

Tax Alert

September 2010

A Canadian Home Builders' Association report on the taxation of housing and land

HST payments to provinces now an issue for Flaherty

Finance Minister Jim Flaherty says that, with analysts forecasting economic growth of 3.5 per cent this year, "the track is good" for his next budget, expected early next year and expected to contain tough medicine for cutting the deficit.

He acknowledges that one thorny issue is the need to account for payments to the provinces adopting the harmonized sales tax (HST) which combines federal and provincial sales taxes into one collection, rather than collecting them separately.

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The government agreed to provide \$4.3 billion to Ontario and \$1.6 billion to British Columbia to ease the impact to consumers of HST on items not previously covered by the old provincial sales tax.

"We don't have fun with figures here," Flaherty says, adding that officials are figuring out whether it's best to account for the cost over several years or take the hit in one year.

In his latest budget update, forecasting a \$2.8 billion deficit, B.C. Finance Minister Colin Hansen said the federal transfer to B.C. is "hugely beneficial." Without it, he said, "we'd be looking at a significantly higher deficit."



BC Finance Minister Colin Hansen

B.C. petition is valid but repeal legislation open to change



Bill Vander Zalm

A ruling that a petition generated by a citizens' initiative to kill British Columbia's harmonized sales tax (HST) is valid has rekindled strong controversies over the handling of the issue.

Acting Chief Electoral Officer Craig James ruled that while valid, he will not send the petition to the legislature until court actions on the issue are resolved. The petition, organized by former Premier Bill Vander Zalm, contained 700,000 signatures, enough to cover the requirement of 10 per cent of registered voters in all 85 ridings.

"We will not stand for this," fumed Vander Zalm. "We will move to recall every Liberal MLA in the province if that's what it takes." He called the move a stall tactic because the court cases could take years to settle.

One is a challenge to the constitutionality of the tax, filed by the Fight HST campaign, the organizers of the petition. The other, brought by business organizations, challenges the validity of the petition.

Further inflaming the situation is an affidavit by James, filed in the court challenge to the validity of the petition. It notes that once the petition, containing draft legislation to repeal the HST, is filed with the legislature, the government is under no obligation to enact it in letter or in spirit. The government has a full range of options, he notes, including further public consultations, amending, deleting or adding clauses. "The final wording of the bill is left to the legislative assembly after review and debate."

Survey cites confusion over HST on housing

Royal LePage Real Estate Services says almost half of its realtor members believe the harmonized sales tax (HST) is the main reason for the cooling housing market in British Columbia. The HST was considered a bigger threat than rising interest rates.

"We wanted to understand the impact HST has had since it was introduced, and what we found is that there is a need to better educate home buyers and sellers to ensure they understand when the HST is applicable," said Phil Soper, chief executive of Royal LePage. "According to our realtors who work in B.C. and Ontario communities every day, misconceptions about the HST are having an effect on the market in both provinces." He said the survey showed that many home buyers incorrectly believed the HST applies to resale housing.

In a related development, former B.C. Premier and anti-HST campaigner Bill Vander Zalm said there has been some confusion over the application of HST rules to new homes. He cited a case where a buyer of a new home that was priced under the threshold for HST had to back out because he was told he had to pay the tax up-front and wait for a rebate on his taxes in a year.

HST blamed for drop in business confidence

Business confidence in British Columbia fell in July, most likely as a result of introduction of the harmonized sales tax (HST), according to the Canadian Federation of Independent Business. The CFIB's monthly barometer index for B.C. fell from 72.3 in June to 70.3 in July.

"My gut feeling is that the introduction of the HST hasn't helped and many businesses are quite worried about the impact of HST will have on their bottom line," said Laura Jones, the CFIB's vice-president for Western Canada. The CFIB's membership in B.C. has been divided over the HST, some seeing the tax as a benefit because it simplifies the tax system, others having concerns about customer reaction to paying more for items that were not previously taxed.

Campaign planned against B.C. transfer tax

The British Columbia Real Estate Association (BCREA) is gearing up for a campaign against the province's property transfer tax (PTT). The tax is one per cent of the first \$200,000 of the price of a home and two per cent on any amount above that. Many buyers get a shock when, on closing a purchase, they find they have to pay an additional \$5,000 on a \$350,000 home.

The BCREA is proposing a gradual phase-out of the tax, starting with eliminating the first one per cent, following a year later by removing the tax on all homes under \$500,000, eventually abolishing the tax completely.

Professor Stanley Hamilton of the University of British Columbia, who conducted a study for BCREA, said the way the tax applies in B.C. makes it "the highest property transfer tax in Canada" outside of Toronto where a separate municipal tax makes the total higher. Similar taxes apply in Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island.

Ontario scraps controversial eco fees



Ontario Environment
Minister John Gerretsen

The Ontario government scrapped its controversial eco fees program less than three weeks after it went into effect on July 1, blaming poor communications for its lack of acceptance.

"These new eco fees are gone," Environment Minister John Gerretsen said. Fees paid on the purchase of products since July 1 will not be refunded, he said but will be turned over to Stewardship Ontario, the government-appointed, industry-led organization that ran the program. The fees applied to a wide range of products, including paint, batteries, fire extinguishers and soap. They were collected by manufacturers and retailers to help fund a recycling program that diverts the listed products from landfills.

Consumers, business and legal experts said the fees were confusing, unfair and, possibly, illegal. Gerretsen said the government will take 90 days to re-evaluate the program and provide up to \$5 million during that period to keep the program alive. One report noted that "consumers won't be paying eco fees – taxpayers will."

While the fees will not be returning, Gerretsen defended the program and made it clear that other ways of financing will be examined. "That kind of a program comes at a cost," he said.

New Brunswick realtors campaign on property taxation

The New Brunswick Real Estate Association has issued a discussion paper calling for property tax reform. Jason Stephen, chair of the association's government relations committee, said many residents have faced record increases in property taxes since 2003.

"The tax assessment base (since 2003) has increased by over \$15 billion – that's an increase of nearly 50 per cent on the backs of New Brunswickers," he said. The association's paper is designed to make taxation a prime issue in the provincial election, just a few weeks away.

The paper calls for transitioning property value assessments to reflect real market conditions; simplification and standardization of property assessment calculations; making the system easier for homeowners to understand; eliminating double taxation on non-owner occupied properties; and providing increased assistance to people over 65 to help them maintain homeownership.

Better to raise tax exemption than wages, CFIB says

The Saskatchewan government's plan to raise the basic personal income tax exemption is a better way to allow low income earners to keep more money than increasing the minimum wage, the Canadian Federation of Independent Business (CFIB) has said.

The CFIB applauded the government's decision to hold the minimum wage at \$9.25, saying that an increase has a ripple effect up the organizational line, with every employee expecting an increase relative to that of the minimum wage. The government has said it will raise the basic tax exemption from \$8,945 to \$13,348.

The CFIB also suggested providing flexible tax credits to encourage business owners to invest in the development of employees' skill sets.

Toronto - The land rich, cash poor development company

Build Toronto, a corporation set up in 2008 to develop the city's surplus land, says it needs \$200 million in loan guarantees and a property tax exemption, before it proceeds with its land development. "Build Toronto is land rich but cash poor when compared to a mature development company," says the corporation's first annual report. The corporation lost \$4.6 million in its first full year of operation. Much of its time has been spent hiring staff and developing a strategy for developing the \$200 million worth of land in its portfolio.

Niagara - St. Catharines bids for lower industrial tax rate

St. Catharines councilors have called on the Niagara Regional government and the province to lower industrial taxes rates to make industry more competitive. They said the 2009 industrial tax rate in St. Catharines was six per cent, compared with an average of 4.8 per cent in the province. They said reducing the Niagara industrial rate to 4.8 per cent "would significantly reduce the tax burden on the industrial sector without significantly increasing the tax burden on the residential sector."

Windsor - Tax breaks eyed as means of boosting economy

Mayor Eddie Francis has announced that he is working on a plan to have Windsor designated as a Community Improvement Plan so it can offer tax breaks or bonuses to potential investors to diversify the city's beleaguered economy. He believes it will take only three or four months to secure the designation under the Ontario Planning Act. If successful, Windsor would be the first city in Canada to offer tax holidays that have proved successful in luring investment to southern U.S. states. Property taxes have been virtually frozen in Windsor for five years but because they are already high, the freeze has made little impact.



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