

# THE OPEN HOUSE

Your Window to REBGV Government Relations

August 14, 2009

Volume 4 • Number 8

## So many taxes and just one taxpayer



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Relations Committee

On July 23, 2009, Premier Gordon Campbell and Finance Minister Colin Hansen announced that the provincial and federal governments will combine the 7% provincial sales tax (PST) and the 5% federal GST into one 12% harmonized sales tax (HST), effective July 1, 2010.

They explained that over the long-term, the HST would lower business costs and boost investment, which would improve productivity, economic growth and the province's competitiveness.

Many members have emailed and called me wanting to know how much the HST will add to the cost of a home. It's not good news. Buyers of new homes will pay a 12% HST on top of the purchase price, instead of the 5% GST currently charged on new homes. A 5% rebate on the HST will be available to a maximum of \$20,000 for homes priced at \$400,000 or greater, with the GST rebate remaining in place. Paying 12% HST, instead of just 5% GST clearly impacts the affordability of new homes.

The 12% HST will also be charged on a broad range of goods and services, some not previously subject to the PST. These include home renovations, heating bills, electricity bills, closing costs, moving costs and REALTOR® fees. The increase in the price of these real estate related services further erodes affordability for all homes, both new and resale.

Members have also asked how the HST will impact pre-sales that complete after July 1, 2010. The government hasn't yet passed the HST into law and because of this they haven't yet hammered out the details of how to handle pre-sales. Once this

information is made available we will ensure the members are informed.

The HST will negatively impact home owners trying to go green. Currently, the provincial government offers PST tax breaks for energy efficient home improvements, such as buying and installing high efficiency furnaces, water heaters, windows, doors, skylights and insulation. Under the proposed HST, these exemptions will likely be gone.

It all adds up to too many taxes from the same taxpayer.

Given the impending impact of HST on the real estate industry, I've noticed a recent increase in business. Potential home buyers are looking at the rising cost of a home come July 1, 2010, and they are picking up their phone and calling their REALTOR® in hopes of beating the HST.

I don't like the HST. The taxes it will add are a disincentive to both affordable home ownership and to greening our homes and environment.

What's next? Our Board is working with the Fraser Valley Board and BC Real Estate Association to communicate our industry's concerns over the problematic implications of the HST. We're working on a strategy which will include a letter writing campaign for home buyers and for REALTORS®. We'll keep you updated.

Let me know what you think about the HST by emailing me at [GRChair@rebgv.org](mailto:GRChair@rebgv.org)

*Sylvia Sam*

Chair, Government Relations Committee

### The ABCs of the HST

On July 1, 2010, the HST combines the 7% PST and the 5% GST into one harmonized 12% tax.

The proposed HST will apply to the same goods and services as the GST, with some limited exceptions. A rule of thumb is if you now pay the 5% GST on goods and services, you will pay the 12% HST on the same goods and services. The PST will be eliminated on July 1, 2010.

There will be a limited number of exemptions to the HST, including point-of-sale rebates similar to current PST exemptions. These are not paid at the time of purchase and will include basic groceries, gasoline, and children's clothing and footwear.

There have been media reports indicating some goods and services previously exempt from the PST will be taxed under the HST as of July 1, 2010. These include home renovations, energy-efficient appliances and doors and windows, professional services, work safety equipment, home heating fuel, telephone, internet, cable, newspapers, magazines, bicycles, taxi fares and restaurant meals.

The government has not yet released specific details. We'll keep you up to date as information becomes available.

Will you pay tax on more goods and services than you currently pay with the PST? Yes. The HST will apply to all goods and services currently subject to GST. Under the GST, tax is payable on more goods and services than is payable under the PST.

# Business benefits

The business community, including real estate brokerages, personal real estate corporations and individual REALTORS® will realize benefits from the HST, according to the Board's auditors, BDO Dunwoody LLP.

BC businesses pay PST on many business goods and services or inputs such as fixed assets or goods that aren't resold to customers. Unlike with the GST, businesses haven't been able to recover the embedded PST, which has become part of the cost of doing business.

Under the HST, businesses will be able to claim input tax credits for the PST component of the tax. This will lower costs, and the savings could be

passed to customers through lower prices.

Businesses will no longer be required to deal with two tax systems. The federal government alone will administer the HST, instead of both the provincial and federal governments, which means less paperwork for businesses because of a single sales tax return and one set of rules.

The Ministry of Finance estimates the HST will save

the construction industry \$880 million, the manufacturing industry \$140 million, the transportation industry \$210 million, the forestry sector \$140 million, and \$80 million for mining and oil and gas annually. Overall, businesses will save \$150 million annually in compliance costs.

Some businesses, however, won't be further ahead, including rental apartment owners.



## Government Relations Advocacy Goal

The REBGV advocacy will result in an economic and regulatory environment that supports property ownership, sustainable communities and the business of real estate.



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*The Open House* is published by  
the Real Estate Board of Greater  
Vancouver

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Design - Jamee Justason



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## Rental apartment owners

The BC Apartment Owners and Managers Association (BCAOMA) estimates residential landlords will face increased costs of 2–2.5% for operating and maintaining an apartment building.

This is because goods and services now exempt from

the 7% PST will be taxed under the HST. These include maintenance, electricity and other services provided such as cable TV.

As is currently the case with the GST, landlords will not be able to claim input tax credits for the HST they pay and will

not be allowed to recover HST paid from tenants.

The BCAOMA has asked the Minister of Finance to meet to discuss ways to neutralize the costs associated with the HST either through exemptions and/or flow through rent adjustments.

## Commercial sales and leasing

The 5% GST that now applies to commercial sales and leases will be replaced by the 12% HST. Tenants and purchasers will be able to claim input tax credits.

## Real estate commissions

As of July 1, 2010, real estate commissions will be taxed at 12% instead of today's 5% GST. Commercial vendors will be able to claim input tax credits on the HST they pay to REALTORS®. However, individuals hiring REALTORS® will not be able to claim input tax credits.

## Pre-sales

Your clients may ask you for information about homes they are buying that are not yet built. The BC Government has not yet released information about rules for pre-sales, although there is some speculation on rules based on experience in Ontario and previous federal tax changes. As information is released by the BC Government, the REBGV will keep members up-to-date.

For information on the HST, visit the Ministry of Finance web site at [www.fin.gov.bc.ca](http://www.fin.gov.bc.ca) and go to the HST area.

# The HST and home buyers

## New Homes

The harmonized sales tax (HST) will combine the 7% provincial sales tax (PST) with the 5% federal GST into one 12% harmonized sales tax (HST) as of July 1, 2010.

Right now, a buyer of a new home pays a 5% GST. Qualifying home buyers can apply for a rebate of 36% of the GST paid on the first \$350,000 of the new home price, and a partial rebate for a new home price of \$350,000 to \$450,000.

When the HST is in force next summer, a buyer will pay a 12% HST on a new home. A buyer of a home priced at \$400,000 or less will receive a rebate of 5% to a maximum of \$20,000. A buyer of a new home priced at more than \$400,000 will receive a flat rebate of \$20,000.

- Today, a buyer of new home priced at \$600,000 will pay \$630,000, which includes the 5% GST (\$30,000).
- After July 1, 2010, that same home will cost a buyer \$638,824. This includes the 12% HST (\$70,588) minus the \$20,000 rebate and minus the embedded 2% PST (\$11,765) that builders will be able to claim as new input tax credits, the value of which may be passed onto the buyer.

## New Home - Includes all Taxes and Federal and Provincial Rebates

Base New Home Price	Pre HST Current Total New Home Price	July 1, 2010 On New Home Price - Less Embedded PST @ 2%	July 1, 2010 On New Home Price - No Builder PST Reduction
\$350,000	\$361,200	\$360,980	\$368,200
400,000	416,850	415,964	424,850
450,000	472,500	474,118	484,000
500,000	525,000	529,020	540,000
600,000	630,000	638,824	652,000
800,000	840,000	858,431	876,000

## Resale Homes

Both buyers and sellers of resale homes will pay the new HST on a range of goods and services including home inspections, appraisals, surveys, landscaping, renovations and REALTOR® fees.

**Closing Costs** From the tables which compare typical closing costs between today and after July 1, 2010 (see below & next page), we can conclude that the sale of a \$570,000 resale home will result in increased costs of approximately \$35 for the purchaser and \$1,316 for the seller.

In contrast, the sale of a new condominium valued at \$410,000 will result in a cost decrease to the purchaser of \$944 and an increase to the seller of \$741.

The situation changes considerably, however, when the home price goes up to \$600,000 where the GST rebate has disappeared. Under this scenario, the purchaser's cost under the HST regime would increase by \$8,617 and the seller's costs would increase by \$1,040.

Effective July 1, 2010, if a home builder provides a price reduction as a result of being able to claim back the 2% embedded PST, it may be less than it currently is to purchase a new home of \$400,000 and under.

*(Note: All tables are summaries. For explanatory calculations, go to [www.realtorlink.ca](http://www.realtorlink.ca) and look at In the Spotlight.)*

## Total Cost of an Actual Resale Home Sale/Purchase Transaction (July 2009) Purchase/Selling Price = \$570,000

Actual Purchase Price = \$570,000	Current Structure			
	Cost	GST @ 5%	PST @ 7%	Total
<b>Buyer</b>				
Purchase Price plus taxes and rebates	570,000	0	0	570,000
Property Transfer Tax	9,400	0	0	9,400
Notary Fees (legal):	500	25	35	560
Non taxable disbursements	240	0	0	240
GST taxable disbursements	70	4	0	74
Home Inspection	450	23	0	473
<b>Total Closing Costs</b>	<b>580,660</b>	<b>52</b>	<b>35</b>	<b>580,747</b>

July 1, 2010 On			
Cost (2)	HST @ 12%	Total	Additional Tax
570,000	0	570,000	0
9,400	0	9,400	0
500	60	560	0
240	0	240	0
70	8	78	4
450	54	504	31
<b>580,660</b>	<b>122</b>	<b>580,782</b>	<b>35</b>

Actual Selling Price = \$570,000	Current Structure			
	Cost	GST @ 5%	PST @ 7%	Total
<b>Seller</b>				
Commission	18,750	938	0	19,688
Notary Fees (legal):	500	25	35	560
Non taxable disbursements	240	0	0	240
GST taxable disbursements	70	4	0	74
<b>Total Selling Costs</b>	<b>19,560</b>	<b>967</b>	<b>35</b>	<b>20,562</b>

July 1, 2010 On			
Cost (2)	HST @ 12%	Total	Additional Tax
18,750	2,250	21,000	1,312
500	60	560	0
240	0	240	0
70	8	78	4
<b>19,560</b>	<b>2,318</b>	<b>21,878</b>	<b>1,316</b>

(2) PST on overheads claimed as ITCs has not been considered in the price of commission and other services

~ Continued on page four

**Total Cost of an Actual New Home Sale/Purchase Transaction (July 2009) Purchase/Selling Price = \$410,000**

Actual Purchase Price = \$410,000	Current Structure			
	Cost	GST @ 5%	PST @ 7%	Total
<b>Buyer</b>				
Purchase Price plus taxes and rebates	410,000	17,980	0	427,980
Property Transfer Tax	6,200	0	0	6,200
Notary Fees (legal):	500	25	35	560
Non taxable disbursements	240	0	0	240
GST taxable disbursements	70	4	0	74
Home Inspection	350	18	0	368
<b>Total Closing Costs</b>	<b>417,360</b>	<b>18,027</b>	<b>35</b>	<b>435,422</b>

July 1, 2010 On			
Cost (1) (2)	HST @ 12%	Total	Additional Tax
401,960	25,209	427,169	(811)
6,039	0	6,039	(161)
500	60	560	0
240	0	240	0
70	8	78	4
350	42	392	24
<b>409,159</b>	<b>25,319</b>	<b>434,478</b>	<b>(944)</b>

(1) Selling price with embedded 2% PST removed

Actual Selling Price = \$410,000	Current Structure			
	Cost	GST @ 5%	PST @ 7%	Total
<b>Seller</b>				
Commission	13,750	688	0	14,438
Notary Fees (legal):	500	25	35	560
Non taxable disbursements	240	0	0	240
GST taxable disbursements	70	4	0	74
Discharge of builder's mortgage	200	0	0	200
<b>Total Selling Costs</b>	<b>14,760</b>	<b>717</b>	<b>35</b>	<b>15,512</b>

July 1, 2010 On			
Cost (2)	HST @ 12%	Total	Additional Tax
13,549	1,626	15,175	737 (2)
500	60	560	0
240	0	240	0
70	8	78	4
200	0	200	0
<b>14,559</b>	<b>1,694</b>	<b>16,253</b>	<b>741</b>

(2) PST on overheads claimed as ITCs has not been considered in the price of commission and other services

**Illustrative Example - New Home Purchase/Sale Transaction Purchase/Selling Price = \$600,000**

Base Cost = \$600,000	Current Structure			
	Cost	GST @ 5%	PST @ 7%	Total
<b>Buyer</b>				
Purchase Price plus taxes and rebates	600,000	30,000	0	630,000
Property Transfer Tax	10,000	0	0	10,000
Notary Fees (legal):	500	25	35	560
Non taxable disbursements	240	0	0	240
GST taxable disbursements	70	4	0	74
Home Inspection	350	18	0	368
<b>Total Closing Costs</b>	<b>611,160</b>	<b>30,047</b>	<b>35</b>	<b>641,242</b>

July 1, 2010 On			
Cost (1) (2)	HST @ 12%	Total	Additional Tax
588,235	50,589	638,824	8,824
9,765	0	9,765	(235)
500	60	560	0
240	0	240	0
70	8	78	4
350	42	392	24
<b>599,160</b>	<b>50,699</b>	<b>649,859</b>	<b>8,617</b>

Base Cost = \$600,000	Current Structure			
	Cost	GST @ 5%	PST @ 7%	Total
<b>Seller</b>				
Commission	19,500	975	0	20,475
Notary Fees (legal):	500	25	35	560
Non taxable disbursements	240	0	0	240
GST taxable disbursements	70	4	0	74
Discharge of builder's mortgage	200	0	0	200
<b>Total Selling Costs</b>	<b>20,510</b>	<b>1,004</b>	<b>35</b>	<b>21,549</b>

July 1, 2010 On			
Cost (1) (2)	HST @ 12%	Total	Additional Tax
19,206	2,305	21,511	1,036
500	60	560	0
240	0	240	0
70	8	78	4
200	0	200	0
<b>20,216</b>	<b>2,373</b>	<b>22,589</b>	<b>1,040</b>

(1) Selling price with embedded 2% PST removed

(2) PST on overheads claimed as ITCs has not been considered in the price of commission and other services

**Ooops! We goofed**

In a July 17, 2009 article, "Short-term rental bylaws – what you need to know," we advised readers that property owners planning to rent their home or part of it during the 2010 Winter Games should comply with local zoning and business licensing requirements, strata bylaws and insurance requirements. We also stated that property owners should use established property management companies which are members of the Better Business Bureau (BBB).

We goofed! Thanks to Ron Schuss of Dorset Realty for letting us know that membership in organizations such as the BC Apartment Owners and Managers Association is just as valuable a credential as membership in the BBB. Thanks Ron! Please accept our apologies!