billion based on a program lasting only 12 months. In 2020, the repair construction sector is 38 percent larger than it was in 2010 (as measured by GDP). Assuming similar results from a new home renovation tax credit program (and a similar duration), it could be expected to boost home renovation activity across the country by as much as \$5.9 billion.

There is a strong case that home renovations construction generates much more economic impact than many other areas of household spending such as home electronics, vehicle purchases, computer purchases and international travel.

As shown in Section 2.4.1 home electronics and computer purchases generate little direct economic benefit in Canada because they are almost entirely imported. The economic benefit is basically the wholesale and retail margins on the products sold to households, businesses and institutions.

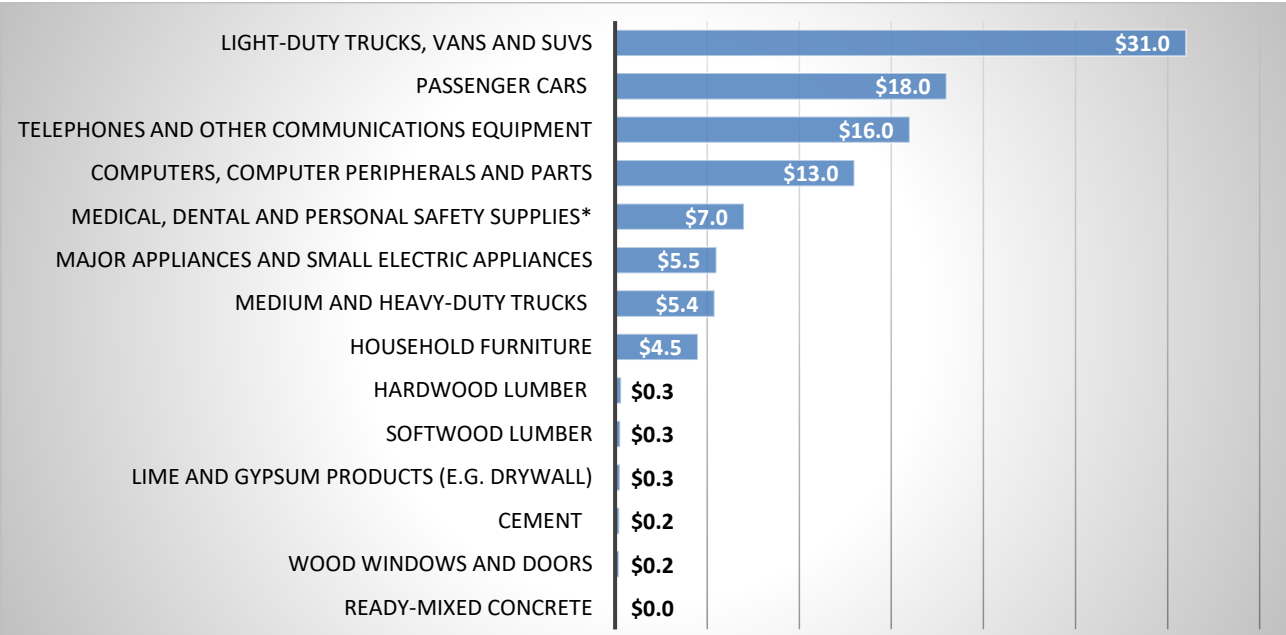
By contrast many of the products used in home renovations are produced in Canada. As a result the economic benefit includes the retail and wholesale activity and the economic benefits from the production of the goods in addition to the formal construction activity associated with the home renovations.

The following table describes the value chain for the home renovations sector compared to a number of other industries to depict the higher value provided.

Sector:	Economic benefit to Canada:
<b>Home renovations</b>	<ul style="list-style-type: none"> <li>✓ Retail and wholesale activity</li> <li>✓ Construction sector activity (to support home renovations)</li> <li>✓ Manufacturing activity (many of the products used including lumber, paint, drywall, fixtures, steel and concrete are produced in Canada)</li> </ul>
<b>Vehicle purchases</b>	<ul style="list-style-type: none"> <li>✓ Retail and wholesale activity</li> <li>– Limited manufacturing benefits (only a small share of vehicles produced in Canada are sold here)</li> </ul>
<b>Household appliances and equipment</b>	<ul style="list-style-type: none"> <li>✓ Retail and wholesale activity</li> <li>Limited manufacturing benefits (almost no manufacturing is done in Canada)</li> </ul>
<b>Entertainment (i.e. cinemas)</b>	Service delivery activity but most of the product consumed is produced elsewhere in the world (there is modest Canadian content).
<b>International travel</b>	Virtually no economic benefit to Canada – except a modest share in the transportation sector.

Consider the following data: Figure 16 shows the total value of international imports of selected products to Canada ranging from vehicles to cement and wood windows and doors. Canada imported nearly \$55 billion worth of passenger vehicles in 2016, \$16 billion worth of telephones and communications equipment and \$13 billion worth of computers and related equipment. By contrast, in many sectors related to home renovations and construction, very little was imported including hardwood and softwood lumber, drywall, cement and concrete products.

**Figure 16: Value of international imports to Canada (\$billions), 2016**

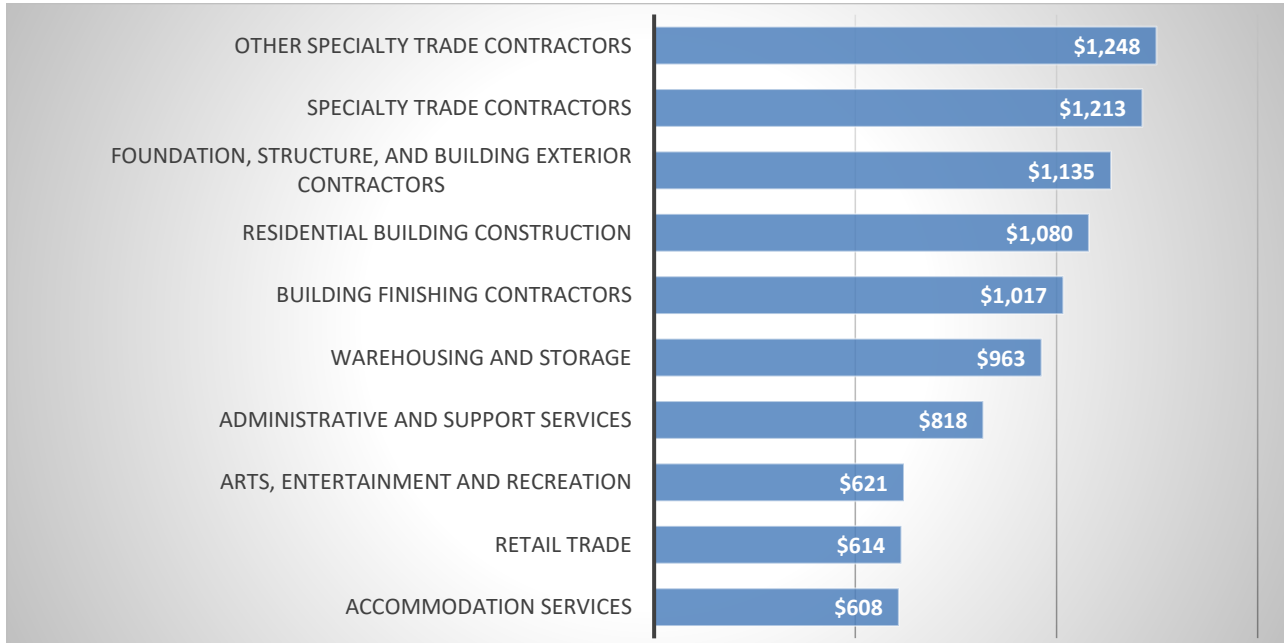


\*instruments and equipment.  
Source: Statistics Canada Table: 12-10-0101-01.

#### 4.1.3 It would support good paying construction jobs

As discussed in Section 2.4.2, the building supplies dealers on average pay a higher wage than other retail trade sectors. Home renovations activities support residential construction activity which leads to good paying jobs. Most construction sector jobs pay above the average. As shown in Figure 17, most of the sub-sectors related to construction pay on average a weekly salary of over \$1,000.

**Figure 17: Average weekly earnings, selected industries in 2019 (Canada)**

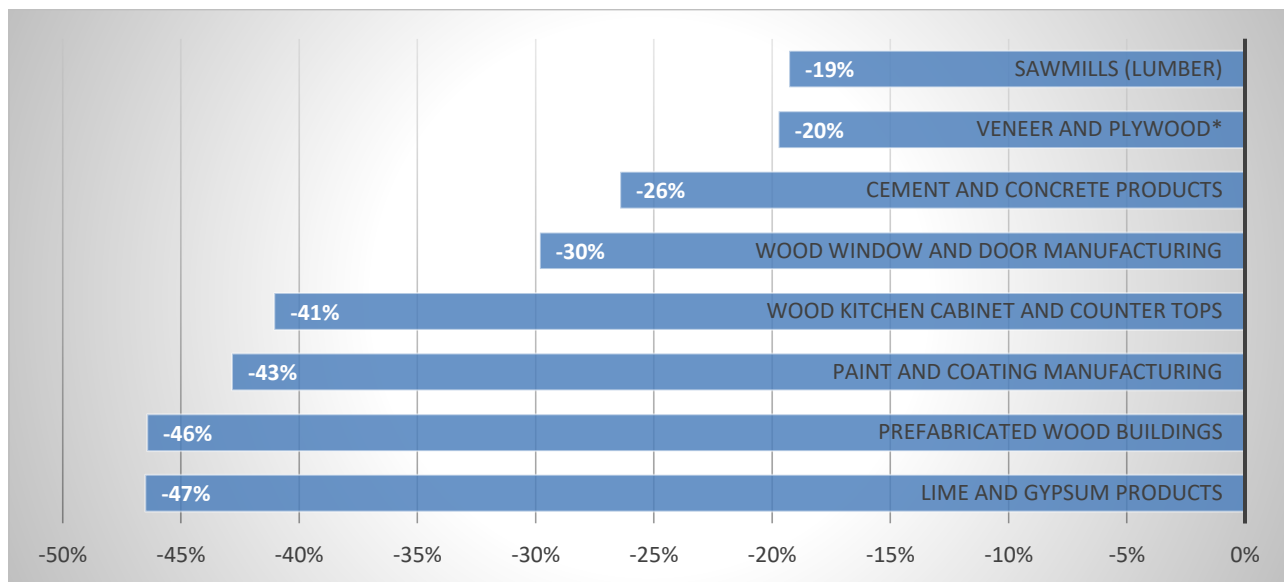


Source: Statistics Canada Table 14-10-0204-01.

#### 4.1.4 It would support key export sectors at a time of weak international demand

In addition to supporting construction activity across Canada, many of the manufacturing industries that service the home renovation sector in Canada are also important export sectors including lumber, wood windows and doors, plywood, wood cabinets, drywall, paint and cement products. Across the board right now (as of June 2020 the most current data available on exports is for April 2020), international export values have dropped significantly. As shown in Figure 18, most construction-related exports from Canada have declined from 20 percent to nearly 50 percent year-over-year in April. It will take some time for these export markets to rebound and in the interim an effort to stimulate home renovations here will bolster domestic demand.

**Figure 18: Decline in international export values, April 2019 compared to April 2020 (Canada)**



\*And other engineered wood products. Source: Trade Data Online.

#### **4.1.5 It would support national climate change objectives**

The federal government has made a strong commitment to reducing Canada’s greenhouse gas emissions. Electricity and buildings combined account for 22 percent of the country’s greenhouse gas emissions and residential households are a large share of both of these sectors. Energy efficiency investments could be an important part of any new home renovation tax credit program. Reducing energy consumption would provide cost benefits to households, reduce their carbon tax liabilities and help them contribute to national greenhouse gas reduction targets.

#### **4.1.6 It would provide broad-based support to Canadians across the country**

The building supplies dealers sector has stores in over 1,600 communities large and small across the country. A home renovation tax credit will help shore up this sector and its employment and spending right across the country. Even more importantly, home renovations activity would be dispersed widely in urban and rural areas in all provinces and territories. Over three million people benefited from the previous program in 2009. It is likely a similar amount would take advantage of a new program – maybe even more depending on program design (see Section 5 for more details).

#### **4.1.7 It would boost tax revenues for government**

A full tax analysis associated with such a home renovation tax credit program is beyond the scope of this report and would need to take into consideration both short term and longer-term effects. However, based on standard tax multipliers it is conceivable that the incremental taxes from the home renovation activities could cover the cost of any tax revenue lost from the incentive program.

Another potential tax implication relates to local government. Residential property values have dropped in recent months and that could translate into lower assessment values and property tax revenues for local government. One side benefit of a new home renovation tax credit program is that it could provide some support to assessment values and ultimately shore up property tax revenues for local governments.

It is also important to point out that residential construction is the top contributor to the underground economy in Canada accounting for nearly 27 percent of the total in 2016, according to Statistics Canada<sup>6</sup>. Overall, close to \$15 billion worth of GDP from construction is not counted in the official data. A home renovation tax credit ensures that residential construction activity is completed legitimately as a formal receipt is required to access the program. Implementing a tax credit program could generate significant new tax revenue by bringing this spending into the formal economy.

#### **4.1.8 It can be done safely**

Some industries are more conducive to social distancing and sanitation protocols than others. Industries that lead to the aggregation of people in close spaces are more problematic. The home renovations sector is one industry for which it is easier to support social distancing and sanitation without a large cost burden on the sector or considerable efforts on the part of the homeowner. The wearing of masks, use of alcohol-based sanitizers and social distancing of two metres or more are all easily facilitated during home renovation projects.

#### **4.2 The role of the building supplies dealers sector**

The building supplies dealers sector is a major catalyst for home renovations activity. Not only does the industry service the household sector directly it is also a vital partner for the construction contractor sector in communities across the country.

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<sup>6</sup> <https://www150.statcan.gc.ca/n1/daily-quotidien/181012/dq181012a-eng.htm>

## 5. Modelling a new home renovation tax credit

### 5.1 Guiding principles for a 2021 home renovation tax credit

What should a 2021 home renovation tax credit look like? What should be the scope of the program and its objectives? The 2009 HRTC provided a 15 percent income tax credit on eligible expenditures up to \$10,000. It was focused primarily on stimulating construction and related activity rather than on the purchase of appliances and equipment produced in other countries.

The guiding principles for a new home renovation tax credit should align with government and community priorities such as:

- Ensuring strategically important export sectors get a boost in domestic demand.
- Ensuring the construction workforce is fully employed post-Covid-19.
- Supporting energy efficiency and greenhouse gas reduction goals.
- Helping Canadians improve their living spaces to accommodate changes in work and living in the wake of Covid-19.
- Bolstering the value of housing at a time where housing values across the country have been waning. This will help shore up property tax revenues and local governments.

### 5.2 Duration of the program

The 2009 incentive program was tightly defined as a one-year program to boost home renovations and construction activity as part of a broader economic stimulus program. It might be valuable to look at extending such a program this year to as long as two years or maybe more depending on the program design and objectives.

### 5.3 Amount and design of the program

The 2009 federal government incentive program allocated \$3 billion to the HRTC. Ultimately households only took advantage of \$2.3 billion worth of tax credits. Based on the current annual retail sales in the building supplies sector, an incentive program of \$4.3 billion would be similar to the 2009 program relative to the size of the sector.

The amount of a 2021 incentive program should be tied to public policy goals. For example, if larger renovation investments are desired, the maximum eligible amount should be higher than \$10,000. In both the Ireland and Germany examples described in this report, the maximum values eligible for the tax credit were much higher.

Cash-based incentives, tax-based incentives and the elimination of the HST are all potential ways to stimulate more activity.

## 6. Conclusion

The building supplies dealers sector in Canada is a very important part of the retail trade industry. There are more than 8,300 building supplies dealer establishments in over 1,600 communities across the country employing more than 147,000 people. In total, the sector generated over \$38 billion in sales in 2019. The economic footprint of the sector is impressive. In 2019, from direct, indirect and induced effects the building supplies dealers contributed an estimated \$13.7 billion to the national GDP, supported 218,000 jobs and \$8.3 billion worth of employment income.

The building supplies wholesale sector also has a significant economic footprint contributing \$28 billion to the national GDP in 2019 and supporting 243,000 jobs from coast-to-coast (directly and through indirect and induced effects).

The concept of a new home renovation tax credit to support the economy coming out of the 2020 Covid-19 pandemic would support the building supplies dealers sector, the wholesale sector and also the construction sector. Also, importantly, a number of key export sectors that are currently witnessing a steep decline in the value of exports would benefit from increased domestic demand. Combined, a new home renovation tax credit could shore up the building supplies dealers sector, the residential construction sector and boost domestic demand for key manufacturing sectors such as sawmills, wood products, paint and coatings, drywall and cement/concrete products.



## Appendix A: The Economic Impact Model and Sources

The data sources used in the preparation of this report include:

<u>Statistic:</u>	<u>Source/Description:</u>
Industry definition	There are two main industry groups used in this report depending on the level of data aggregation published by Statistics Canada. When using the term 'building supplies dealers', the report is referring to data related to NAICS 444 Building material and garden equipment and supplies dealers with the exception of the business count data which relates to NAICS 4441 Building material and supplies dealers.
Retail sales data	Statistics Canada Table: 20-10-0008-01 and Table: 20-10-0066-01. Shows Sales of goods for resale, Total operating revenue, Opening inventory, Purchases, Closing inventory, Cost of goods sold, Total labour remuneration, Total operating expenses, Gross margin and Operating profit margin.
Wholesale sales data	Statistics Canada Table 20-10-0074-01.
Employment by industry	Statistics Canada Table: 14-10-0202-01.
Average weekly wages	Taken from Statistics Canada Table: 14-10-0204-01. Shows the annualized average weekly wage including overtime in selected sectors.
Direct, indirect and induced GDP, employment and income estimates	Uses Statistics Canada Input-Output multiplier and impact estimates at the M industry level. Provincial Input-Output Multipliers, 2016. Catalogue no. 15F0046XDB. Industry Accounts Division. Statistics Canada. Includes multipliers for: Output, Gross domestic product (GDP) at market prices, Taxes on products, Subsidies on products, Gross domestic product (GDP) at basic prices, Labour income, Wages and salaries, Employers' social contributions, Labour income of unincorporated sector 11, Gross operating surplus, Subsidies on production, Taxes on production, International imports, and Jobs.
Household spending impacts	Derived using Statistics Canada's Survey of household spending (SHS) for 2017.
Business count data	Taken from Canadian Business Patterns for June 2019. Source: Statistics Canada.
Interprovincial and international exports	Source: Statistics Canada Table 12-10-0101-01.
Various labour market characteristics	Statistics Canada 2016 Census.

**Other sources:**

Canada's employment downturn, Statistics Canada Catalogue no. 75-001-X

<https://www150.statcan.gc.ca/n1/en/pub/75-001-x/2009112/pdf/11048-eng.pdf?st=7WhN1CNz>

Canada's Economic Action Plan <https://www.budget.gc.ca/2009/pamphlet-depliant/pamphlet-depliant2-eng.html>

Canada's Economic Action Plan, Budget 2009, Chapter 3 Action to Stimulate Housing Construction <https://www.budget.gc.ca/2009/plan/bpc3c-eng.html>

Long-term effectiveness of Canada's economic action plan Report to the Public Accounts Committee, p. 10 <https://www.ourcommons.ca/DocumentViewer/en/41-1/PACP/report-10/response-8512-411-167>

Harper Government's Home Renovation Tax Credit a Success: Saved Average Family over \$700; Pumped Billions into the Economy, January 25, 2011, <https://www.canada.ca/en/news/archive/2011/01/harper-government-home-renovation-tax-credit-success-saved-average-family-over-700-pumped-billions-into-economy-585819.html>

Parliament of Canada Long-Term Effectiveness of Canada's Economic Action Plan, Chapter 1, Canada's Economic Action Plan, of the Fall 2011 Report of the Auditor General of Canada Report of the Standing Committee on Public Accounts, <https://www.ourcommons.ca/DocumentViewer/en/41-1/PACP/report-10>

Government of Canada Budget 2012, Annex2: The Stimulus Phase of Canada's Economic Action Plan: A final Report to Canadians, March 2012 <https://www.budget.gc.ca/2012/plan/anx2-eng.html>

Canada's Economic Action Plan: A Seventh Report to Canadians p.48, January 2011, <http://www.mhca.mb.ca/wp-content/uploads/2019/08/EconActionPlan-7th-report-to-Canadians.pdf>

Outlook for Canadian Renovation Spending: Built on Sturdy Foundation, TD Economic September 30, 2013 p. 3, <https://www.td.com/document/PDF/economics/special/CanadianRenovationSpending.pdf>

Glen Hodgson, Pedro Antunes, Originally published in the Globe and Mail July 31, 2015, Sourced [https://www.conferenceboard.ca/press/speech\\_oped/15-08-05/Canada\\_needs\\_to\\_re-evaluate\\_its\\_approach\\_to\\_economic\\_stimulus.aspx](https://www.conferenceboard.ca/press/speech_oped/15-08-05/Canada_needs_to_re-evaluate_its_approach_to_economic_stimulus.aspx)

OHBA: Pre-Budget Submission January 2014, p. 8, [https://www.ohba.ca/wp-content/uploads/pdfs/pre-budget-submissions/OHBA\\_Budget\\_Submission\\_-\\_2014.pdf](https://www.ohba.ca/wp-content/uploads/pdfs/pre-budget-submissions/OHBA_Budget_Submission_-_2014.pdf)

## Appendix B: About Jupia Consultants Inc.

New Brunswick, Canada-based Jupia Consultants Inc. is a full-service research and planning support consultancy specializing in the area of economic development. The firm has more than 20 years' experience working with companies, communities, industry associations, economic development agencies and government departments.

This report was prepared by David Campbell. David is the President of Jupia Consultants Inc. and has more than 25 years' experience as a consultant working with industry, not-for-profit organizations and governments across Canada. His focus areas include economic development strategy, economic impact analysis, population growth, cluster development and investment attraction. David was formerly Chief Economist with the Government of New Brunswick. In that role, he led the development of economic policy and economic development strategy for the provincial government.

David is a columnist with Brunswick News, a published author, and writes weekly for the It's the Economy, Stupid blog as well as co-presenting the weekly podcast Growing Pains with David Campbell. In recent years, he has had the opportunity to collaborate with multiple think tanks and policy research organizations including the Conference Board of Canada, Public Policy Forum and the Donald J. Savoie Institute at the Université de Moncton.

For more information visit [www.jupia.ca](http://www.jupia.ca).