

Canadian homebuyers hit with unfair burden

Staff Writer

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CANADIANS are being hit with an unfair tax burden when purchasing a home because governments are not adjusting taxation thresholds to reflect rising real estate values, a new industry study says.

This inequitable surge in taxes collected on home sales, as well as outdated limits on what can be withdrawn from retirement savings to make a down payment, has steadily eroded housing affordability, says the report by the Canadian Association of Accredited Mortgage Professionals (CAAMP).

It recommends that the tax thresholds and retirement savings withdrawal maximums be updated and regularly reviewed to reflect increases in new housing price indexes.

CAAMP put the Manitoba government under fire for failing to make any adjustments to land transfer taxes, the one-time fees paid by purchasers of new or existing homes.

On an average-priced home, Manitobans paid \$1,268 in land transfer taxes in the first nine months of 2007, a 358 per cent increase since 1997. But during that same period, the average resale price of a home rose only 97 per cent. This has occurred because the land transfer taxes are calculated based on sliding scales that have not been adjusted. "These land transfer taxes and the extent to which they have increased are unfair and unjustifiable," the report contends.

Land transfer taxes kick in above the first \$30,000 paid on a home. They start at 0.5 per cent, and incrementally rise in four steps, topping out at 2.0 per cent on any portion of a home's value above \$200,000.

Richard Groen, assistant director of tax policy for Manitoba Finance, acknowledged there has been a rise in land transfer revenues, but suggested it be viewed in a broader perspective and pointed to the fact that education taxes have been reduced. Since 1999, the Manitoba government has increased the education property tax credit from \$250 to \$525.

"The revenues have gone up but the government has reduced educational property taxes by \$230 million (annually), so the additional amount that we get in land transfer taxes is basically one-tenth the amount the government has now paid out in additional annual benefits to homeowners throughout the province because of reductions it made since 1999," said Groen.

Groen said the Manitoba government will examine the CAAMP study as part of its 2008 budget consultations process. He noted that if the education property tax credit had been indexed to the rise in housing prices, the credit would only be \$307.50 today instead of \$525. "And those tax credits provide an annual benefit to the homeowner, as opposed to the one-time payment of land transfer tax that you pay when you purchase a house," Groen said. He added that given recent record-home sales and prices,

"the land transfer tax doesn't seem to have had any effect on the robust housing market in Manitoba."

Don Cook, chairman for civic and legislative affairs for the Winnipeg REALTORS, said linking discussion of the transfer tax with the education tax credit is "mixing apples and oranges."

"It's a totally different situation," said Cook. Having to pay land transfer taxes up front is diminishing housing affordability for young people in particular, he said.

"If you want to spend \$150,000 on a house today, you're going to get modest accommodation, and yes, you'll get an education tax rebate. But when you go and buy that house, a lot of these people are scraping every last dollar for a down payment.

"When they go to their lawyer and get hit by this land transfer tax, which would be about \$1,050 on a \$150,000 house today, these young people, they just don't have the money," he said.

"We think the education tax should be funded from general revenues and we believe the land transfer tax should be indexed," Cook added.

The CAAMP report also took aim at the Home Buyers' Plan, a federal program that allows first-time buyers to withdraw money from their registered retirement savings plans to help pay for down payments. Withdrawn amounts must be re-contributed to the RRSP over a 15-year period or else they become taxable. Even though the average house price in Canada has doubled since the plan came into effect in 1992, the maximum amount allowed to be withdrawn -- \$20,000 per individual or \$40,000 per couple -- has remained unchanged.

As a result, the amount of other finance that buyers must find has increased very rapidly and "the plan is providing much less support to home-buying in Canada," the report says. For couples making the maximum withdrawal, the amount of other financing that must be acquired has increased by an average of 161 per cent in Canada since 1992, it adds.

If linked to the new housing price index, maximum allowable withdrawals would now be over \$28,000, CAAMP says.

While not arguing with those statistics, a Finance Canada official in Ottawa noted that housing affordability has generally improved over the past 15 years, even with the increases in housing prices, due to higher household incomes and relatively low financing rates.

The official also alluded to the dangers of allowing Canadians to make higher withdrawals from their RRSPs, which are primarily intended to encourage Canadians to save for their retirement.

"It is therefore important to ensure that allowing RRSP withdrawals to finance home purchases does not put at risk the ability of Canadian families to meet their retirement needs," the official said. It's sentiment that is shared by some financial planning experts, who warn against relying too much on RRSP withdrawals in buying real estate.

MaryAnn Kokan-Nyhof, a Certified Financial Planner in Winnipeg, said Canadians will probably be better off if the RRSP withdrawal maximums are not raised.

"In my experience, some people are withdrawing money from their long-term retirement savings plans as the only source of a down payment and in some cases not repaying it, which further erodes their

future retirement income," said Kokan-Nyhof. "Once the RRSP contribution room is used up, and if the repayment is not made, it cannot be recaptured. Furthermore, they will never get back the lost tax-free compound growth on that money."

Studies have shown that lower-income Canadians are the most likely to withdraw money under the program, she noted. And they are the ones who can least afford to deplete their retirement savings.

But Lorne Weiss, a director of the Canadian Real Estate Association (CREA) and the group's federal affairs committee chairman, said repayment into the plan has not been a problem.

A recent CREA study, which has not been made public, found the level of repayment is "right on par with any other repayment schemes that are out there," said Weiss. Weiss said CREA, which successfully lobbied the government to bring in the program in the 1990s, plans to join forces with CAAMP in pressuring the government to adjust the thresholds.

"We actually had a very good response from individual MPs... but we're still finding there's that resistance coming from the Finance Department. We're puzzled by the resistance to the plan."

The report also criticizes the GST new homes rebate, which entitles buyers of new homes to get a refund of 36 per cent of the GST paid. When the GST was introduced in 1991, it reduced the effective GST rate to 4.48 per cent from seven per cent.

But Ottawa also imposed limits on the amount of the rebate, with the full 36 per cent reduction only available for homes priced up to \$350,000. The rebate is phased out for houses priced between \$350,000 and \$450,000, and there is no rebate for homes above \$450,000.

With the sharp rise in housing prices in Canada, fewer homebuyers are getting the full or partial rebate.

In 1991, 91 per cent of new single-detached and semi-detached homes were priced below the \$350,000 threshold, but in 2007, that number has shrunk to just 52 per cent across Canada.

The effective amount of GST paid on a home has increased by 95 per cent from 1991 to 2007, 2.5 times more than the growth in average weekly wages in Canada, the report says. Even with the reduction in the GST to five per cent at the start of this year, the amount of GST will be 67 per cent higher than in 1991.

If updated to reflect housing price increases, the threshold for a full rebate would be raised to a maximum of \$492,500, CAAMP says.

The Finance official in Ottawa noted that with the recent further one percentage point reduction in the GST to five per cent, the effective GST rate on most new homes sold in Canada has been reduced to 3.2 per cent.

Peter Squire, spokesman for the WinnipegREALTORS, notes the GST rebate may not be a major issue in Manitoba given that about 65 per cent of local sales are still under \$200,000. But it may become more of an important factor as housing prices here continue to rise, he said.

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