

Indexing of GST/HST New Housing Rebate

A number of organizations, including the Canadian Home Builders Association, have identified the failure to adjust the new home GST/HST rebate to current housing prices as a major concern to home builders and associated businesses throughout Canada. It also poses a significant deterrent to housing affordability in Canada.

When the GST was introduced in 1991, the new home GST rebate threshold was set at \$350,000 for a full rebate of 36 per cent of the GST. Between \$350,000.00 and \$450,000 the rebate was progressively reduced. Over \$450,000 no rebate was available. The federal government committed to reviewing the thresholds 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 per cent increase between 1991 and 2010 and in some markets prices have increased well beyond that. Meanwhile the rebate thresholds have not changed.

The government's original intention was that 90 per cent of new home buyers would receive the full GST rebate and an additional 5 per cent would receive a partial rebate. However, according to 2009 Home Builders Association figures, only an average of 43 per cent of new home buyers purchased homes at a price point that qualified them for the full GST rebate.

While market conditions are the primary driving force behind the sale of both new and used housing, the sale of entry level new housing is predominantly aimed at new home buyers who have very little equity and for whom the GST rebate plays a significant role in their decision to purchase. An increase in the thresholds could add up to \$3500.00 to the purchasing power of a new home buyer. That addition to purchasing power is reflected in the business community by the concentric rings of home builders, subcontractors, suppliers and wholesalers all of whom would benefit by the addition of more buyers to the new home building market.

The failure to index the new home rebate 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 application to that portion of the HST that represents the provincial sales tax.

Reviewing the Rebate

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

If the rebate thresholds had been adjusted to accommodate the 54.78 per cent 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.

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

Recommendations

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 and territories 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.