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Making the GST work better for homebuyers

Government fees and charges a major obstacle to affordable homes

When Finance Minister Paul Martin delivers his federal budget next month, he will be grappling with unexpected security costs and the fallout from a weakening economy.

Unless Martin brings down a deficit budget - something he wants to avoid - Canadians may have to tighten their belts for tax increases to pay for Canada's participation in the war in Afghanistan and new domestic security measures.

Housing is one area of the economy that merits the finance minister's urgent attention in the budget. In good economic times, the new housing market acts as a kite, bringing the rest of the economy higher and higher in its wake, like the tails on the kite. In bad times, the housing market can act like an anchor, dragging other sectors down with layoffs, mortgage defaults, bankruptcies and idle factories.

The economy in general could benefit significantly if Martin would tinker slightly with the GST as a stimulus and to eliminate some inherent inequities in the application of the GST to the new housing industry.

For millions of Canadians, obtaining a new home is often out of reach. A major obstacle to affordable home ownership is the mounting level of government fees and charges, especially in the greater Toronto area.

The Greater Toronto Home Builders Association estimates that government levies, fees and charges account for more than 20 per cent of the total cost of a new home in the Toronto census market area. That's a whopping $40,000 on a new $200,000 home, $60,000 on a $300,000 home.

At the federal taxation level, the main component of new home prices is the goods and services tax. With roughly 40,000 new home sales in the GTA every year, homebuyers here are sending $500 million annually to Ottawa. For most of them, it will take 25 years to pay off the cost.

Each home generates about 2.8 person years of employment, and the total industry provides a staggering 100,000-plus person years of employment. New home construction in the GTA accounted for $6.2 billion in economic activity.

Here's how the GST works and how Paul Martin could make it work better for Canadian homebuyers.

Recognizing that a full 7 per cent hit would be too onerous for new homebuyers, the government gives a 2.5 per cent discount or rebate on homes priced under $350,000. Up to that price level, the purchaser receives a credit of 36 per cent of the 7 per cent GST that would otherwise be due.

As a result, the net GST on a new home is calculated at 4.5 per cent of the purchase price, and that 4.5 per cent is added on to the builder's net price. For example, on a house that the builder prices at $200,000, the net price to the purchaser (after the rebate) is $200,000 plus 4.5 per cent, or $209,000.

In September, Clayton Research Associates of Toronto prepared a study for the Greater Toronto Home Builders Association called "The Effects of GST on the New Housing Market in the Greater Toronto Area." It concludes that the GST results in unfairly taxing Toronto houses because the same house costs more in Toronto than elsewhere in the country due to higher land costs here.

Clayton concludes that issues that affect the Toronto homebuilding industry are important to the rest of Canada, since one quarter of all new single-family homes in Canada are built in the GTA. From the lumber industry in B.C. to the cement makers in Quebec, the economic impact of Toronto's new housing market is felt nationally.

Here are some ways the finance minister could ensure that the housing industry remains a healthy economic engine whatever the future holds in store.

- Eliminate the phase-out of the GST rebate. The GST operates on a phase-out sliding scale for homes priced above $350,000. When prices reach $450,000, the rebate disappears altogether.

The phase-out penalizes areas like Toronto and the lower mainland of British Columbia where land and labour costs are higher than in the rest of the country. Removing the phase-out between $350,000 and $450,000 would mean houses up to $450,000 would qualify for the full 2.5 per cent rebate. The cost to the government would be offset by the stimulus to the industry resulting from production of more high-end houses.

- Index the rebate threshold to the cost of living. The amount of the rebate ceiling, whether $350,000 or $450,000, should be indexed annually to inflation in line with the policy of the Income Tax Act.

- Increase the GST rebate for everybody. An increase, even a temporary one, in the GST rebate would immediately bring down the price of new homes. Since the government is taxing the land as well as the building on it, it's collecting revenues on land, which is neither a manufactured good nor a service. An increased rebate would eliminate the inequitable treatment of the GTA because of its high land costs.

- Increase the rebate for first-time homebuyers. The provincial government's elimination of the first $2,000 of Ontario land transfer tax for first-time homebuyers has proved to be a tremendous boon to the industry and the tens of thousands of young couples who have benefited from this program. In many cases in my own practice, I see young buyers squeezed to the bone at closing time, and the land transfer tax rebate is the difference between being able to afford a home and remaining a tenant.

- Establish a single rebate threshold of $500,000. Homes priced above this level would receive a rebate on the first $500,000 but would pay 7 per cent on the excess. As an alternative, homes priced above $500,000 could pay 7 per cent tax on the full price of the house.

Whether the economic forecast is for sun, clouds or rain, Canadians are looking to Paul Martin to do everything possible to ensure the continuing health of this vital component of the economy.

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