



Bob Aaron bob@aaron.ca

May 24 2003

Deductions not fair and not necessary

Are government taxes and levies on new homes too high? Should they be lower? Do we really need mortgage interest deductibility to stimulate the construction and sale of new homes and condominiums?

These questions arise in the wake of a new report by Canada Mortgage and Housing Corp. (CMHC), along with the release last week of the election platform of the provincial Tories.

In his Bricks and Sticks column in this section two weeks ago, Joe Valela, the president of the Greater Toronto Home Builders' Association (GTHBA) called the proportion of the cost of a new home paid directly to the three levels of government "shocking" and "frightening."

I agree with Valela's response to a new CMHC report entitled "Levies, Fees, Charges and Taxes in New Housing (2002)." That study examined the impact of government charges on the cost of new residential housing in 30 municipalities across Canada.

It found that government charges on the average single detached home could be as high as \$48,327 in Vaughan and \$44,194 in Mississauga.

At the federal level, everybody in Canada pays 7 per cent GST on their new purchases except buyers of new homes. They pay 4.48 per cent. Sure, that's a lot of money, but it's a 36 per cent tax discount not available on anything else.

Every time a new housing unit is built, the local municipality is responsible for hard costs like sewers, water and roads, and soft costs for libraries, parks, police, schools, transit and the like. Vaughan charges \$27,279 for these costs and Mississauga rings in at \$24,305.

Are those costs accurate? I have yet to see any statistics showing that municipalities are overcharging builders and buyers more than it actually costs them to service each new residence.

The truth is that if the new-home buyer does not pay for these costs, they would have to be assessed against all municipal taxpayers, including those who have already paid for their homes. Our elected representatives have presumably calculated and allocated these costs equitably against each new home. It seems to me that the fairest way to absorb these charges, as high as they are, is to add them to the cost of each new home.

On the provincial level, new-home buyers get hit with \$5,000 in provincial sales tax for each new home. In fairness to all taxpayers, however, the same sales tax should be charged on a sink or anything else whether it goes into a new home or an old one. If new homes were exempt from the PST, the rest of us who do pay the tax would be subsidizing the buyers and builders of new homes.

In Ontario, the provincial government has made a huge contribution to the new-home industry and the Ontario economy by forgiving the first \$2,000 of land transfer tax for each first-time buyer of a newly built home. That plan has helped tens of thousands of purchasers to finance their new homes.

I applaud the provincial government for its highly successful efforts to stimulate construction of new homes. What I disagree with, however, is the Tory proposal to provide deductions to homeowners for mortgage interest. Their election platform would allow homeowners to deduct the first \$5,000 of mortgage interest from their income for provincial tax purposes. This would initially save homeowners up to \$100 in the first year of the program. Will this savings really make a difference to home ownership? I doubt it.

Interest deductibility, it is said, will encourage renters to get into home ownership. The fact is that tenants have been abandoning their apartments by the tens of thousands to move into new housing. As a residential landlord, I've known that for months.

Rental vacancies in the Toronto area are running at levels not seen in decades, and new homeowners seem to be doing fine without the ability to deduct mortgage interest payments. In addition, the building industry seems to be working at peak capacity just to keep up with the demand for new homes and condominiums.

The Tories calculate the cost of the interest deductibility at \$140 million the first year, rising to \$700 million in the fifth year, but a TD Bank economist pegged the cost at \$4 billion in the fifth year.

Whatever the true figure is, the program cost is going to have to come from the pockets of all taxpayers, including tenants who will be subsidizing homebuyers. Is that fair?

If taxes on new home construction go down at any government level, somebody else's taxes will have to go up to finance the shortfall. Before we start tinkering with lower taxes on new-home construction, we're going to have to be very, very careful about who will be subsidizing the reductions.

Bob Aaron is a Toronto real estate lawyer. Send questions to Bob Aaron, 10 King Street East, #1400, Toronto, Ontario M5C 1C3, or by e-mail to bob@aaron.ca, phone 416-364-9366, or fax 416-364-3818.