

Don Cayo: Housing policy — grants and taxes alike — needs a rethink (with video)

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Photograph by: Gerry Kahrman, PNG, Vancouver Sun

The provincial government contributes mightily to high real estate prices that make too many British Columbians house poor and keep myriad others out of the market.

So it seems reasonable for the province to offer both grants and a subsidized property tax deferral scheme to compensate, at least in part, for the hardship it imposes.

But a strong case can be made that taking with the right hand and giving back with the left is an inefficient, if not stupid, strategy. It looks even worse when you consider not only that the province gives back much less than it takes in, but also that it compensates only a minority. Those who gain aren't necessarily those who most need help, and everybody, including the neediest, winds up paying the cost.

The province adds directly to the cost of buying a home in two ways — charging sales tax on building materials, and levying a property transfer tax each time a house or condo changes hands.

The PST, like the HST for the short time it was in existence, is a one-time hit. But because it adds to the cost of building, it is inevitably reflected in higher resale prices.

The PTT, although it adds only one per cent of the first \$200,000 and two per cent of the remaining cost of a home, applies every time a property changes hands. So over a lifetime of buying and selling to suit various family and career stages, it can add up to hundreds of thousands of dollars, especially when financing costs are factored in. (The province's website uses the example of a \$250,000 home that generates a \$3,000 PTT liability — laughably low figures in Metro Vancouver's high-priced market that show just how out of touch bureaucrats are, or how much they want to softpedal the tax burden.)

These provincial taxes are, of course, in addition to municipal fees, development charges and permits, which also add tens of thousands to the cost of a new home.

Nor are taxes at the time of construction or purchase the only burden Victoria puts on home ownership. There is also PST on tools and materials to maintain your home. And there's provincial property tax, in addition to levies imposed by the municipality and regional entities like Metro Vancouver and TransLink. The provincial rate varies, but it's not trivial — in Vancouver, it's the second-biggest component of your tax bill, about three-quarters as much as the city levies. And it extracts \$689 million a year from the pockets of B.C. homeowners.

To compensate, the province offers two things. It provides an annual homeowners grant if the value of your home doesn't exceed an arbitrary threshold, this year set at \$1.1 million to get the whole \$570 grant. (It goes as high as \$770 and the threshold is a little higher for seniors and Northerners.) And the province lets you defer paying any property tax if you have sufficient equity and you are 55 or older, or disabled, or your spouse is deceased.

The cost to the treasury of property tax deferrals is difficult to estimate — homeowners get, in essence, a loan with low interest that isn't compounded and isn't repayable until the property is sold. So the cost varies from case to case. As well, as my colleague Pete McMartin noted in a recent column, the number who opt for the deferral is still low — although growing sharply, from just under 30,000 in 2010 to nearly 39,000 in 2014.

And the cost of the homeowner grants is budgeted at a substantial \$814 million for the coming year.

The arbitrary aspect of both programs — they advantage some who don't need help and miss many who do — raises questions. More troubling is the fact their costs are covered by general revenue — that is, by the taxes of all British Columbians, including the legions who can't afford to buy homes.

Premier Christy Clark herself mused last month about the desirability of ditching the property transfer tax if or when the province can afford to. But it seems to me a real solution needs a more comprehensive approach than just that.

Ideally, the province would wean itself from all taxes that drive housing costs into the stratosphere. It could pay for this, at least in part, by not giving away so much money in grants and subsidized loans to a lucky minority of taxpayers who may or may not need the help.

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