

Changes to the GST New Housing Rebate

2007

With the introduction of the GST, the federal government made a commitment to review regularly and adjust as necessary the thresholds on New Housing Rebates “at least every two years” to ensure that they continued to reflect changes in housing prices, and thus to protect housing affordability over time in all parts of Canada.

Resale homes are exempt from the 6% GST. The GST New Housing Rebate provides a refund of 36% of the (6%) GST paid on a new home costing \$350,000 or less, up to a maximum of \$7,560. The rebate is reduced proportionally for new homes priced between \$350,000 and \$450,000. There is no rebate for new homes priced above \$450,000. The \$350,000-\$450,000 thresholds have remained unchanged since the GST was introduced in 1991.

The failure to index GST rebate thresholds has eroded housing affordability across Canada, with homebuyers in larger, high-cost centres particularly disadvantaged. At the same time, the federal government has received, in 2006 alone, some \$180 to \$220 million in additional GST revenue from new homebuyers.

Housing affordability has eroded due to the lack of indexation of the thresholds.

For example in Vancouver, 97.5% of the purchasers of new single-detached homes do not qualify for the full GST housing rebate. Put another way, less than 3% of the purchasers of new houses in Vancouver qualify for the full GST housing rebate. In contrast, in 1991, when the GST was introduced, less than one-quarter of the purchasers of new houses built in Vancouver did not qualify for the full rebate – over 75% of new houses qualified for the full rebate.

In Toronto, 70% of the purchasers of new houses do not qualify for the full GST housing rebate. Only 30% of the purchasers of new houses qualify for the full rebate. In 1991, the figures were virtually reversed in Toronto: one-third of the purchasers of new houses did not qualify for the full rebate; two-thirds qualified for the full rebate.

The negative impacts on housing affordability extend beyond Vancouver and Toronto. The failure to index rebate thresholds means that as many as one-third or more of the purchasers of new houses in an increasing number of cities do not qualify for the full rebate. Significant proportions of new home buyers in other centres also do not qualify.

In 1991, by contrast, the vast majority (in most cases, close to 100%) of the purchasers of new houses in virtually all centres qualified for the full GST housing rebate.

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.

Recommendation

That the federal government act in the next Budget on an outstanding commitment to adjust the rebate thresholds to reflect new housing price increases by increasing the \$350,000 threshold to \$475,000 and the \$450,000 threshold to \$610,000 for 2006 with an automatic yearly adjustment relative to the Statistics Canada New House Price Index.