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## HST will box home buyers, builders into bizarre deals

I learned of a new term in the housing industry last week. "White box" refers to a newly constructed house or condominium unit that is built to the minimum standards necessary to comply with the Ontario Building Code.

It may have one sink, one toilet and one bathtub. The floors will be raw plywood, the landscaping and kitchen unfinished, and the drywall will only be painted with one coat of white primer thus the name white box. The unit will be sufficiently completed to comply with municipal occupancy requirements, but it will be a shell.

Although this type of construction has rarely been seen in the local housing market, there is a good likelihood it will become very popular if the McGuinty government introduces its legislation harmonizing the provincial sales tax with the federal goods and services tax (GST).

Under the harmonized tax (HST) regime, the buyer of a new home priced under \$400,000 would receive a rebate of 75 per cent of the provincial portion of the sales tax. Effectively, then, the builder of a \$400,000 home would be charging the consumer about \$2,000 in provincial sales tax, about the same amount of tax that is included in the house price today.

The provincial sales tax (PST) rebate disappears on a home priced at \$500,000, which is assessed the full 8 per cent tax of \$40,000.

At present, the price of a \$500,000 house includes about \$10,000 in provincial sales tax on items such as lumber and bricks. Under harmonization, the tax on that home jumps from 2 to 8 percent an increase of \$30,000.

Put simply, today a builder sells a home for \$400,000, which includes \$2,000 in PST. Under the harmonized tax, the price is the same. But if the builder prices a home at \$500,000, the harmonized tax will mean the house has to sell for \$530,000 a 6 per cent increase.

For that \$100,000 home price increase, consumers next year will face a sales tax increase of \$30,000. On a \$600,000 home, the new taxes will be \$36,000.

So let's assume that next summer a buyer wants a house which today sells for \$500,000. The price of that house after harmonization kicks in will be \$530,000.

Frank Giannone, president of the Ontario Home Builders' Association, told me that when the HST kicks in, he will be forced to explore with customers interested in homes priced at more than \$400,000 whether they would be interested in buying a "white box" house to keep the price under \$400,000.

Here's how it would work. The builder and buyer of a \$500,000 house agree to strip out about \$100,000 in extras, so the home sells for just \$400,000 including the "old" PST.

The buyer then makes a separate arrangement with another contractor to finish the house with \$100,000 worth of extras, such as kitchen cabinets, granite countertops, bathroom tile, flooring, upgraded electrical fixtures, painting and landscaping. If the contractor works for cash, there is no 13 per cent tax, and the total price of the house will be \$500,000. If the original builder did the \$100,000 worth of extra work, the house price, including tax, would be \$530,000.

Faced with a choice of paying \$500,000 or \$530,000 for the same house or condominium, most of the new home buyers I know would opt for the cheaper route.

Of course, the question arises as to whether the additional work would void the Tarion new home warranty, but that depends on many factors, including the type of work done and whether the second contractor is a registered home builder.

The way I see it, current plans for tax harmonization pose a huge danger to the \$37.8 billion residential construction industry, and point to a huge growth in the underground economy involving cash deals to complete white-box houses.

Harmonization will be devastating for housing affordability at the worst possible time for the provincial economy. As presently structured, it's a huge mistake.

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