

## Issue

On July 23, 2009, Premier Gordon Campbell and Finance Minister Colin Hansen announced that, effective July 1, 2010, British Columbia will adopt a Harmonized Sales Tax (HST) combining the 7% Provincial Sales Tax (PST) with the 5% federal Goods and Services Tax (GST) resulting in a combined sales tax rate of 12%.

## Impact on the real estate sector

The HST impacts the sector by increasing taxes on home purchase costs and associated professional services. New homes will be subject to the increased 12% HST rate, replacing the 5% GST now charged, and REALTOR® commissions, appraisals and other services that are currently exempt from PST will be subject to a 12% HST.

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 that new homes up to \$400,000 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 have to pay an additional 7% tax, even with the \$20,000 flat rebate.

In addition, the Property Transfer Tax already requires BC homebuyers to shoulder an unfair tax burden, contributing more than \$1 billion to the BC Government's general revenue during the 2007/2008 fiscal year.

Table 1: Selected Real Estate Transaction Taxes

Transaction costs	Before July 1, 2010	After July 1, 2010
Real estate commission	5%	12%
Property inspection	5%	12%
Appraisal	5%	12%
Survey certificate	5%	12%
Lawyer or notary fee	12%	12%
Costs of clearing title	5%	12%

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. On July 1, 2010, the same home buyer will pay \$103,551 in taxes due to the HST. In addition, the HST will increase the amount home buyers pay on almost all professional fees for transaction costs.

Housing is an important basic need and a significant component of the BC economy. Last year, consumers invested \$31.3 billion in residential real estate across BC and, in 2007, MLS® home sales generated \$2 billion in economic spin-offs and 28,800 jobs.

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% of the province's median pre-tax household income is required to cover home ownership costs.

Regardless of any rebate, the costs associated with buying and selling any type of real estate—residential or commercial—will increase, because the HST will apply to services that were previously exempt. 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.



Table 2: New Home Impacts

Geographic Region	Jan-June 2009 Average Single Detached Price	Property Transfer Tax	Current Tax System			Proposed HST						Net Impact
			GST	GST Rebate <sup>1</sup>	Tax Paid	HST	GST Rebate <sup>1</sup>	BC Gov't Rebate <sup>2</sup>	Total Rebate	Less Imbedded PST <sup>3</sup>	Tax Paid	
Vancouver CMA	\$896,792	\$15,936	\$44,840	\$0	\$60,775	\$107,615	\$0	\$20,000	\$20,000	\$17,936	\$85,615	\$24,840
Victoria CMA	\$668,655	\$11,373	\$33,433	\$0	\$44,806	\$80,239	\$0	\$20,000	\$20,000	\$13,373	\$58,239	\$13,433
Kelowna CMA	\$723,824	\$12,476	\$36,191	\$0	\$48,668	\$86,859	\$0	\$20,000	\$20,000	\$14,476	\$64,859	\$16,191
Abbotsford CMA	\$548,644	\$8,973	\$27,432	\$0	\$36,405	\$65,837	\$0	\$20,000	\$20,000	\$10,973	\$43,837	\$7,432
Chilliwack CA	\$448,690	\$6,974	\$22,435	\$83	\$29,326	\$53,843	\$83	\$20,000	\$20,083	\$8,974	\$31,760	\$2,434
Kamloops CA	\$476,335	\$7,527	\$23,817	\$0	\$31,343	\$57,160	\$0	\$20,000	\$20,000	\$9,527	\$35,160	\$3,817
Nanaimo CA	\$538,929	\$8,779	\$26,946	\$0	\$35,725	\$64,671	\$0	\$20,000	\$20,000	\$10,779	\$42,671	\$6,946
Prince George CA	\$363,491	\$5,270	\$18,175	\$5,450	\$17,994	\$43,619	\$5,450	\$18,175	\$23,625	\$7,270	\$17,994	\$0
Province	\$745,563	\$12,911	\$37,278	\$0	\$50,189	\$89,468	\$0	\$20,000	\$20,000	\$14,911	\$67,468	\$17,278

Source: CMHC, BCREA Calculations

## BCREA position

The British Columbia Real Estate Association looks forward to working with the provincial government to keep the impact of the HST as minimal as possible to ensure the attainability of housing for British Columbians. To that end, BCREA recommends the provincial government:

1. Keep the costs associated with buying and selling new homes, existing homes, commercial properties and major renovation projects neutral by way of an exemption of the tax proposed on the fees of home inspectors, appraisers, real estate licensees and notaries' conveyances.
2. Increase the rebate threshold on new housing from the proposed \$400,000 to \$500,000, with the threshold indexed for inflation and adjusted annually.
3. Amend the flat rebate of \$20,000 to a fixed percentage rebate of 4% for new homes over the rebate threshold.
4. A three year phase out the Property Transfer Tax to restore fairness with respect to buyers and uphold the principle of tax neutrality:
  - Starting on July 1, 2010, increase the 1% tax threshold to \$500,000
  - Starting on July 1, 2011, no Property Transfer Tax on homes under \$500,000
  - Starting on July 1, 2012, remove the Property Transfer Tax.

The British Columbia Real Estate Association represents 12 member real estate boards and their nearly 18,000 REALTORS® on all provincial issues, providing an extensive communications network, standard forms, economic research and analysis, government relations, applied practice courses and Continuing Professional Education.

To demonstrate the profession's commitment to improving Quality of Life in BC communities, BCREA supports growth that encourages economic vitality, provides housing opportunities, respects the environment and builds communities with good schools and safe neighbourhoods.



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

<sup>2</sup> Provincial government provides a 5% rebate on the provincial portion of the HST up to \$20,000, a flat rebate of \$20,000 is provided thereafter

<sup>3</sup> BC government assumes there is an imbedded PST of about 2% in the cost of new homes