



TREB: Misconceptions about the HST

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TREB PRESIDENT'S COLUMN AS IT APPEARS IN THE TORONTO STAR

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Even though consumers have been dealing with the HST since July 1st, it appears there is still confusion about its applicability to housing.

When it comes to housing, there is good news and bad news about the HST. The good news is that if you are buying a re-sale home, you will NOT pay HST on the purchase price of the home. On the other hand, if you are buying a newly constructed home, HST will apply.

The purchase price of re-sale housing was never subject to the old Provincial Sales Tax, or the federal Goods and Service Tax. When the provincial government began considering implementing a Harmonized Sales Tax, REALTORS® fought hard to ensure that the old exemptions for re-sale housing were maintained, which is exactly what happened. As a result, if you are buying a re-sale home, you don't have to worry about paying HST on the price of the home. That's money that you can keep in your pocket, or use to keep mortgage costs down.

Unfortunately, the same is not true for home buyers of newly constructed homes, which are subject to additional tax under the HST. Newly constructed housing has always been subject to the GST, meaning thousands of dollars of tax for home buyers choosing this option. Now, with the HST, new housing is also be subject to PST, meaning thousands of dollars in added costs for home buyers of new housing.

There is a silver lining for new housing: the provincial government provides a rebate of 75 per cent of the PST on the first \$400,000 of a newly constructed home, or a maximum of \$24,000. For example, someone purchasing a new home priced at \$500,000 would face

\$40,000 in additional tax from the provincial portion of the HST, which would be reduced to \$16,000 with the rebate. Obviously, the rebate softens the blow, but an extra \$16,000 of tax (in this example) for a newly constructed home is nothing to laugh at.

There is also encouraging news when it comes to real estate for businesses. Although the costs of purchasing or renting a commercial property are subject to HST, businesses are allowed to claim tax credits to offset these costs. Even better, when purchasing a commercial property, the business can claim the tax credits immediately so that no upfront costs are incurred for the HST, and cash flow is not impacted.

Taxes are not a topic that most people like to spend a lot of time thinking about, so I'm not surprised that there is still a lot of confusion out there about how the HST applies to housing. With that in mind, I hope I've helped to make the HST a little easier to understand, and, for home-buyers of re-sale housing at least, a little easier to swallow.

Bill Johnston is President of the Toronto Real Estate Board, a professional association that represents 30,000 REALTORS® in the Greater Toronto Area.

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