



Changes to Harmonized Sales Tax Structure & Transition Policies for New Housing

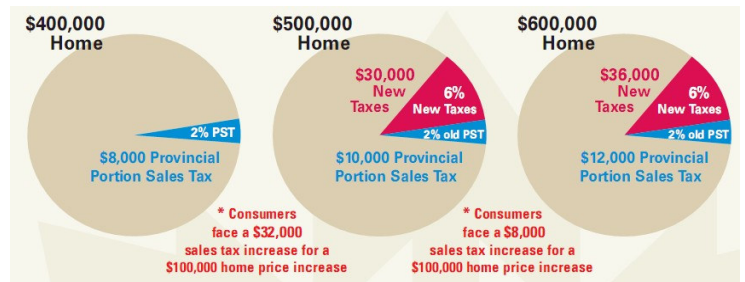
OHBA with the support of our 29 local associations has spent a considerable amount of association resources in dedication to a broader public education and MPP advocacy campaign to ensure that the public and politicians understand the implications of the harmonized sales tax on new housing, rental and renovation consumers as well as the impact on jobs. OHBA and BILD have undertaken a high-level advocacy and information sharing operation with a number of senior cabinet ministers and the Ministry of Finance. Significant progress has been made to enhance the tax structure as well as outlining a transition to the new tax regime that will protect consumers and jobs. Our attention now must be focused on the Federal Government to implement a progressive GST tax structure and to amend the out-dated federal definition of a 'substantial renovation'.

OHBA Strategy

- OHBA has met directly with a significant number of senior Cabinet Ministers and MPPs and through our network of 29 local associations most Liberal MPPs have met face-to-face with our members through the grass-roots campaign;
- An OHBA/BILD working group including the OHBA President and Chair of BILD have held numerous meetings with the Ministry of Finance to provide detailed information, advocate specific industry positions and discuss tax policy issues;

Original Tax Structure

- The initially proposed tax structure included two thresholds at \$400,000 and \$500,000;
- New homes under \$400,000 would have been charged an approximately revenue neutral tax rate of 2% for the provincial share of the harmonized sales tax;
- New homes priced between the \$400,000 and \$500,000 thresholds would have been taxed at a phased in rate between 2% and 8%;
- New homes over the \$500,000 would have been taxed at an 8% rate on the full quantum of the housing price, representing a regressive tax structure and significant barrier to housing affordability;
- There were no exemptions or rebates provided for secondary residences (investment rental properties and cottages), seniors housing, purpose built rental housing and residential renovations;



Updated Tax Structure

- The provincial government has implemented a progressive tax structure for the application of HST on new housing that is a significant enhancement over the initially proposed tax structure;
- A 2% flat tax (approximately the same amount of currently embedded PST in the price of a new home) would be applied to the sale price of a new home up to a \$400,000 threshold;
- An 8% sales tax would apply to the incremental sale price of a new home above the \$400,000 threshold;
- A maximum rebate of up to \$24,000 would be available to new home buyers;
- Similar to the enhanced new housing rebate, the province is proposing a rebate for new residential rental properties. This proposed rebate would support affordable rental housing across Ontario;
- This provincial rebate for new housing would be provided for the same types of properties for which the GST new housing rebate is available including: substantially renovated housing, co-operative housing, owner-built housing, housing on leased land, mobile homes and modular homes for use as primary places of residence;
- Ontario's new housing rebate would be federally administered in a manner similar to the GST rebate for new housing.

Impact of Tax Structure on Housing Market (Based on 2008 Tarion Data)

Ontario Market				GTA Market				Ontario without the GTA Market			
Sale price	Number of enrollments	Total enrollments	% of market	Sale price	Number of enrollments	Total enrollments	% of market	Sale price	Number of enrollments	Total enrollments	% of market
< 400K	47,105	61,320	77%	< 400K	23,536	33,408	70%	< 400K	23,596	27,912	85%
> 400K	14,215	61,320	23%	> 400K	9,872	33,408	30%	> 400K	4,343	27,912	15%

Impact of Improved Tax Structure on New Home Prices

Sales Price	Initial 2009 Budget Proposal			Enhanced HST Structure			
	Budget Threshold Effective Rate	Embedded 2%	New HST Tax (minus 2% embedded)	Embedded 2%	Progressive Rate of 8% on Balance above 400K	New HST Tax (minus 2% embedded)	Total Progressive HST Tax Improvement to the New Homebuyer
400,000	2%	\$8,000	\$0	\$8,000	0	0	0
450,000	5%	\$9,000	\$13,500	\$9,000	\$50,000	\$3,000	\$10,500
500,000	8%	\$10,000	\$30,000	\$10,000	\$100,000	\$6,000	\$24,000
550,000	8%	\$11,000	\$33,000	\$11,000	\$150,000	\$9,000	\$24,000
600,000	8%	\$12,000	\$36,000	\$12,000	\$200,000	\$12,000	\$24,000
650,000	8%	\$13,000	\$39,000	\$13,000	\$250,000	\$15,000	\$24,000
700,000	8%	\$14,000	\$42,000	\$14,000	\$300,000	\$18,000	\$24,000
800,000	8%	\$16,000	\$48,000	\$16,000	\$400,000	\$24,000	\$24,000
900,000	8%	\$18,000	\$54,000	\$18,000	\$500,000	\$30,000	\$24,000
1,000,000	8%	\$20,000	\$60,000	\$20,000	\$600,000	\$36,000	\$24,000

Transition Regulations

- Sales of new homes under written agreements of purchase and sale entered into on or before **June 18, 2009** would not be subject to the provincial portion of the single sales tax, even if both ownership and possession are transferred on or after July 1, 2010;
- The tax would also not apply to sales of new homes under written agreements of purchase and sale entered into after June 18, 2009 where ownership or possession is transferred before July 1, 2010;
- The transitional tax adjustment for homes or substantial renovations where the home is completed in full or in part after June 2010 would be calculated on the total purchase price of the home, as established for GST purposes, based on the extent of construction or substantial renovation completed as of July 1, 2010.
- For grandparented sales of newly constructed or substantially renovated homes that are residential condominiums, the builder would be required to remit a transitional tax adjustment and may also be eligible for an RST transitional housing rebate. The transitional tax adjustment would be calculated at two per cent of the total purchase price, as established for GST purposes, of the condominium unit or building, as applicable. Taken together, the transitional tax adjustment and the RST transitional housing rebate would approximate the tax that would have otherwise been embedded in the condominium, on average, under the current RST regime.
- Newly constructed or substantially renovated homes completed in full or in part prior to July 2010 would have RST embedded in the cost of the homes. For new homes that are subject to the provincial portion of the proposed single sales tax after June 2010, an RST transitional housing rebate would be available to provide relief in respect of the RST embedded in the home;
- Buildings under construction regardless of sales status will receive transitional rebates based on the amount of the amount of the structure completed. This would reduce the exposure of the builder to the new tax;
- For newly constructed or substantially renovated homes that are residential condominiums or traditional apartment buildings, the RST transitional housing rebate would be available to the builder rather than the purchaser.

Disclosure Requirements

- Builders will be required to disclose in the written purchase and sales agreement whether the provincial portion of the proposed single sales tax would apply to the sale for a newly constructed or substantially renovated home or rental home if entered into after June 18, 2009 and before July 1, 2010.

What is Next

- On behalf of our new homebuyers and consumers of residential renovations, OHBA will continue to strongly advocate for improvements of all associated taxes, levies, DCs and fees associated with new housing and renovations.
- Following the enhancement of the provincial HST structure, the industry will challenge the federal government to improve affordability within the GST structure and to make amendments to the definition of a 'substantial renovation';
- OHBA will continue to provide members with regular updates to assist member companies through the transition period;
- OHBA is planning an upcoming HST Seminar specific to the transition policies and further information on the new tax structure and transition policies will be detailed at the OHBA Board of Directors on Wednesday June 24th.

Please see the **Ministry of Revenue Information Notice for Further Details:**

www.rev.gov.on.ca/english/notices/str/02.html

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