

## **Government plays “hard to get” with new home GST rebate**

**Summary: Qualifying thresholds for the GST (now HST) New Housing Rebate are woefully out of date and need to be updated in order to keep pace with the rising cost of new houses in Canada. This Policy asks the Federal Government to fulfill its promises made the taxpayers of Canada to index the thresholds for the GST New Housing Rebate.**

A number of organizations, including the Canadian Home Builders Association, have identified the failure to adjust the new home GST rebate to current housing market conditions as a major concern and as a threat to housing affordability in Canada.

When the GST was introduced in 1991, the federal government committed to reviewing the new home GST rebate threshold every two years to adjust for the likely upward change in home prices. Since then, Statistics Canada’s new home price index shows a 54.78 percent increase between 1991 and 2010 and in some markets prices have increased well beyond that.

The original intention was that 90 percent of new home buyers would receive the full GST rebate, and an additional 5 percent would receive a partial rebate.

However, according to 2009 figures<sup>1</sup> only an average of 43 percent of new home buyers purchased homes at a price point that qualified them for the full GST rebate.

And, despite the government’s commitment, no review of the new home GST rebate threshold was ever done by any government.

The out of date, out of step GST rebate thresholds means home buyers in many urban areas are simply not eligible for the new home GST rebate and despite the government’s stated intentions, new home buyers in most major markets across the country now pay all or substantial portions of the GST on new homes.

This is compounded by the introduction of HST in five provinces where now the federal government’s failure to index the threshold has resulted in a two pronged calculation of rebates applied at the Federal threshold (in relation to that portion of HST that represents the GST) and a different threshold to reflect the applicable to that portion of the HST that represents the provincial sales tax.

### **Reviewing the Rebate**

Under the rules established 2 decades ago, buyers who purchase new homes at \$350,000 level receive the full rebate and pay 3.2 percent GST. Buyers at the \$350,000 to \$450,000 level are entitled to a progressively reduced rebate. After \$450,000 buyers receive no rebate and pay the full 5 percent GST.

In Vancouver, where the average price of a detached home is \$760,000, less than 1 percent (.03) of new home buyers qualified for a new home GST rebate in 2009. Compare that to 1991, when 75 percent of buyers in Vancouver qualified.<sup>2</sup>

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<sup>1</sup> Canadian Home Builders Brief on GST Rebates 2010

<sup>2</sup> Canadian Home Builders Brief on GST Rebates 2010

The best case scenario in Canada in 2009 was in Kitchener, Ontario where 70.6 percent of new home buyers qualified. Still, far short of the 90 percent promised by the Liberal government of the day in 1991.

If the rebate thresholds had been adjusted to accommodate the 54.78 percent increase in the cost of housing to the end of 2010, the lower and upper thresholds would have increased in 2011 to \$545,000 and \$700,000.<sup>3</sup>

In the last five years alone the federal government has reaped approximately \$ 1 billion in additional GST revenue on the backs of new homebuyers that would not otherwise have had to be paid if the thresholds had been indexed as promised.

### **More Unintended Consequences**

In addition economic contribution that new home construction brings to markets has been severely dampened due to failure to index of the thresholds.

It is not only new home buyers who are disadvantaged by the lack of indexation of the thresholds. Because new and resale homes are similar, competitive, products, the higher (GST-included) prices of new housing are reflected in higher prices in the resale market as well. Overall the public ends up paying more and the market responds accordingly with decreased demand and loss of the economic contribution of increased new home construction.

### **THE CHAMBER RECOMMENDS**

That the federal government:

1. act (in the next Budget) on an outstanding commitment to adjust the GST/HST rebate thresholds to reflect new housing price increases by setting the thresholds for 2011 at \$545,000-\$700,000 with an automatic annual adjustment relative to the Statistics Canada New House Price Index.
2. (acting in consultation with the provinces, that participate in HST) create a combined HST New Housing Rebate that is administered by the HST department and provides for a single rebate based on indexed thresholds that includes the GST portion of the HST and the provincial sales tax portion of the HST.

Rewritten from 2010 reinstated policy

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<sup>3</sup> Canadian Home Builders Brief on GST Rebates 2010