Canadian Home Builders' Association (CHBA) Submission to the Department of Finance Canada's [consultation](#) on Strengthening Canada's Anti-Money Laundering and Anti-Terrorist Financing Regime

On behalf of the Canadian Home Builders' Association (CHBA) and its over 8,500 member businesses coast to coast, including over 1000 members that provide renovation services, I am writing to address the questions posed in Chapter 7.2 – Expanding Anti-Money Laundering and Anti-Terrorist Financing (AML/ATF) Coverage in the Real Estate Sector. Specifically, I am responding to the section regarding building supply and renovation companies. Given our representation, our views of the proposal will be limited to the aspects of expanding the AML/ATF framework to include renovation companies.

Expanding AML/ATF coverage in the real estate sector—building supply and renovation companies

- **Should the government expand the coverage of the AML/ATF framework to include building supply and renovation companies as reporting entities?**

CHBA does not support the government's proposal to expand the coverage of the AML/ATF framework to include renovation companies. As acknowledged in the consultation, the home renovation industry is largely comprised of small- and medium-sized businesses (SMEs), and almost exclusively very small businesses. Ensuring compliance with the FINTRAC regulations incurs both a time and monetary cost, as experienced by the large number of real estate developer and home builder members within CHBA. It is likely that a renovation company owner will not have the sufficient expertise to establish a suitable AML/ATF compliance program. It will necessitate hiring a private AML expert to ensure they minimize their compliance liability, which would be a new and significant expense, and take time and energy away from the renovation tasks at hand, causing further delays. Ultimately, extending this regulatory framework is a cost that will be borne by the consumer. This comes at a time when Canada is relying on its residential renovation industry to help increase housing supply and to retrofit the existing housing stock as an avenue to reduce carbon emissions from buildings—an already lofty goal to manage.[1]

CHBA's recommendation is for the government to instead strengthen its detection and enforcement of cash-based businesses, where it is also likely that more illicit activity could be occurring. Contractors that evade paying their share in taxes are prevalent in the renovation services industry and are a major pain point for legitimate contractors. In addition to avoiding tax, cash-based businesses often do not hold appropriate insurance coverage. Transferring work-related liabilities onto the customer lowers overhead and helps them offer lower prices to customers. Both these factors help take would-be revenue away from legitimate contractors. CHBA strongly believes that cash-based businesses are far more likely to

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[1] In collaboration with the Government of Canada (Canada Revenue Agency) CHBA has developed the *Get it in Writing!* is a national consumer information program to provide homeowners with objective, how-to information on safely hiring a contractor to work on their home – with a proper written contract that protects them. Details can be found at: https://www.chba.ca/CHBAFR/CHBA/Housing_in_Canada/Get_it_in_Writing_Toolkit.aspx.

accept large cash payments and not comply with regulatory obligations. Cash based businesses are at the root of facilitating money laundering activity, either intentionally or unintentionally.

Again, CHBA's position is that the extension of AML/ATF coverage to renovation companies will impose greater expense onto legitimate tax paying businesses who will comply. It is expected that the cost of compliance from legitimate businesses and the non-compliance of cash-based renovators, will further disadvantage our members/legitimate/tax-paying businesses.

- **If so, what AML/ATF obligations should apply?**

CHBA's position is that the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA) and its regulations should not be extended to include renovation companies. In addition to CHBA's previously stated concerns, the Cullen Commission's report contained a case study on building supply companies not renovation companies. Specific to the renovation industry, FINTRAC's Large Cash Transaction Report (LCTR) requirements can easily be circumvented, even unintentionally, as the industry norm is to break up the project cost into smaller payments as the work is completed.

- **Should all building supply and renovation companies be included, or should there be a certain threshold for inclusion and what would be an appropriate threshold?**

CHBA does not support including all renovation companies in a potential extension of this framework. A threshold should be set if the government plans to extend AML/ATF frameworks to renovation companies. The regulatory threshold for being a Real Estate Developer Reporting Entity is the sale of at least five residential units since 2007. Thresholds for the potential framework extension should be sufficiently high, so that not all active renovation businesses are automatically subject to the regulatory framework. In addition, CHBA would expect well-defined and thoughtful exemptions from PCMLTFA compliance. For example, a renovator whose clients are primarily property managers or real estate brokers rather than clients who are the primary residents should be exempt.

- **Would this proposal help mitigate money laundering risks in the real estate sector?**

CHBA believes that the simple extension of the AML/ATF framework on its own will not be enough to mitigate money laundering risks in the real estate sector and will cause undue hardship on renovators. The government must allocate more resources towards greater identification and prosecution of cash-based businesses to mitigate money laundering risks.

It is also not optimal to use home renovations for money laundering purposes. Home improvements may be necessary but not sufficient in increasing the price of a property. The built equity of the home still depends more on the purchase price of the home and the fluctuations of the local market. In effect, a person laundering money may or may not see the home price increase by the amount they put into the renovation.

- **What impact would this proposal have on building supply and renovation companies?**

As stated previously, this proposal in isolation would drive more business to non-complying cash-based businesses that are prevalent in the industry. For a person who is opting to launder their illicit money through the renovation of their property, when presented with the option of a PCMLTFA compliant contractor and one that is not, the choice is obvious. While the CRA has many tools and resources to combat tax evasion, it has proven to be less effective in the renovation services industry. As such, CHBA does not believe that the government can enforce compliance uniformly across both legitimate and illegitimate renovation companies, and instead will disadvantage law-abiding companies.