



BRITISH COLUMBIA  
REAL ESTATE  
ASSOCIATION

October 16, 2009

Select Standing Committee on Finance and Government Services  
Room 224  
Parliament Buildings  
Victoria, BC V8V 1X4

Committee members:

The government's declaration in the August 25, 2009 Speech from the Throne to encourage affordable market housing was a hopeful message. For many years, the British Columbia Real Estate Association (BCREA) has proposed measures to accomplish that goal, and there has never been a better time to provide assistance to British Columbians as they strive to fulfill the essential need for housing.

BCREA asks the Select Standing Committee on Finance and Government Services to review the suggestions in this submission and recommend them to the Finance Minister for inclusion in his 2010/2011 Budget.

### **Recommendations**

BCREA recommends the provincial government take steps to minimize the negative impact of the Harmonized Sales Tax (HST) on the housing sector, and champion fairness for homebuyers.

1. The Association's primary HST recommendation is that, in recognition of extreme differences in home prices across the province, the provincial government implement regional rebate thresholds for new housing, with the following considerations:
  - Rebates for portions up to the thresholds calculated at 71.43 per cent of the provincial portion of HST paid,
  - Rebates for portions above the thresholds calculated at 57.14 per cent of the provincial portion of HST paid,
  - Initial thresholds determined in consultation with BCREA, and
  - Thresholds indexed annually using the New Housing Price Index.
2. The following measures, required as a result of the implementation of the HST, will benefit British Columbians and assist the government in obtaining positive support for its HST goals from BCREA and other real estate groups. BCREA recommends the provincial government:
  - a) Reinstate a rebate or tax credit for the HST on condominiums that leak due to building envelope failure.
  - b) Work with the federal government to provide input tax credits for landlords.

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- c) Extend the HST rebate or tax credit on all energy-efficient products that are currently exempt from provincial sales tax.
3. To restore fairness for homebuyers who already bear a heavy tax burden, BCREA recommends the provincial government implement a three-year phase-out of the Property Transfer Tax (PTT) as follows:
    - Starting on July 1, 2010, increase the 1% tax threshold to \$500,000,
    - Starting on July 1, 2011, no PTT on homes under \$500,000, and
    - Starting on July 1, 2012, remove the PTT.

## Discussion

### 1. Implement regional rebate thresholds for new housing and index those thresholds annually using the New Housing Price Index.

The government's July 23, 2009 announcement to introduce a 12 per cent Harmonized Sales Tax immediately sent concerned ripples through the real estate sector. According to the government, BC has the lowest personal, small business and corporate taxes in Canada, but its unfair home buying taxes continue to mount.

Under the proposed HST, new homes will be subject to 12 per cent HST, replacing the 5 per cent GST now charged.

To offset the increase in costs, the BC government plans to offer a partial rebate of the provincial portion of the HST for new housing to ensure new homes up to \$400,000—province wide—will bear no more tax than under the current PST system, while homes above \$400,000 will receive a flat rebate of about \$20,000. New home sales over \$400,000 will be dramatically impacted, as buyers will pay higher taxes, even with the \$20,000 flat rebate.

Consider a new home in the Vancouver area: with an average price for a single detached home of \$896,792, the current taxes (GST and the Property Transfer Tax) total \$60,775. Beginning on July 1, 2010, the same homebuyer will pay an additional \$22,329 in taxes due to the HST.

Clearly, the government's proposal increases the tax burden of BC homebuyers, and does not account for the significant variations in home prices around the province. A single rebate threshold does not adequately reflect the diverse reality of the BC housing market, as illustrated in tables 1 and 2.

If the HST is implemented as planned, the biggest losers will be homebuyers. BC has the highest home ownership costs in the country, as indicated by RBC Financial Group's first quarter 2009 survey of housing affordability, which showed that almost 60 per cent of the province's median pre-tax household income is required to cover home ownership costs.

In a recent Ipsos-Reid poll ("British Columbians Bullish on Home Prices but Concerned About HST Impact," October 5, 2009), 40 per cent of British Columbians who expect to buy

a home in the next two years said the HST will impact their decision: half will delay their purchases until they see how the HST will affect the market, half are more likely to consider a resale home and 43 per cent are likely to spend less than previously planned.

Homebuyers are being pushed to the brink to accommodate increasing demands from government, and the proposed HST represents yet another demand on BC's already overtaxed homebuyers. BCREA urges the provincial government to implement this recommendation, which is supported by the BC Apartment Owners and Managers Association.

Table 1: New Home Impacts

Geographic Region	Jan.-June 2009 Average Single Detached Home Price	Current Tax System				Proposed HST						Net Impact
		GST	GST Rebate <sup>1</sup>	PTT	Consumer Cost	Price less embedded 2% PST	HST	Federal HST Rebate <sup>1</sup>	BC HST Rebate	PTT	Consumer Cost	
Vancouver CMA	\$896,792	\$44,840	\$0	\$15,936	\$957,567	\$878,856	\$105,463	\$0	\$20,000	\$15,577	\$979,896	\$22,329
Victoria CMA	\$668,655	\$33,433	\$0	\$11,373	\$713,461	\$655,282	\$78,634	\$0	\$20,000	\$11,106	\$725,021	\$11,561
Kelowna CMA	\$723,824	\$36,191	\$0	\$12,476	\$772,492	\$709,348	\$85,122	\$0	\$20,000	\$12,187	\$786,656	\$14,164
Abbotsford CMA	\$548,644	\$27,432	\$0	\$8,973	\$585,049	\$537,671	\$64,521	\$0	\$20,000	\$8,753	\$590,945	\$5,896
Chilliwack CA	\$448,690	\$22,435	\$83	\$6,974	\$478,016	\$439,716	\$52,766	\$648	\$20,000	\$6,794	\$478,629	\$613
Kamloops CA	\$476,335	\$23,817	\$0	\$7,527	\$507,678	\$466,808	\$56,017	\$0	\$20,000	\$7,336	\$510,161	\$2,483
Nanaimo CA	\$538,929	\$26,946	\$0	\$8,779	\$574,654	\$528,150	\$63,378	\$0	\$20,000	\$8,563	\$580,091	\$5,437
Prince George CA	\$363,491	\$18,175	\$5,450	\$5,270	\$381,485	\$356,221	\$42,747	\$5,908	\$17,811	\$5,124	\$380,373	-\$1,112
Province	\$745,563	\$37,278	\$0	\$12,911	\$795,752	\$730,652	\$87,678	\$0	\$20,000	\$12,613	\$810,943	\$15,191

Source: CMHC, BCREA Calculations

<sup>1</sup>GST rebate is assumed to be 36% of GST for homes priced up to \$350,000; maximum rebate is \$6,300. Rebate gradually using a straight line method from \$350,000 to \$450,000.

## 2. Create a positive environment for citizens and government through rebates and tax credits:

- a) Reinstate a rebate or tax credit for the HST on condominiums that leak due to building envelope failure.

Despite the end of the Reconstruction Home Loan Program and the PST Relief Grant Program (the latter with HST implementation on July 1, 2010), at least 42,000 strata apartment units have yet to be repaired (as reported in the Homeowner Protection Office's *Assessment of Demand for HPO Reconstruction Program* in April 2008). There is no reason why owners of condominiums that did not display building envelop problems earlier should be penalized due to the elimination of these programs.

By implementing this recommendation, the government helps ensure the integrity of the condominium stock in BC, plus the safety and peace of mind of its citizens.

b) Provide input tax credits for landlords.

Once implemented, HST will apply to services and products employed and supplied by landlords, and the existing annual rent increase (inflation rate + 2%) will not bridge the gap. Without input tax credits, existing landlords will lack incentives to properly maintain their properties, and potential landlords will be discouraged from making properties available for rent. BCREA prefers input tax credits for landlords rather than an increase in the annual rent increase, in the interests of housing affordability.

Similar recommendations have also been made by the BC Apartment Owners and Managers Association and the Urban Development Institute.

c) Extend the HST rebate or tax credit on all energy-efficient products that are currently exempt from provincial sales tax.

In 2007, the provincial government announced a goal to reduce greenhouse gas emissions 33 per cent by 2020. This recommendation by BCREA, and the Canadian Home Builders' Association of BC, complements that vision. It is also consistent with the government's decision to exempt energy costs from the HST.

In a January 2009 survey commissioned by BCREA, three out of four British Columbians indicated green rebates from the government were very or somewhat helpful in encouraging them to make their homes more environmentally friendly.

This is another investment in the future of British Columbia, and the health, comfort and quality of life of British Columbians.

### **3. Implement a three-year phase-out of the Property Transfer Tax to restore fairness for buyers.**

Homebuyers in British Columbia already carry an unfair tax burden. BC's land transfer tax is the highest among all provinces. In fact, the BC government places more than double the burden on its homeowners as the second-worst jurisdictions in Canada.

In 1987, the provincial government introduced the Property Transfer Tax of one per cent on homes up to \$200,000 and two per cent thereafter. At the time, it was considered a wealth tax. The two per cent portion was expected to be levied on only five per cent of homes sold; in 2008, the two per cent portion was levied on about 80 per cent of homes sold. The two per cent Property Transfer Tax levy is no longer only a wealth tax; it is now a tax on medium- and low-income households, as well.

Province wide in 2008, only 14 per cent of homes were sold for less than \$200,000 and qualified for the lower one per cent PTT threshold; in the Capital Region and Metro Vancouver, that proportion dropped dramatically to 4 per cent and 5 per cent, respectively. Because of the strong growth in housing prices since the PTT was introduced in 1987, the government has been receiving a tax revenue windfall from British Columbians who have chosen to move or had to move for employment or other reasons.

In May 2009, BCREA commissioned Mustel Group to conduct a survey of British Columbians:

- Four-in-ten planned or hoped to buy a home or property within the next five years, with about half expecting to do so in the next two years
- Affordability was the key barrier for those who planned to buy
- For about one in five who planned to buy, the Property Transfer Tax was a major financial barrier.

Table 2: BC Residential Transactions by Price Range (2008)

	<200K	200K-299K	300K-399K	400K-499K	500K-599K	Transactions below \$400,000	Transactions below \$500,000
Province	14%	21%	23%	15%	10%	58%	73%
Capital Region	4%	15%	21%	22%	15%	41%	63%
Metro Vancouver	5%	17%	24%	17%	12%	46%	63%
Fraser Valley	21%	26%	27%	16%	6%	73%	89%
Okanagan	15%	22%	25%	18%	10%	61%	79%
Kootenay	31%	29%	21%	10%	4%	82%	91%
Kamloops	24%	30%	29%	11%	4%	82%	93%
Northern BC	55%	29%	12%	3%	1%	95%	99%
Vancouver Island	21%	28%	28%	13%	5%	77%	90%

Sources: BC Assessment, BCREA Estimates

### Conclusion

BCREA is pleased with the opportunity to speak to the government directly about ensuring the economic health of the province. Together, the real estate sector and the government can make dramatic improvements to housing attainability with simple adjustments to the province's tax structure.

Representatives of BCREA would be pleased to discuss these issues further, as well as provide research or other support to help implement these recommendations.

Yours sincerely,



John Tillie  
President

### ***About the British Columbia Real Estate Association***

BCREA represents 12 member real estate boards and their approximately 17,500 REALTORS® on all provincial issues, providing an extensive communications network, economic research and analysis, government relations, required post-licensing courses and continuing education.

To demonstrate the profession's commitment to improving Quality of Life in BC communities, BCREA supports policies that encourage economic vitality, provide housing opportunities, respect the environment and build communities with good schools and safe neighbourhoods.



#### Economic Impact of Real Estate

- Every 100 residential transactions on the Multiple Listing Service® (MLS®) in 2007 generated nearly \$4.2 million in economic output and \$2 million in Gross Domestic Product (GDP).
- More than 102,000 homes were sold through the Multiple Listing Service® (MLS®) in 2007, totaling over \$4.3 billion in economic output and \$2 billion in GDP.
- Home sales generate employment: MLS® residential sales activity in 2007 generated more than 28,000 jobs.
- One hundred typical MLS® residential transactions added nearly \$1.3 million in household income. Total MLS® residential sales in 2007 contributed more than \$1.3 billion in BC household income.