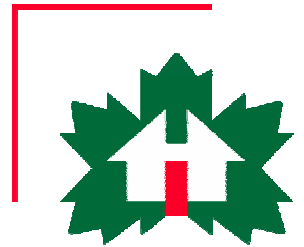




Canadian
Home Builders'
Association

SASKATCHEWAN



NEWS RELEASE

FOR IMMEDIATE RELEASE

Harmonization Adds Significant Costs for Home Owners, Renovations and New Home Buyers *...affordability threatened again.*

Saskatoon —January 3, 2008— For the home building industry experience in the provinces which have already harmonized sales taxes suggests that harmonization will be extremely detrimental to housing affordability, the industry and the ability to meet market demand.

The Industry Agenda Regarding Taxation of Housing

Despite that housing or shelter remains one of the basic needs supporting health and quality of life it seems that all governments view home owners, renters and housing generally as a significant revenue stream to support government programs while increasing consumer costs.

Municipalities add costs to new housing through numerous levies, fees and transaction costs rather than raise the mill rate for services that benefit the entire community. Municipal governments enjoy alarming surpluses through land costs and permit fees that virtually double based on the market forces and the value-based calculations of fees.

The entire tax system as it relates to housing must be addressed to enhance the understanding of the impacts of government imposed costs on housing and affordability. It is imperative that the various levies, fees, charges and taxes from all government levels be reassessed and rationalized. Consultations on the harmonization of the provincial sales taxes with the GST may provide an opportunity for understanding of the government role in the rising cost of housing.

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Potential Disadvantages of Harmonization for the Housing Sector

The GST from its inception has had significant impacts for housing.

- While it lowered the tax payable in materials used for construction, the ultimate product, the house became subject to a tax which was not levied previously.
- Since the implementation of the GST, “flippers” and operators in the underground economy play loosely with the principal residency rules to avoid many fees and charges including payment of GST, capital gains tax, payroll taxes and other fees for permits, and workers premiums among others.
- GST as with other taxes seems to have different treatments for different classes of housing.
 - ⇒ New houses are taxed at different rates while resale homes, including rentals, are exempt.
 - ⇒ Residential rents are exempt from the GST and as a result investors in residential property cannot use the GST deduction from constructions of their new building.
 - ⇒ On the other hand investors of new commercial / non-residential property may deduct the same construction costs.
 - ⇒ New non-profit housing, government sponsored projects, housing for students, the needy or disabled receives a rebate of roughly half of the GST.
 - ⇒ Sales of new homes not used as a primary residence are subject to full GST with no rebate.

Harmonization—Attractive in Theory

In the view of provincial governments there are three significant potential advantages.

- 1) Potential cost savings in the elimination of administrative costs.
- 2) Lower costs for business through full application of input tax credits, hence removing the cost of the PST from the businesses cost base.
- 3) A revenue grab by provinces may result as sales tax revenue is increased because of the broader base of goods that are taxable.

Harmonization—Disadvantages for Housing

Unless there were major adjustments to the harmonized tax rates which apply to housing both builders and consumers could be significant losers. Principally, the disadvantages outlined as a result of implementing GST itself would become more severe since the new harmonized tax applies to more inputs; is treated differently for different types of housing and costs themselves would become exacerbated as a result of the higher tax rate.

To avoid an increase in the cost of new housing and renovations, appropriate rebates on the tax payable must be available to new ownership, rental housing and renovations.

General principals to consider before giving harmonization serious consideration are:

- Will the price of new housing be affected?
- Will the costs of rental housing and renovations be affected?
- Will the system increase the administrative burden on business?
- Will industry capacity to build housing be diminished?

The residential construction industry in Saskatchewan holds firmly that harmonization at this point without consideration of other tax impacts on affordability would cause a significant dampening of the housing market and economy in Saskatchewan.

This Provincial Government should examine deterrents to housing development and the economy that are major factors affecting affordability especially:

- Unreasonable land title fees
- The education component included in property tax
- Support for infrastructure in growing municipalities to reduce development cost charges and fees

Municipal Governments need to examine their role in cost increases including:

- Tax treatment of different classes of housing
- Development costs charges and levies that offer broad benefits to the entire community.
- The fees charged by cities to effectively subsidize programs at the expense of new home buyers and home owners engaging in renovations.

Clearing the path to a positive climate for housing construction is in the interests of all communities in the Province.

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EXHIBIT 1

ILLUSTRATIVE EXAMPLE OF EFFECTS OF HARMONIZATION ON NEW HOUSE PRICES

Provincial Sales Taxes Included in New House Prices

| | |
|--|-----------|
| Typical new house price including GST | \$150,000 |
| Estimated materials share | 25.0% |
| Estimated cost of materials | \$37,5000 |
| Non-taxable materials | \$1,500 |
| Taxable materials | \$36,000 |
| Provincial sales tax rate | 8.0% |
| Provincial sales tax payable on materials used in the house | \$2,880 |
| Provincial sales tax payable on other items | \$300 |
| Total provincial sales taxes | \$3,180 |

Effective Rate of PST

| | |
|---|-----------|
| Price of typical new house (including GST) after removal of provincial sales tax | \$146,820 |
| GST (less rebate) | \$4,651 |
| Price of typical new house excluding both GST and provincial sales tax | \$142,169 |
| Effective provincial sales tax rate | 2.2% |

If No PST Rebate

| | |
|--|-----------|
| Assumed new provincial sales tax rate | 8.0% |
| Total tax including GST less rebate (3.2%) | 11.2% |
| Total tax payable | \$15,923 |
| Price of house including taxes | \$158,092 |

Estimates of PST in Housing (Exhibit 2)

Exhibit 2 presents estimates of the amount of PST in new house prices in 30 centres across Canada in 2002 (including the harmonized provinces) from the report *Levies, Fees, Charges and Taxes on New Homes, 2002*, prepared for CMHC. The estimates are out of date (2002); however, the report is currently being updated by CMHC. Associations may use these estimates (or the updated estimates) as a check on their estimates of the amount of PST in new houses in their provinces.

EXHIBIT 2

EXCERPT FROM STUDY ON LEVIES, FEES, CHARGES AND TAXES ON NEW HOUSING, 2002

Estimated Provincial Sales Taxes Typical Modest Single-Detached Houses, 2002

| Municipality | Price | Provincial Sales Tax | Percentage of Price |
|---------------------------------|----------------|-------------------------|------------------------|
| <i>Harmonized Provinces</i> | | | |
| St. John's | 130,000 | 10,400 | 8.0% |
| Halifax | 140,000 | 11,200 | 8.0% |
| Moncton | 120,000 | 9,600 | 8.0% |
| Montreal | 145,000 | 7,272 | 5.0% |
| Laval | 155,000 | 7,773 | 5.0% |
| Longueuil | 140,000 | 7,021 | 5.0% |
| Gatineau | 135,000 | 6,770 | 5.0% |
| Quebec City | 110,000 | 5,517 | 5.0% |
| <i>Non-Harmonized Provinces</i> | | | |
| Charlottetown | 125,000 | 5,405 | 4.3% |
| Toronto | 285,000 | 5,867 | 2.1% |
| Mississauga | 260,000 | 5,256 | 2.0% |
| Vaughan | 275,000 | 5,519 | 2.0% |
| London | 160,000 | 4,454 | 2.8% |
| Ottawa | 230,000 | 5,565 | 2.4% |
| Sudbury | 150,000 | 4,234 | 2.8% |
| Windsor | 150,000 | 4,117 | 2.7% |
| Winnipeg | 145,000 | 4,251 | 2.9% |
| Regina | 135,000 | 2,922 | 2.2% |
| Saskatoon | 145,000 | 2,965 | 2.0% |
| Calgary | 175,000 | - | 0.0% |
| Edmonton | 165,000 | - | 0.0% |
| Grande Prairie | 130,000 | - | 0.0% |
| Burnaby | 395,000 | 5,425 | 1.4% |
| Surrey | 315,000 | 5,930 | 1.9% |
| Kelowna | 210,000 | 4,452 | 2.1% |
| Prince George | 160,000 | 4,072 | 2.5% |
| Saanich | 255,000 | 4,827 | 1.9% |
| Whitehorse | 150,000 | - | 0.0% |
| Yellowknife | 165,000 | - | 0.0% |
| Average | 188,833 | 4,853 | 2.6% |

Source: Levies, Fees, Charges and Taxes on New Housing, 2002,
prepared by Greg Lampert for CMHC, 2003.