

BC Needs a Permanent Home Renovation Tax Credit

In BC, the thriving underground economy for residential renovations represents \$552 million dollars of lost income tax revenue, not including lost sales tax WCB fees, fees from licenses and permit and other lost revenue opportunities. The short-term federal Home Renovation Tax Credit (HRTC) had a positive impact on reducing this underground economy. By ensuring the collection and remission of receipts for work completed, a provincial HRTC will boost our economy by recovering this half a billion dollars in tax revenues, as well as provide a tax opportunity to the estimated 2.5 million homeowners with the desire and need to improve the quality and efficiency of their homes. These rebates would be payable to the consumer through their income tax filing and further increase the economic cash flow in our province.

HST negatively impacts the renovation sector

The HST is having a significant impact on the costs of home renovations. In 2010, it is estimated that the provincial government will receive a 67% increase in tax revenues from the renovation sector due in most part to the introduction of the Harmonized Sales Tax¹. Based upon research compiled by Human Capital Strategies, the average renovation project is approximately 36% labour/project management, 32% materials and 32% sub-contractor costs. With the implementation of the HST, both the labour and sub-contractor costs, now contribute an additional 7% in taxes to the provincial government. With the renovation sector contributing \$7.1 billion in revenue to the economy, it can be determined that with the HST the renovation sector will be contributing an additional \$497 million in taxes. With the introduction of HST in Ontario and British Columbia, rapid growth in the underground “cash” economy is inevitable unless governments act. A report by the Altus Group in 2009 estimated that 26% of all renovation activity is underground. Considering the size of BC’s above ground renovation sector, this represents a total loss of income tax revenues (to both the federal and provincial governments) of approximately \$552 million annually.

Climate action success requires the greening of the housing stock

In order for BC to achieve its climate action goal (of a 33% reduction in greenhouse gas emissions by 2020) the existing housing stock needs to be renovated to significantly improve its energy efficiency. There are almost 1.9 million existing homes in the province. Over 70% of these homes were built before 1996 and therefore produce about 32% more greenhouse gas emissions.

A “Made for BC” Home Renovation Tax Credit

A permanent Home Renovation Tax Credit/Rebate is essential to encourage more energy-efficient housing stock, strengthen a post-recession economy, mitigate the impacts of the HST, and minimize the potential growth of the underground “cash” economy. The chart below outlines the potential impact on various renovation project values.

¹ “The Economic Contribution and Significance of Residential Renovation in British Columbia: Maximizing its Potential by Removing Barriers to Growth”, report prepared by Human Capital Strategies, August 2010. Copy included with CHBA BC Pre-Budget Submission to BC Government.

Renovation Examples					
Materials (avg. 32%)	\$ 3,200	\$ 8,000	\$ 32,000	\$ 80,000	\$ 160,000
Subcontracts (avg. 32%)	\$ 3,200	\$ 8,000	\$ 32,000	\$ 80,000	\$ 160,000
Professional fees, other, etc. (avg. 36%)	\$ 3,600	\$ 9,000	\$ 36,000	\$ 90,000	\$ 180,000
Total Value of Renovation	\$ 10,000	\$ 25,000	\$ 100,000	\$ 250,000	\$ 500,000
Taxes Paid					
Pre-HST (7%PST)	\$ 224	\$ 560	\$ 2,240	\$ 5,600	\$ 11,200
Post-HST (7% provincial portion)	\$ 700	\$ 1,750	\$ 7,000	\$ 17,500	\$ 35,000
Net New Taxes Paid	\$ 476	\$ 1,190	\$ 4,760	\$ 11,900	\$ 23,800
Home Renovation Tax Rebate					
Basic Rebate (2% on non-materials)	\$ 136	\$ 340	\$ 1,360	\$ 3,400	\$ 6,800
Green Rebate (2%+2% on non-materials)	\$ 272	\$ 680	\$ 2,720	\$ 6,800	\$ 13,600
Net New Revenue to BC Government					
Net New Tax Revenue (less Basic Rebate)	\$ 340	\$ 850	\$ 3,400	\$ 8,500	\$ 17,000
Net New Tax Revenue (less Green Rebate)	\$ 204	\$ 510	\$ 2,040	\$ 5,100	\$ 10,200

Considerations for the implementation of a Home Renovation Tax incentive

A Home Renovation Tax incentive will benefit the province by stimulating spending, creating jobs, generating revenues, increasing industry education, and reducing greenhouse gas emissions. The introduction of the HST and fall referendum has created a tumultuous political climate. Considerations for parameters of this credit include:

- The credit applies to professional renovation services and related subcontractor costs, and requires invoices showing taxes paid and the HST number of the company providing the service.
- No minimum or maximum thresholds. One drawback with the federal HRTC was the very low maximum threshold. Although this did stimulate spending, it did not have a substantial impact on major renovations. Additionally, most green renovations are of a higher dollar value due to the increased cost of educated and certified labour and the extent of the renovation required ensuring a meaningful improvement in energy efficiency.
- Certification will be mandatory for the Built Green™ BC (or equivalent) renovation incentive due to the importance of having a minimum standard of education and knowledge of building science in order to ensure a well-designed and achievable renovation outcome.

THE CHAMBER RECOMMENDS

That the provincial government:

1. institute a permanent home renovation income tax credit (HRTC) of 2% on all professional renovations to help curtail the underground economy and support the “greening” of the existing housing stock
2. add an additional 2% tax credit (a total of 4%) on Built Green™ BC Renovations (or equivalent) program.
3. The credit should require invoices showing taxes paid and the HST number of the company providing the service.

Submitted by the Canadian Home Builders’ Association Central Interior
The Policy Committee has not reviewed this proposed policy.