

# Small Business Rental Tax Rates

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## Issue

To encourage small businesses to invest in residential real estate and to increase the available housing supply in Canada, income earned by a Canadian-Controlled Private Corporation (CPCC) for rental income should be taxed at the active business rate instead of the high investment tax rate.

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## Background

The federal government is encouraging large multinational corporations to build housing units and to supply inventory for the rental market. Grants which are available to large organizations are not available to smaller companies. Businesses wanting to invest in their local economies and to support housing needs are de-incentivized from building affordable housing options for Albertans.

Current federal income tax rules require that income earned on rental housing by a CCPC is taxed at a high-investment tax rate of around 50%. Because of this, the risk associated with the provision of rentals is higher than the incentive to provide housing options. The Small Business Deduction is not available for investment income, only for active business income. A change to current tax rules to permit rental income taxation at a lower rate could help to increase new builds as well as renovations that would increase the overall housing supply and to provide additional revenue for businesses.

Canada is experiencing a housing crisis and has reached a record high in rental costs<sup>1</sup>. In December of 2023, there was an 8.6 increase in rental costs over December 2022. In that time, Alberta has seen a 16.8% increase in rental costs.<sup>2</sup> Alberta had the fast-growing rents for purpose-build and condominium apartments across 2023. There are several reasons leading to the increases in cost, including population increases and lack of available inventory. In 2023, Alberta's population expanded by 194,000 people (4.3%)<sup>3</sup>. Growth in the third quarter of 2023 was 61,118 residents, which represents the highest growth in a single quarter since 1980. Alberta has seen interprovincial migration of more than 10,0000 residents in over five consecutive quarters for the first time in recorded history. Vacancy rates have decreased from approximately 11.5% in 2022 to 5.4% across Alberta<sup>4</sup>.

The impacts being seen across the province could be eased by supporting small business owners to invest in housing opportunities across Alberta. As the population is projected to grow into the future, the province must consider all options to support new investments. Not only would this provide additional revenue for businesses, but it could improve the quality of life of Albertans by supporting options in housing.

In conclusion, to tackle the housing crisis in Canada, especially in Alberta, it is crucial to rethink tax policies and encourage small businesses to invest in residential real estate. The current 50% investment tax rate on rental income for Canadian-Controlled Private Corporations (CCPCs) acts

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<sup>1</sup> Urbanation Inc. rentals.ca Network Data. 2024. [National Rent Report](#)

<sup>2</sup> Urbanation Inc. rentals.ca Network Data. 2024. [National Rent Report](#)

<sup>3</sup> Government of Alberta. 2023. [Current provincial population estimates | Alberta.ca](#)

<sup>4</sup> Government of Alberta. 2023 Apartment Vacancy and Rental Cost Survey. [2023 Apartment Vacancy and Rental Cost Survey \(alberta.ca\)](#)

as a deterrent for local businesses to contribute to housing supply. If we shift to taxing rental income at the active business rate, it could motivate small businesses to participate in new builds and renovations, boosting housing availability and generating extra revenue. This adjustment is pressing, given the soaring rental costs, with a 16.8% increase in Alberta in 2023 alone, driven by population growth and limited housing options. As the province faces reduced vacancy rates and unprecedented interprovincial migration, supporting small businesses in investing in housing becomes a vital strategy to ease the housing crisis and improve the quality of life for Albertans.

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**The Alberta Chambers of Commerce recommends the Government of Alberta:**

1. Work with other provincial governments to remove tax penalties faced by small businesses entering the rental market by allowing some portion of the rental income generated at a passive rate to support community investment efforts by small businesses and to help alleviate the housing crisis in Alberta.