

GST removal on new rental builds good news, but still ‘a long way from being out of the woods’: Lyall

Angela Gismondi September 21, 2023

The federal government’s announcement that GST will be removed on construction of new rental apartment buildings is being received with cautious optimism from those in the Ontario construction industry.

“It’s a positive step in the right direction, but we’re a long way from being out of the woods,” said Richard Lyall, president of the Residential Construction Council of Ontario (RESCON). “The urgency is picking up, but it needs to pick up even more.”

Last week, Prime Minister Justin Trudeau announced the government will introduce legislation to enhance the GST Rental Rebate on new purpose-built rental housing, such as apartment buildings, student housing and senior residences built specifically for long-term rental accommodation.

The rebate will provide full relief for the five per cent GST federal component of the Harmonized Sales Tax (HST). For example, on a two-bedroom rental unit valued at \$500,000, the enhanced GST Rental Rebate would deliver \$25,000 in tax relief.

It’s something RESCON has been calling on the feds to do for many years. It’s also an election promise the Trudeau government made in 2015.

“The federal government has been pulling in billions of dollars a year in taxes from new housing but not really returning it,” Lyall explained.

“Housing affordability is right off the charts and we also know that our taxes, fees and levies on new housing are higher than anywhere else in North America, outside of British Columbia.”

The GST Rental Rebate will increase from 36 per cent to 100 per cent and removes the existing phase-out thresholds for purpose-built rental housing projects.

The enhanced rebate will apply to projects that begin construction on or after Sept. 14, and on or before Dec. 31, 2030 and complete construction by Dec. 31, 2035.

“It will only be in place for so long,” said Lyall. “That’s one of those completely arbitrary things which I don’t quite understand...We’ve got to see what the framework is and what the conditions are.”

There are also still issues to deal with at the municipal level like the approvals process, development charges and allowing higher density around transit hubs, Lyall added.

Qualifying new residential units would include buildings with at least: four private apartment units (i.e., a unit with a private kitchen, bathroom, and living areas), or at least 10 private rooms or suites; and 90 per cent of residential units designated for long-term rental.

According to the Canadian Press, Ontario's PC cabinet released a statement in support of the proposal saying the province plans to remove its share of the HST on purpose-built rental housing as soon as possible.

"The federal government's announced plan to eliminate the GST on residential construction inputs is enthusiastically welcomed by the industry," said Ian Cunningham, president of the Council of Ontario Construction Associations, in an email to the Daily Commercial News. "While there is no single silver bullet solution to solving the housing shortage and affordability crises, this is a big step in the right direction. We urge the (Doug) Ford government to follow suit to provide similar relief to residential builders to spur construction of much needed housing in Ontario."

The Canadian Home Builders' Association (CHBA) said the move by the feds addresses a long-standing issue that has prevented the construction of more rental housing for decades.

High interest rates have further eroded the viability of purpose-built rental projects this year, shelving much needed new housing supply, said the CHBA in a release, adding the elimination of GST should help get those projects back on track.

"Purpose-built rental is an important part of the housing continuum and a must to be among the 5.8 million homes that Canada needs to build over the next decade to make up the housing deficit," CHBA CEO Kevin Lee in a statement, adding municipalities need to reduce their development taxes on all housing, including for homeownership.

According to the release, municipal development taxes have gone up about 700 per cent over the past two decades, with taxes comprising as much as 30 per cent of the price of a home today.

Nadia Todorova, executive director of the Residential and Civil Construction Alliance of Ontario (RCCAO), said all governments need to work together to lower the tax burden on new home construction.

"RCCAO's research has clearly revealed that tax policies significantly increase housing costs," said Todorova. "Today's announcement is a step in the right direction of using taxation levers to address the housing crisis in Ontario and the rest of the country. RCCAO commends the federal government for answering the call from the Province of Ontario and municipalities that have been advocating for this policy to encourage the construction of purpose-built rental housing."