

HST Harmonized Sales tax Effective July 1, 2010

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Friday, September 04, 2009

Canwest News Service

The new harmonized sales tax being proposed in British Columbia and Ontario may end up being an overall wash for some consumers but anyone buying a new house is about to get dinged. The HST met with some resistance from the real-estate sector in Canada's largest province when it was first proposed earlier this year but the government agreed to some concessions. New homes in Ontario currently just face a 5% goods-and-services tax, which builders have buried in the price of the home since the tax was introduced 19 years ago. Starting on July 1 of next year, new houses would face a combined HST which would be 13% in Ontario. With new-home sales slowing after a seven-year bull run, the last thing the industry needed was something that would curtail activity further.

There was a sigh of relief when the government agreed to grandfather from the tax any deals signed prior to the date the announcement was made – June 18, 2009. Deals closed before July 1, 2010 would also not face the tax. Everybody else was in trouble. So the government came up with an exemption from the added tax on the first \$400,000 of any new home, meaning consumers outside of Toronto were for the most part unaffected.

Despite the government's "generosity," about 40% of people buying a new home in Toronto are going to face a major tax hit. That's the percentage of new homes that sell for more than \$400,000. On a \$500,000 home in Toronto, the HST will mean \$6,000 in new taxes. Here's how it works. The HST means an additional \$40,000 in new taxes on that home, based on 8%. Builders get an estimated 2% tax credit on supplies, lowering the bill to \$30,000. Minus a \$24,000 tax break on the first \$400,000 and you get to \$6,000. So who is going to pay for that \$6,000? As the price goes up, the tax bill gets higher. It's \$36,000 for a \$1-million home. "I don't know this for a fact but I don't think any builder will make [the HST] an extra closing cost because they imbedded the GST for so long," says Stephen Dupuis, chief executive of the Toronto-based Building & Industry Land Development Association.

Maybe that extra tax is not added on to the sticker price, but at some point the consumer is going to pay. Maybe through a higher price, cheaper materials or fewer finishing's thrown in. "A tax like this is going to be passed on to the consumer over time and the consumer is going to lose," says Brian Johnston, president of Monarch Corp., one of Toronto's largest home builders. Economist Benjamin Tal, of CIBC World Markets, predicts the tax will have an impact on housing sales. "It's not like something you can brush under the carpet," says Mr. Tal. "There will be reduced demand." He predicts the

industry will build more houses without all the finishing's. That will leave the consumer to do work on the black market with contractors to avoid the HST. That's what happened in the Maritimes, where the HST has been in play for years, said Mr. Tal. "This will give a boost to the under-the-table transactions. Is that an optimum thing?" says Mr. Tal.

It's no wonder British Columbia's housing industry is fighting the HST tooth and nail. It's not interested in the Ontario compromise of an exemption on the first \$400,000 of a home. B.C will provide a \$20,000 tax break on the first \$400,000 of a purchase, the amount being lower because the province has a 7% sales tax. "There is no single family home here you can buy at that price," says Peter Simpson, chief executive of the Greater Vancouver Home Builders' Association. "They've taken what happened in Ontario and thought it would fly here. They underestimated the pushback on HST out here." The provincial budget released this past week gave few hints the province might back down on taxing the industry, other than a throwaway line that it would work with industry groups to minimize the impact of the HST. Mr. Simpson says he's not interested in any compromise, including any compromise that might grandfather housing now under construction from the new tax. "I won't even talk about that. It will mean we've given in and we're not," says Mr. Simpson. Good luck. Something tells me the cost of housing in B.C. is going to rise.