



Bob Aaron bob@aaron.ca

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Harmonized tax would hit renovations, resales

The already battered real estate industry had reason for concern when Premier Dalton McGuinty said last month that "we owe it to ourselves to take a good, long hard look" at harmonizing the GST with the Ontario provincial sales tax.

In his column in this section on Jan. 31, Stephen Dupuis, president of the Building Industry and Land Development Association, pointed out that buyers of new homes would be hit particularly hard if Ontario harmonized the PST with the federal GST.

On a \$350,000 new home, he wrote that the consumer would have to pay an additional \$17,920. But it's not just buyers of new homes who would be affected by a merging of the two taxes. Buyers and sellers of resale homes would also be hurt because a harmonized tax would apply to many services that are currently exempt from PST including legal fees, real estate agent commission, renovation services, land survey reports, home inspections, landscaping and house cleaning services. Also affected would be the cost of labour for installations or repairs, including additions, kitchen renovations, driveways, roads, fences, swimming pools and patios.

Assuming no change in the provincial sales tax rates, the seller of a \$350,000 resale home would get hit with an additional \$1,400 in tax on a real estate agent's 5 per cent commission, plus a new 8 per cent provincial tax on moving expenses, legal fees, accounting and bookkeeping fees, renovations, painting and other services which are currently exempt.

I agree with Frank Giannone, president of the Ontario Home Builders' Association, who calls harmonization a "poison pill" for housing. It would also have a serious impact on access to justice for ordinary Ontarians as their legal fees would jump an additional 8 per cent.

Of course, none of this matters to the Ontario Chamber of Commerce and other business groups who are pushing for harmonization. According to chamber chairman Len Crispino, if the taxes are blended, Ontario business stands to save an estimated \$100 million. That saving would be dumped onto the wallets of hard-hit Ontario consumers.

Toronto home buyers have still not recovered from the imposition of the "Miller bite" land transfer tax last year. In a market where the volume of home sales has dropped by almost half over the first month of 2008, and house prices have softened considerably, the last thing Ontario needs is a new 8 per cent tax on legal fees, agent commission and other costs related to the purchase and sale of new and resale homes.

The home renovation industry could also be badly affected by a harmonized tax. In a pre-budget submission to the Minister of Finance last month, the Ontario Home Builders' Association noted, "The renovation industry is already plagued by the growing underground economy with the GST acting as the catalyst for the 'cash deal'. Many legitimate renovation businesses would be in serious peril if they were to add an additional 8 per cent in PST onto their quotes when competing with the black market."

In case anyone thinks that the chances of a harmonized PST and GST are somewhat remote, they have only to look at the website of the Canada Revenue Agency to see that the Ontario Ministry of Finance and the Canada Revenue Agency have already teamed up to offer dozens of joint seminars on a harmonized sales tax all across the province throughout 2009. The effort and cost put into creating these seminars is a clear indication that harmonization is in the cards.

The last word on harmonization goes to Toronto real estate guru Barry Lebow, who is a land economist, appraiser, arbitrator and educator with 40 year's market experience. When I asked him what he thought about tax harmonization, he replied, "I hate the idea as a small businessman and as a professional. Harmonization only works well for singing groups!"