

## **Q & A on the Conclusion of the PST Rebate**

### **When were changes made to the PST as it relates to new homes?**

In the 2017-2018 provincial budget, the Government of Saskatchewan introduced an increase to the PST from 5% to 6%.

Additionally, effective April 1, 2017, the provincial government introduced changes to construction contracts. Prior to 2017, home builders paid on the cost of equipment and materials consumed in building projects. Builders quoted their services as "PST included" but did not collect tax from the homeowners.

Under the new rules, builders can purchase materials exempt of PST but are required to collect PST on the "retail selling price" of the premises to the buyer, excluding the value of the land.

Under this new formula, the percentage of actual PST paid on the overall home (dwelling and land) may vary, however it is estimated to be on average in the range of 4.2%.

### **Why was a PST Rebate on New Homes introduced?**

After consultation with industry, the Government of Saskatchewan recognized that parts of the new home building sector were having difficulty adjusting to the new PST tax regime.

In response, the PST Rebate was designed to support potential new home buyers in the lower priced segments of the homeownership market to have continued access to homeownership opportunities and reduce the erosion of affordability in our province.

Since its implementation, the Government of Saskatchewan through the PST Rebate program, has helped thousands of Saskatchewan families and individuals afford new homes, while assisting to keep the residential construction industry and our economy strong.

### **What was the PST Rebate on New Homes?**

Starting April 1, 2020, new home buyers (primary residence) who took possession of their home prior to April 1, 2023, were eligible for a rebate up to 42% of the PST paid on the purchase of a newly constructed home with a total price of less than \$450,000 before taxes excluding the value of the land and the price of any furniture, furnishings and appliances.

The total amount of the rebate was reduced for home with a total price between \$350,000 and \$450,000.

## **Why were changes to the current PST Rebate program extended in certain circumstances?**

The Government of Saskatchewan recognized that supply chain issues caused by the global pandemic would cause many new homes not to be ready for occupancy prior to April 1, 2023, and thus not be eligible for the PST new home rebate. For the new home buyer, they would lose the rebate through no fault of their own.

The rebate now includes homes where a contract has been signed and the property meets new housing start criteria prior to April 1, 2023. Under the revised criteria, possession of the home could extend to April 1, 2024.

## **Why has a New PST Rebate on New Homes not been created or renewed?**

The PST Rebate was always designed to be a program that provided transition from the previous tax regime to the new PST tax regime.

Furthermore, it would appear that with the many other financial and investment challenges the Government of Saskatchewan is needing to address, the PST Rebate and housing affordability may not be as high of a priority.

## **Was the PST Rebate a subsidy for Builders?**

No. The program was designed that eligible new home buyers could receive the rebate directly back from the provincial government. There was an option to assign the rebate back to the Builder to ease the administrative burden on the new home buyer. While this was a very popular option, the rebate was provided back to the new home buyer and reflected in the price of the home and contract.

## **Does it make sense to not extend the PST Rebate?**

On the surface it may be perceived as a loss of revenue for the Provincial Government. One would need to assume the same number of homes were going to be built anyway.

The reality is without the PST Rebate in place, less new homes would have been built over the time of the rebate. Less people in Saskatchewan would have qualified for the mortgages. Builders would have not invested in additional supply to be ahead of market demand and Saskatchewan affordability advantage would have been eroded.

While the Provincial Government is hamstrung by Canada Revenue Agency to determine how much PST is collected from new home purchases. It makes it difficult to compare the PST collected to the amount of PST Rebate provided. However, there is good evidence that the rebate would be neutral or even cash positive for provincial coffers. Taking a slightly smaller percentage but making that revenue up or exceeding based on increase volume.

## **Why do Saskatchewan New Home Buyers still need the PST Rebate?**

Rising interest rates and federal and municipal regulations have eroded Saskatchewan's housing affordability. Interest payments in the first year for the purchase of a new single-family home with a mortgage reached a record high in 2022.

Mortgage payments on a newly purchased home, relative to personal income is not yet at historic highs but getting close. This reduces discretionary spending in the broader economy, which results in lower overall economic activity.

Access to a mortgage remains an additional barrier to home ownership in Saskatchewan. In 2022, families in Saskatchewan will have experienced a 30.5% reduction in the maximum mortgage loan amounts compared to 2016.

Individuals and families are having to lower their expectations about what they can afford, shifting away from the dream of owning a home. As housing affordability continues to erode, an increasing portion of the population is being forced into the rental market, where they are less likely to stay in Saskatchewan in the long term or build equity through home ownership.

Homeownership rates have continued to decline in Canada and in Saskatchewan. Federal and municipal policies have driven this more than anything else. The Saskatchewan Government is the only level of government that seems to understand this but has few mechanisms to influence this outcome. Adjusting the PST or providing a rebate program is one of the few tools in the Provincial Governments toolbox that can make a real difference for future home buyers.

### **Is new housing an engine for growth?**

Despite a strong economic outlook, Saskatchewan economy is not without risk. Saskatchewan's residential construction sector provides a strong hedge which cushions the provincial economy in the face of external shocks.

*It is estimated that for every \$1 invested by the provincial government in a PST Rebate creates \$25.5 in GDP, \$10.7 and Labour Income.*

New housing construction has one of the best economic and fiscal multipliers while providing strong and tangible benefits to Saskatchewan families. A strong residential construction industry helps, not hurts government coffers.