

INDEXING THE GST NEW HOUSING REBATE: THE MOST URGENT ISSUE FOR THE FEDERAL BUDGET

**Canadian Home Builders' Association
Pre-Budget Submission**

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Summary

The most urgent issue for the Canadian Home Builders' Association (CHBA) with respect to the federal Budget is:

Indexation of the thresholds for the GST New Housing Rebate to protect housing affordability across Canada.

Housing affordability has benefited from the reduction in the general rate of the Goods and Services Tax (GST) from 7% to 5%. As a result of this reduction, plus the continuation of the GST New Housing Rebate, the actual rate of GST on new homes eligible for the full rebate has been reduced from 4.48% to 3.2%. This is roughly the same percentage of federal sales taxes on a new home as applied prior to the introduction of the GST in 1991. This is a major step in supporting housing affordability.

However, with rising house prices, the lack of indexation of the thresholds for the New Housing Rebate has meant that many new home buyers, particularly in urban centres, do not benefit from the reduced GST.

In short, new home buyers are paying more GST than would be the case had the rebate thresholds been indexed to rising house prices. This has had a negative impact on housing affordability.

Background

The GST New Housing Rebate reduces the actual rate of GST payable on eligible new homes from 5% to 3.2%.¹

Purchasers of new homes priced below \$350,000 receive the full rebate – i.e. the actual rate of GST on their new homes is 3.2%. Purchasers of homes priced between \$350,000 and \$450,000 receive a progressively reduced rebate – and the actual rate of GST rises accordingly. Homes priced at \$450,000 or more receive no rebate – i.e. the actual rate of GST for these homes is 5%.

For new homes priced between \$350,000 and \$450,000, the GST payable is calculated as follows:

House Price	\$350,000	\$400,000	\$450,000
5% GST	\$17,500	\$20,000	\$22,500
GST New Housing Rebate	\$6,300	\$3,150	\$0
Actual GST Payable	\$11,200	\$16,850	\$22,500
Actual GST as % of House Price	3.2%	4.21%	5.0%

¹ The GST New Housing Rebate is 36% of the GST payable on eligible new homes, up to a maximum rebate of \$6,300 – the rebate for a \$350,000 home (36% of 5% of \$350,000 = \$6,300). For new homes priced between \$350,000 and \$450,000, the rebate is progressively reduced. For new homes priced at \$450,000 or more, the rebate is \$0.

Impact on Housing Affordability

The following table illustrates the impact of indexation of the GST rebate thresholds on housing affordability. With the current situation of frozen thresholds, a \$450,000 home receives \$0 rebate – the actual rate of GST is 5%. If the \$450,000 home was eligible for the rebate, the GST payable would be reduced from \$22,500 to \$14,400 – a reduction of \$8,100 – a significant difference.

	<u>Current Situation: Frozen Thresholds</u>	<u>With Indexation of Thresholds</u>
House Price	\$450,000	\$450,000
5% GST	\$22,500	\$22,500
GST New Housing Rebate	\$0	\$8,100
Actual GST Payable	\$22,500	\$14,400
Actual GST as % of House Price	5.0%	3.2%

Federal Commitment

When the GST was introduced in 1991, the federal government made a commitment to adjust the thresholds to reflect changes in housing prices, and thus to protect housing affordability over time:

“The government will review these thresholds at least every two years and adjust them as necessary to ensure that they adequately reflect changes in economic conditions and housing markets.”²

During the 1990s, immediately after the introduction of the GST, housing prices were relatively stable in most parts of Canada, so there was little need to adjust the thresholds to reflect changes in housing prices. As a result, no mechanism was put in place for the regular adjustment of the thresholds. In the past decade, housing prices have increased significantly; however, there have been no adjustments to the thresholds.

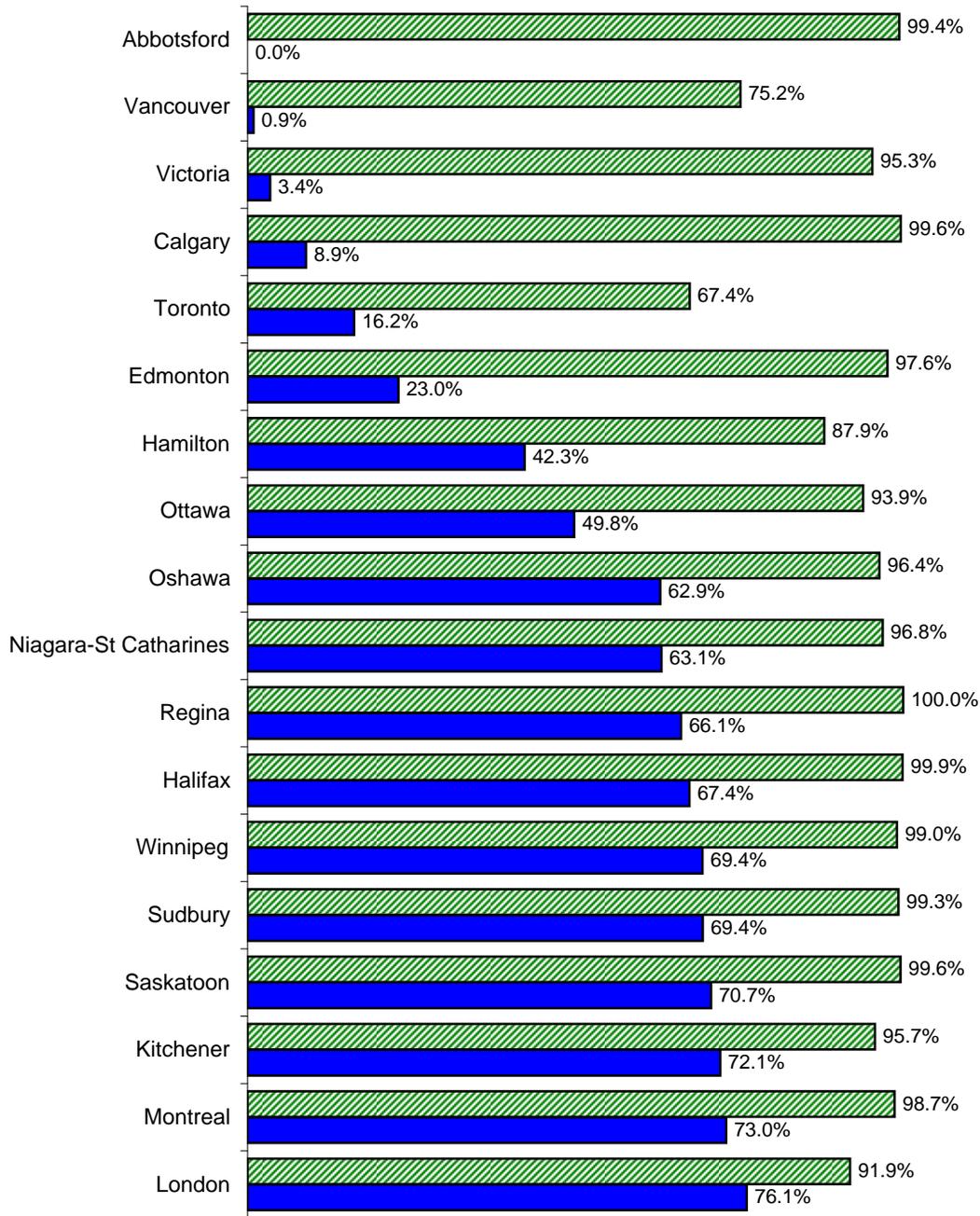
Rising Housing Prices

Over the period since the GST was introduced, Statistics Canada’s New House Price Index has increased by 57%. Had the GST New Housing Rebate thresholds been adjusted to take account of this increase in new house prices, the thresholds in 2008 would have been roughly \$550,000-\$700,000.

² *Technical Paper on the GST, 1989, page 19.*

Share of New Single-Family Completions* Qualifying for Full GST New Housing Rebate

1991 2008**



* Newly completed dwellings priced less than \$350,000

** January-June 2008

Source: Based on data from CMHC

Over recent years, freezing the thresholds has meant that an increasing number of households no longer receive a full or even a partial rebate. For example:

- In Abbotsford, **none** of the purchasers of new single-family homes completed in the first half of 2008 qualified for the full GST housing rebate. In contrast, in 1991, when the GST was introduced, **over 99%** of the purchasers of new houses in Abbotsford qualified for the full rebate.
- In Vancouver, the situation is similar: **less than 1%** of the purchasers of new single-family homes completed in the first half of 2008 qualified for the full GST housing rebate. In 1991, **over 75%** of the purchasers of new houses in Vancouver qualified for the full rebate.
- In Calgary, **less than 9%** of the purchasers of new single-family homes qualified for the full GST rebate in the first half of 2008. In 1991, **over 99%** of the purchasers of new homes qualified for the full rebate.
- In Toronto, **only 16%** of the purchasers of new houses completed in the first half of 2008 qualified for the full GST rebate. In 1991, **67%** of the purchasers of new houses qualified for the full rebate.

The picture is similar across Canada. In the first half of 2008, less **than 45%** of new houses qualified for the full GST housing rebate. In contrast, in 1991, **over 90%** of new houses completed in major centres in Canada qualified for the full GST housing rebate.

In short, as housing prices have increased, fewer and fewer home buyers are qualifying for the GST rebate. Over time, as house prices continue to rise, new home buyers will pay increasingly more GST and housing affordability will deteriorate further. Home buyers in urban centres are particularly disadvantaged.

Additionally, it is important to note that not only purchasers of new homes are disadvantaged by the frozen thresholds. Since new and resale homes are competitive products, the high (GST-included) prices of new housing are reflected in higher prices in the resale market as well.

Federal Revenue Impact

The federal government will receive roughly \$320-\$330 million in GST revenue in 2009 in excess of what would have been received if the thresholds had been indexed.

The purpose of the federal government's commitment to index the GST thresholds was to protect housing affordability over time. With almost all new houses in many major centres now ineligible for the GST rebate, action by the federal government to fulfill this commitment is now urgent.

About CHBA

The Canadian Home Builders' Association is the voice of Canada's residential construction industry.

CHBA's membership includes new home builders, renovators, developers, suppliers, trades, manufacturers, lenders and other professionals. The CHBA has over 50 Local Home Builders' Associations and 8 Provincial Associations. The CHBA's Standing Committees and Councils oversee the work of the Association in areas as diverse as technical and economic research, education and training, renovation, the environment, urban issues, warranty and marketing. Through the voluntary efforts of its members, the CHBA serves both consumers and producers of housing by supporting quality, affordability and choice in housing for all Canadians.