
HST New Housing Rebate Thresholds – Indexation is Very Important

Prepared for:

Canadian Home Builders' Association

October 2009

GREG LAMPERT
Economic Consultant

Both Ontario and British Columbia have announced that they intend to harmonize their provincial sales taxes (PST) with the federal GST. The implications for new housing and renovation work are significant. This report deals only with new housing.

For the first time in both provinces, there will be a PST on the sale price of new housing – previously only building materials were taxed. Both provinces plan to apply a lower level of tax on the first \$400,000 of a house price. Housing priced above \$400,000 will face a two-tier tax whereby the first \$400,000 will be taxed at 2% (\$8,000) and the remainder will face the general rate of PST (8% in Ontario and 7% in B.C.).

- Harmonization will significantly increase the price of new housing priced above \$400,000 in both provinces – as is illustrated later in this report, a substantial proportion of new houses in each province have prices above this level.
- Also, as significantly, there is no provision for indexation of the \$400,000 threshold – so, as with the GST new housing rebate, the value of the rebate will diminish over time as housing prices rise over time.

It is important to understand that this increase in the tax burden on housing resulting from the harmonization of the provincial sales taxes with the GST will occur no matter what happens with respect to the potential to index the GST rebate thresholds.

This report first presents the highlights of another report prepared for the CHBA by the Altus Group. This is followed by the presentation of several charts which illustrate the proportion of new houses priced at \$400,000 or more in major centres in Ontario and British Columbia. To repeat: the \$400,000 house price level is very important. It is the level up to which both Ontario and B.C. will apply only 2% PST. In both provinces, the full PST will apply to the amount of the price of a dwelling above \$400,000.

Highlights of the Altus Group Report

The Altus Group prepared a report *Importance of Indexation of the HST New Housing Rebate Thresholds* (September, 2009) on behalf of the CHBA. The key points raised in the Altus Group report include:

- The federal government committed to the principle of indexation of the new housing rebate thresholds for the GST upon its introduction, in order to preserve housing affordability. Thus far, the federal government has failed to implement indexation of the new housing rebate thresholds.
- Governments in Ontario and B.C. have recently proposed sales tax harmonization with new housing rebates. Neither of these provinces has committed to the principle of indexation for the rebate thresholds.
- The tax burden on new home buyers (especially middle-income families) from the existing GST and the proposed HST in Ontario and B.C. will grow dramatically during

the next decade, due primarily to fewer new home buyers qualifying for a full or partial tax rebate.

- In the absence of proper indexation of the thresholds used to calculate the provincial rebates, the tax burden on new home buyers from the proposed HST will increase considerably during the next decade. This is due primarily to the effects of house price increases.
- Over the next decade, the additional tax burden on new home buyers resulting from the HST could rise to about \$300 million per year in B.C. (an 80% rise); in Ontario, the additional tax burden could rise to about \$825 million (a 120% rise).
- Indexation for taxation and spending programs is a policy tool which is used widely by both the federal and provincial governments. Indexation is used in determining income tax brackets, CPP benefits, and a wide array of other government programs.
- Without indexation of the rebate thresholds, the proposed tax harmonization in B.C. and Ontario will lead to an increase in the tax burden on new home buyers and the erosion of housing affordability.
- The optimal solution is to index the thresholds of the proposed provincial new housing sales tax rebates to changes in new housing prices, as was concluded by the federal government in implementing the GST.

Additional Findings

Several exhibits have been prepared to supplement these findings from the Altus Group. These exhibits include:

- **Percent of new single-family completions priced above \$400,000 by centre in Ontario and B.C. in 2008** – these charts illustrate the proportion of new houses by centre which will face a significant increase in the amount of PST payable as a result of harmonization.
- **Projected percent of new single-family completions priced over \$400,000 in 2008, 2013 and 2018** – these charts illustrate the increase in the share of new houses priced above \$400,000 over the next 10 years based on projected increases in house prices of 3.6% (Ontario) and 2.6% (British Columbia). These percentage increases in prices are based on the average annual increases in house prices in these provinces over the 1998-2008 period as calculated by the above report from the Altus Group.
- **Harmonized PST on New Housing by Price Range** – these charts illustrate the *actual percentage amount* of PST which will be payable under the harmonized tax regime for housing at various price ranges in each province, as well as the *actual dollar amount* of PST which will be payable for new housing by price range.

In all of the charts, the centres refer to all of the municipalities in the metropolitan or major urban area – i.e. Toronto includes municipalities such as Mississauga, Vaughan and Markham as well as the City of Toronto; Vancouver includes municipalities such as Surrey and Burnaby as well as the City of Vancouver.

Highlights of these charts are presented below first for Ontario. The highlights and charts for British Columbia are presented on page 7 after the charts for Ontario.

Ontario

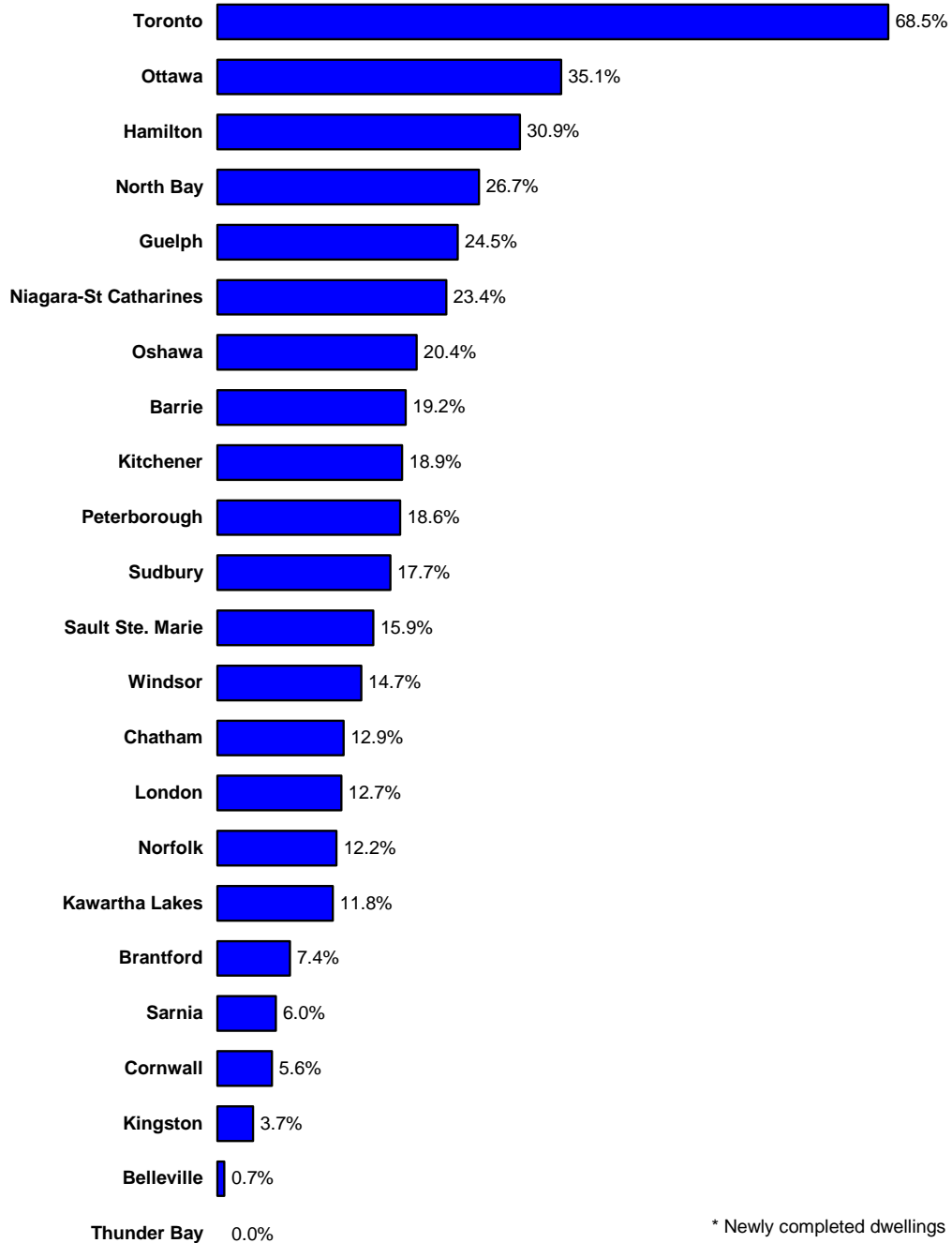
- Ontario Exhibit 1 – in Toronto, in 2008, over 68% of new houses were priced above the \$400,000 threshold at which higher provincial sales taxes on new housing apply. A smaller, but still substantial, proportion of new houses in other centres also are priced above the \$400,000 threshold – e.g. Ottawa (35%), Hamilton (31%), and even smaller centres such as North Bay (27%).
- Ontario Exhibit 2 – looking to the future, at the rate of house price increases that took place in Ontario over the past decade, within 5 years 90% of new houses in Toronto will be priced at more than the \$400,000 threshold. Within 10 years, 97% of new houses in Toronto will be priced at more than \$400,000.

Similarly, at the same rate of house price increase, by 2018, more than 60% of new houses in the following Ontario centres will be priced above \$400,000: Toronto (97%), Hamilton (91%), Ottawa (83%), Guelph (80%), Oshawa (72%), Sudbury (64%), Niagara-St. Catharines (63%), and Peterborough (63%).

- Ontario Exhibits 3 and 4 – with harmonization, the rate of PST on new housing in Ontario will be 2% up to \$400,000 and 8% on the amount above \$400,000. So, for example, purchasers of a new house priced at \$500,000 will pay 2% on the first \$400,000 (\$8,000) and 8% on the next \$100,000 (\$8,000) for a total of \$16,000:
 - The effective rate of PST on new housing will rise from 2% for housing priced below \$400,000 progressively higher for housing priced above that level. As illustrated in Exhibit 3, the effective rate of PST will be 3.2% of the price of a \$500,000 dwelling, rising to 4.6% for dwellings priced at \$700,000 and so on.
 - The amount of PST payable on new housing will rise at a rate of \$8,000 per \$100,000 in price for housing priced above \$400,000. The amount of PST which will be payable on housing in Ontario at various price ranges post-HST is illustrated in Exhibit 4.

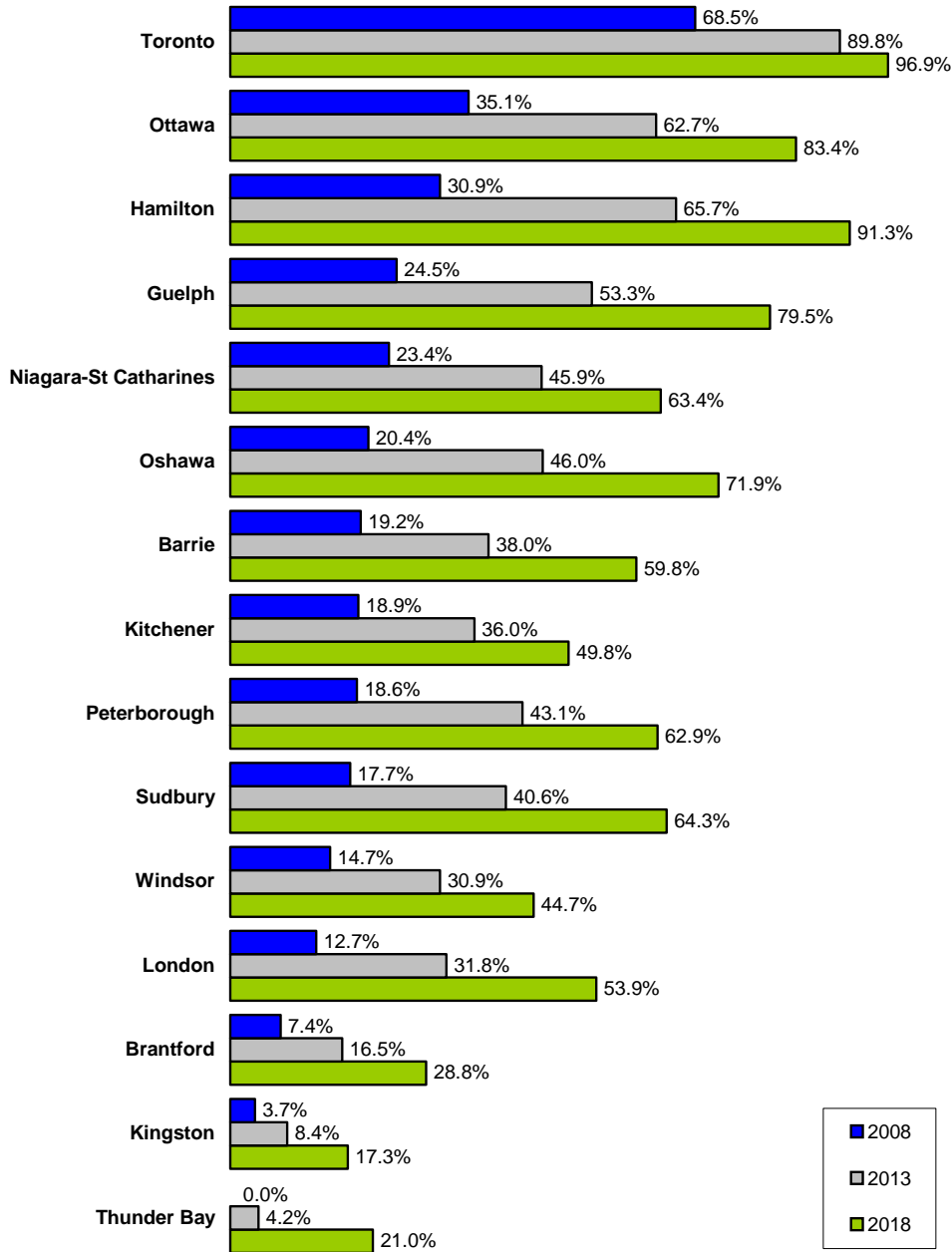
Clearly, without indexation of the rebate thresholds, over time, there will be a significant increase in the tax burden on new home buyers and the erosion of housing affordability in Ontario.

Ontario Exhibit 1
Percent of New Single-Family Completions*
Priced Over \$400,000 (2008)

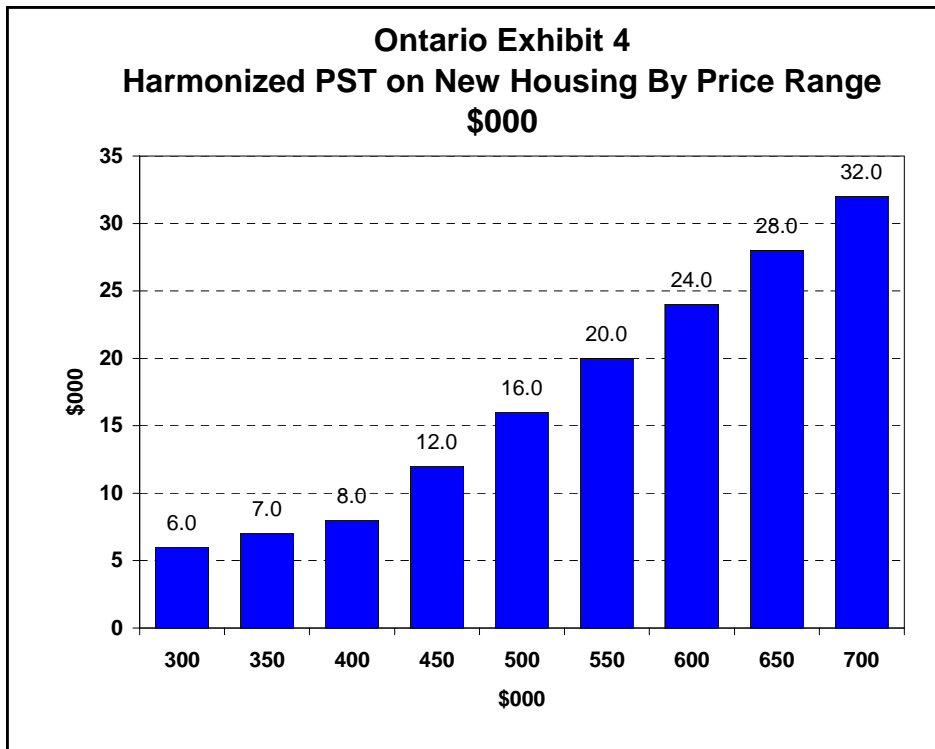
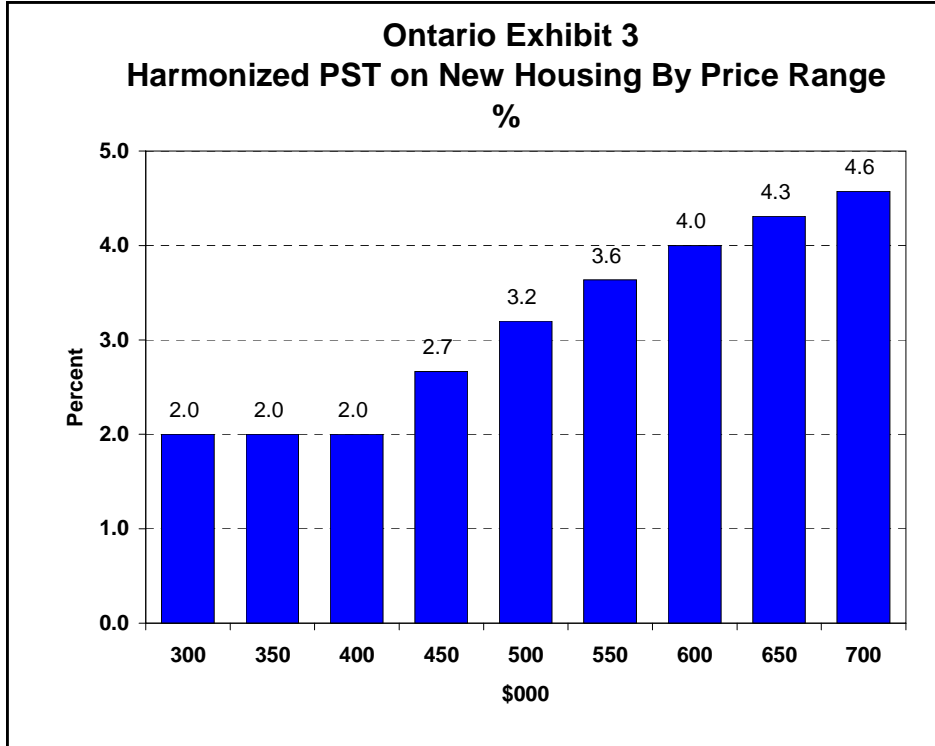


* Newly completed dwellings
Source: Based on data from CMHC

Ontario Exhibit 2 Projected Percent of New Single-Family Completions* Priced Over \$400,000 in 2008, 2013 and 2018



* Assuming 3.6% annual increase in housing prices (the same rate as applied in Ontario in the 1998-2008 period)
Source: Based on 2008 data from CMHC

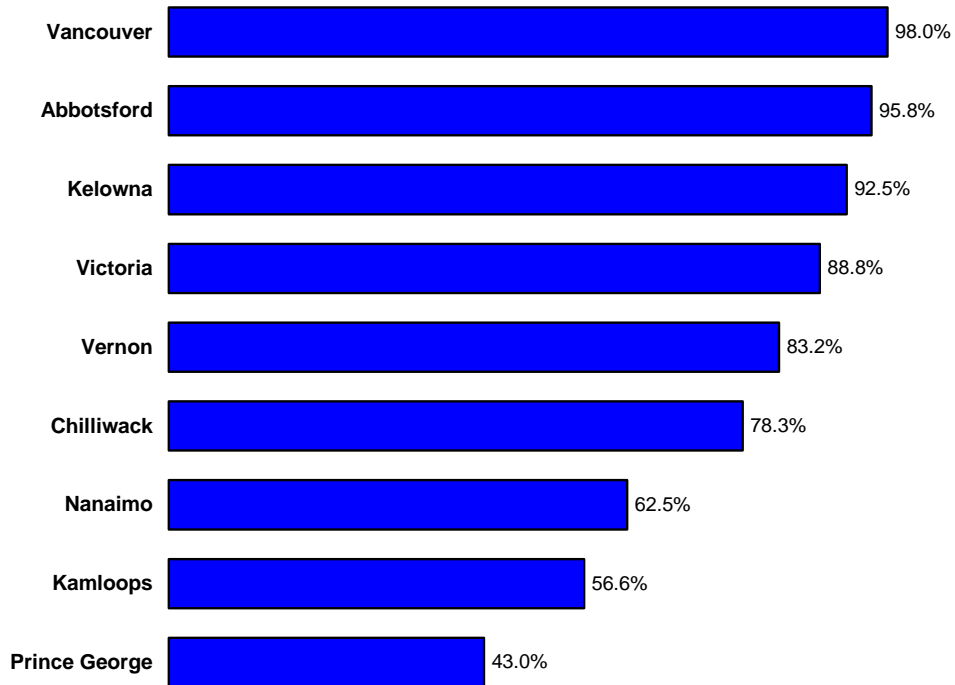


British Columbia

- British Columbia Exhibit 1 – a very high proportion of new houses in B.C. are priced above the \$400,000 threshold. Vancouver (98%), Abbotsford (96%) and Kelowna (93%) have the highest proportion of houses priced above \$400,000, but there are many other centres with a high proportion of new houses above the threshold included smaller centres such as Prince George (43%).
- British Columbia Exhibit 2 – at the rate of house price increases that took place in B.C. over the past decade, by 2018, virtually all of the new houses built in Vancouver, Abbotsford, Kelowna, Victoria and Vernon will be priced above the \$400,000 threshold. The other centres (Nanaimo (95%), Chilliwack (93%), Kamloops (93%), and Prince George (86%) will not be far behind.
- British Columbia Exhibits 3 and 4 – with harmonization, the rate of PST on new housing in B.C. will be 2% up to \$400,000 and 7% on the amount above \$400,000. So, purchasers of a new house priced at \$500,000 will pay 2% on the first \$400,000 (\$8,000) and 7% on the next \$100,000 (\$7,000) for a total of \$15,000:
 - The effective rate of PST on new housing will rise from 2% for housing priced below \$400,000 progressively higher for housing priced above that level. As illustrated in Exhibit 3, the effective rate of PST will be 3% of the price of a \$500,000 dwelling, rising to 4.1% for dwellings priced at \$700,000 and so on.
 - The amount of PST payable on new housing will rise at a rate of \$7,000 per \$100,000 in price for housing priced above \$400,000. The amount of PST which will be payable on housing in B.C. at various price ranges post-HST is illustrated in Exhibit 4.

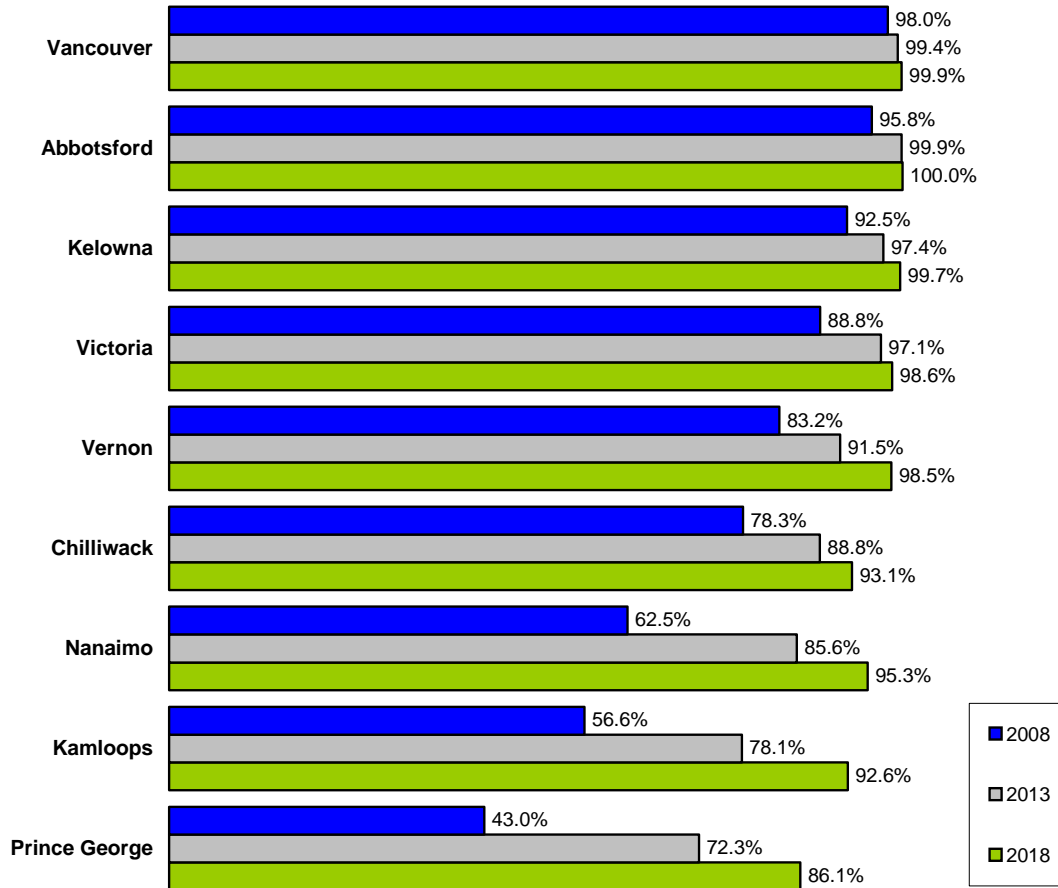
Clearly, without indexation of the rebate thresholds, over time, there will be a significant increase in the tax burden on new home buyers and the erosion of housing affordability in British Columbia.

**British Columbia Exhibit 1
Percent of New Single-Family Completions*
Priced Over \$400,000 (2008)**



* Newly completed dwellings
Source: Based on data from CMHC

**British Columbia Exhibit 2
Projected Percent of New Single-Family Completions
Priced Over \$400,000 in 2008, 2013 and 2018***



* Assuming 2.6% annual increase in housing prices (the same rate as applied in BC in the 1998-2008 period)
Source: Based on 2008 data from CMHC

