# What We Can Learn From Mr. Reagan

## The U.S. Income Tax Act has much to teach us

A year or two ago, when we were in the depths of a recession, it was common for Canadian politicians to suggest that most of the fault lay with the United States. The argument they used was a variation on Pierre Trudeau's image of a mouse (Canada) in bed with an elephant (the U.S.). Whatever happened south of the border, the argument went, was bound to affect us: if the Americans were suffering a recession, how could we expect to have good times?

RON POLING

Jacques Dalibard

There is, of course, some logic in this argument. But if there is, what can explain the fact that all the basic economic indicators suggest that the U.S. is recovering from its recession while we are stuck in the doldrums? There are probably many reasons for our slowness to recover but one of them, I think, is a lack of imagination. Our politicians lack insight when it comes to instituting policies that will bolster the economy. At least, that's the case in the area with which I'm most familiar, the question of buildings.

In 1981, President Ronald Reagan introduced an *Economic Recovery Tax Act* which addressed the question of buildings in an imaginative way. The Act increased the tax benefits for rehabilitating buildings, new and old. This move, which substantially improved benefits first introduced in 1976, has proved to be an extremely effective response to changes in the built environment. Before this time the U.S. had an Income Tax Act which was biased in favour of new construction and biased against already-standing buildings.

It was not surprising that a bias against the renovation of already-standing buildings should have found its way into the Act. It came about because there had been very little construction during the Depression and World War II. When the resulting post-war building shortage was exacerbated by a population boom in the early 1950s, there was suddenly an urgent need to build houses and factories and to create jobs. The federal Tax Act reflected this need with favourable incentives for new construction. By the mid-'70s, however, the situation had changed. Because of skyrocketing interest rates, the demand for new construction had slackened while, at the same time, people were rediscovering both the virtues of inner city dwelling and the charm of older buildings. Renovation of already-existing structures was on the rise. The tax incentives which Reagan introduced in 1981 mirrored this new situation — and they can be partly credited with helping to pull the U.S. out of its recession.

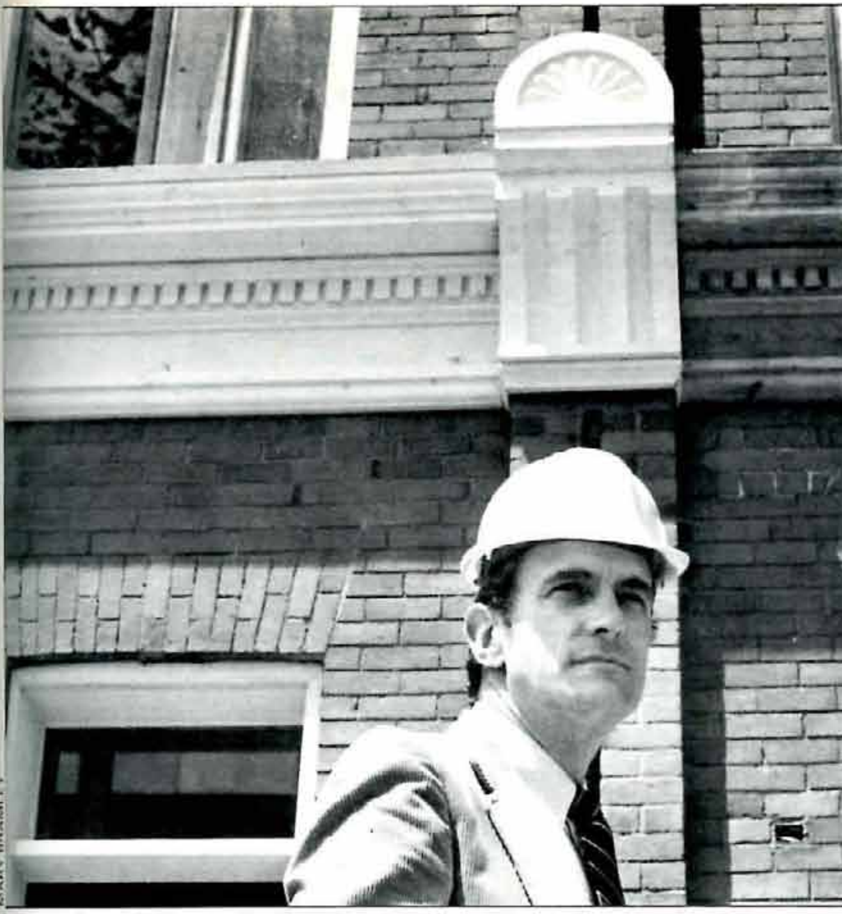
For the benefit of all those Canadian politicians who are sincere in boosting the Canadian economy, I want to stress that it was the *Economic Recovery Tax Act* that created incentives for building rehabilitation. It wasn't a series of special grants for antiquarians. It was a straightforward, new policy directed at investors and developers in the private sector. The U.S. *Recovery Tax Act* introduced rehabilitation incentives with a three-tier investment tax credit based on a percentage of rehabilitation expenditure. Through it, rehabilitated buildings at least 30 years old could receive a 15 percent credit; those 40 years old could receive a 20 percent credit; and designated historic buildings (that is, buildings either on the U.S. National Register or on approved state or local listings) could receive a 25 percent credit.

These changes to the Act are not limited to obvious national monuments like Faneuil Hall in Boston or the Chrysler Building in New York. Wisely, the Act's definition of eligible properties is broad enough to include a great many vernacular buildings. Just as encouraging, the tax benefit does not require that a building be restored to its original use. It gives, instead, only these two criteria: 75 percent of the original walls must remain after the work has been completed and the building must be substantially rehabilitated.

The bottom line of this Act is that many older buildings are now finding new life: musty old mills have been transformed into suites of modern apartment buildings, warehouses have found adaptive new uses as restaurants, and factories have been turned into squash courts. Developers are now combing the country searching for old, under-used or vacant buildings to rehabilitate. Among those that have benefited are the Denver Creamery in Denver, the Wilson townhouses in Washington, D.C., the Western Reserve Building in Cleveland, the Fairmount (Bellevue Stratford) Hotel in Philadelphia, and the massive Congress Street project in Hartford, Connecticut.

This Act has completely changed the U.S. attitude toward preservation. As an example, consider renovation work on just one kind of building, the registered historic structure. According to a recent report of the U.S Department of the Interior, since 1977 a total of 8,345 projects have qualified for the tax incentives. No fewer than 2,572 historic property projects qualified for tax incentives in 1983. This represented a 43 percent increase over 1982, an 87 percent increase over '81, a 305 percent increase over '79, and a 400 percent increase over '78. The amount of money invested, or to be invested, in approved historic rehabilitation projects has increased tremendously in recent years. Since the beginning of the program, $5.27 billion worth of rehabilitation work has been approved. Of the 8,345 U.S. projects, a breakdown of the purposes of rehabilitation is most revealing. The single most important purpose is housing. An astonishing 42,026 housing units have been involved in the rehab process. This includes the creation of 27,000 new housing units in buildings that were constructed originally for some other use. The purposes of rehabilitation projects qualifying for tax incentives in the U.S. from 1977 to 1983 went this way: Housing: 49 percent; Mixed uses: 21 percent; Office space: 16 percent; Commercial: 8 percent; Hotels: 3 percent; Miscellaneous: 3 percent.

And what was the cost to the U.S. Treasury in lost revenues? Based on a study of 243 projects reported on tax returns in one fiscal year, the U.S. General Accounting Office, the watchdog agency of the U.S. Congress, found that taxpayers generated $27.1 million in



The U.S. *Economic Recovery Tax Act* isn't a series of special grants for antiquarians. It is a straightforward policy directed at investors and developers in the private sector. Above: contractor Dan Kuzell and a rehabilitation project on Ottawa's York Street.

rehabilitation work while the revenue loss to the U.S. Department of the Treasury was estimated at $1.3 million, "about 5 cents in tax expenditures for every tax dollar of rehabilitation work generated."

Here in Canada, statistics show that there has been a marked upswing in rehabilitation in recent years. (In this sense, we're beginning to follow a New England example: in 1973 new construction in New England accounted for 75 percent of the building dollar, renovation 25 percent. In 1983, the exact reverse was the situation). But to date the rehabilitation work we have done here in Canada is only a drop in the bucket. We have reached a point where, although we will always need new construction, it is time to turn our attention to already-standing buildings. Many of them, particularly the great mass of buildings constructed after World War II, now stand in great need of rehabilitation and modernizing. There's demand for the kind of building they represent. They have been neglected too long.

It's time our Income Tax Act reflected these realities. Why doesn't it? There are, I think, two reasons. The Department of Finance has refused up to now even to consider such a change on the grounds that it thinks the *Income Tax Act* should not be manipulated to offer incentives. This is, of course, preposterous. Manipulation is exactly what the Act is all about. It's not just collecting money, it's encouraging growth. My guess is that the other reason why the Department is reluctant is that it thinks tax benefits would decrease taxes. This attitude is near sighted.

The benefits of a change to the Act are numerous. To begin, many worthwhile older buildings would be saved, thereby increasing the historic, social, and aesthetic value of our neighbourhoods. Beyond this, there are many hard-nosed reasons to change the Act. If legislation similar to the U.S. kind were enacted here, it would provide a major shot in the arm for Canadian commercial development. Canadian investment dollars that are now leaving the country to take advantage of the U.S. situation would stay in Canada. Rehabilitation, in addition to preserving energy and saving money, creates jobs (it is substantially more labour intensive than is new construction). The increase in work would bolster the economy. Even for the Tax Department the result would be positive because more taxes would be collected.

Now, I don't think that we Canadians must always copy what the U.S. is doing. When, however, what they're doing proves extremely successful — and we have a similar situation that needs a remedy — we should take a close look at it. Without following every detail, something similar could be done in Canada for the U.S. principle is worth following. We don't have a National Register like the U.S. but the provinces and many municipalities (where they apply) have developed their own lists that could serve as the basis for a National Register for tax purposes.

Will we get these needed changes to the Income Tax Act? Our only breakthrough to date occurred in 1979. That year, the tax incentives for demolition were largely eliminated in the MacEachen budget — without any *quid pro quo* for renovation. Now is the time for such changes. We shouldn't be afraid to be copycats, especially if we can do a better job than the originals. ✱

*Executive Director*
*Jacques Dalibard*

## CITADEL APPEAL

A development company, A.T.C. Properties Limited, proposes to build two high-rise towers diagonally opposite Halifax's historic Citadel Hill. The towers, a 14-storey office building and a 22-storey apartment, would be located at the corner of Brunswick and Sackville Streets.

The development would rise 98 feet above the ramparts, thus dwarfing the Citadel and the Old Town Clock. Furthermore, from the Citadel, the buildings would block 17 degrees of city views.

The Heritage Trust of Nova Scotia, the Federation of Nova Scotian Heritage, and the Friends of the Citadel an now fighting in the courts to stop this development.

The Heritage Trust of Nova Scotia asks you to make a donation to help defray the legal expenses. Receipts will be issued for taxation purposes.

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