



# Government Relations Issues Update

## Harmonized Sales Tax

### TREB Key Message

REALTORS® have serious concerns with a harmonized sales tax because it hurts the affordability of housing. Specifically, a Harmonized Sales Tax (HST results in the eight per cent provincial sales tax being levied on a variety of services, including legal fees, real estate commissions, and home inspections currently exempt under the existing tax structure. These new taxes add up to thousands of dollars in extra closing costs.

As real estate brokerages incur various business operating costs, there may be some potential opportunities for tax savings by way of tax credits.

### Background

In March 2009, the provincial government announced that it intended to harmonize the Provincial Sales Tax (PST) with the federal Goods and Services Tax (GST) into a single sales tax.

After a review of TREB's position on this issue by TREB's Government Relations Committee in September 2009, TREB continued to oppose the implementation of the HST. The following concerns were noted:

- The potential to adversely impact REALTORS'® clients and real estate markets will negatively impact REALTORS®
- The potential for REALTORS® and/or real estate brokerages to benefit from the HST is limited by the service nature of the industry (i.e. limited costs that would benefit from tax credits) TREB's image and

public relations will benefit from protecting the interests of REALTORS'® clients.

- REALTORS® are also consumers and can be negatively impacted by the HST like all consumers

The provincial government has indicated that it believes that potential tax savings for businesses from the HST (additional information provided below) will be passed on to consumers.

OREA has raised concerns about the potential impact of the HST on real estate markets. Specifically, OREA has estimated that, for an average home, the HST, would add over \$2,000 in new taxes on closing costs, including HST on REALTOR® commissions. For newly constructed homes, HST would apply to the purchase price. However, all newly constructed homes would be eligible for a rebate on the first \$400,000, which means that homes under this price would not be subject to additional tax. Newly constructed homes priced above \$400,000 could see significant tax increases.

OREA initiated a Call to Action to voice opposition to the proposed HST. TREB participated and it generated significant support from REALTORS® and the public. Approximately 11,000 REALTOR® emails (@ 4,000 from TREB Members) and 3,000 from the public were sent to government officials.

- Sales tax harmonization is also currently being proposed by the B.C. provincial government. The B.C. Real Estate Association is opposing this proposal and is mounting a public campaign against it.

*See next page*



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Other real estate related organizations, including the home builders associations, and the Federation of Rental Housing Providers of Ontario, have also strongly opposed the proposed HST, due to the increased tax on the purchase price of newly constructed homes and increases in tax on rental property operating costs.

In light of strong public opposition to the HST, the Ontario opposition parties (NDP and P.C.) mounted public campaigns against the HST.

Some business associations, including the Ont. Chamber of Commerce, support the HST, arguing that it will create administrative efficiencies, tax savings on business operations, and make Ontario more competitive.

As real estate brokerages incur various business operating costs, there may be some potential opportunities for tax savings by way of tax credits (for tax paid by the brokerage) to offset the additional tax collected from clients. The provincial government has indicated that it believes these savings will be passed on to consumers. For example, brokerage costs that are currently charged the PST could be eligible for new HST credits which are currently not available for current PST costs. Based on an analysis of typical real estate brokerage costs, the following costs may be eligible for new tax credits:

- Computer systems
- Office supplies
- Automobile purchases and expenses
- Gifts
- Insurance - property, mortgage, builders' risk policies (HST not payable on auto insurance, life insurance)
- Meals (prepared foods costing over \$4.00 as well as candies, confections, snack foods and soft drinks)
- Entertainment (on admission charges of more than \$4.00 to places of amusement)

- Advertising (only flyers and inserts, not ads printed in newspapers/magazines)

Brokerages also currently incur operating costs for which GST is payable, but not PST. After harmonization, these costs would be subject to the additional eight per cent PST, but would also be eligible for new tax credits to offset the additional tax. These include:

- Advertising (all types)
- Rent
- Payments to cooperating brokers
- Professional services / consultants
- Memberships

Any potential tax/cost savings realized by a brokerage as a result of the HST should be weighed against potential impacts on brokerage revenue from any negative impacts on real estate markets resulting from the HST, and/or market pressures to reduce REALTOR® compensation to pass on savings from new tax credits.

While not specific to Ontario or REALTOR® operations, the C.D. Howe Institute conducted a study to analyze the impacts of the HST in the Atlantic provinces where it has already been implemented (Nova Scotia, New Brunswick, and Newfoundland). This study determined that after HST implementation in 1997, overall, consumer prices “fell with the reform, although prices rose somewhat for Shelter ... and this tended to make the reform slightly regressive.” This C.D. Howe Institute analysis was conducted using Statistics Canada figures for shelter costs, which includes closing costs such as REALTOR® commissions and legal fees.

In November 2009, the provincial government passed legislation to move ahead with the HST, scheduled to take effect on July 1, 2010.