

HST - What Does It Mean to Landlords?

By Al Kemp

It means increased costs; most of which cannot be passed on to your renters!

On July 23, the BC government announced that it would introduce the harmonized sales tax (HST) effective July 1, 2010. This announcement was made without any prior notice or consultation with any industry, business or other group - including ROMS BC. Our opinion is that - despite the positive spin the government put on the announcement - the government is suffering from reduced tax revenues and HST is a way to increase taxes without inventing a new tax. HST already exists in Nova Scotia, New Brunswick and Newfoundland and Labrador and will be implemented in Ontario on - surprise! - July 1, 2010.

Generally what will change is that any product or service that currently attracts GST, but not PST, is taxed at 5%. Effective next July the 5% becomes 12% as the BC provincial sales tax is essentially combined with GST. Services such as construction labour, appliance and household repairs and maintenance, and professional services such as accounting will be taxed at 12% instead of 5%. The tax payable on hydro and natural gas will also increase from 5% to 12%, however the government subsequently announced that hydro, natural gas or heating oil used to heat residential premises would be exempt from the 12% HST, as these utilities are currently exempt from PST.

Anyone who has read a newspaper, listened to a radio talk show or watched a TV news broadcast knows that, with few exceptions, every individual and small business in BC has cried foul, not only because this tax is being introduced but also because there was no consultation with any industry or sector before the decision was made.

So why should we feel any worse off than any other business? For one unique reason: any other business can pass on the increased tax in the form of increased prices. The residential rental industry - houses, rented condos, apartment buildings and manufactured home parks - cannot because the same government limits the amount of increase through rent controls.

However, we aren't just complaining; as usual ROMS BC is acting on behalf of our industry. First, we wrote to Finance Minister Colin Hansen, expressing our concern with the catch 22 into which the government has put our industry. In that letter we requested a meeting with Minister Hansen and his officials to explore alternatives that avoid putting upward pressure on rents (to the extent permitted) and forcing landlords into uneconomic situations.

Working with our colleagues in the BC Apartment Owners and Managers Association, we then did some research and found that HST

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will increase the cost to operate a typical apartment unit by about 1.3%. That doesn't sound like a lot, but in the context of the difference HST will make in operating costs, it is a lot! We used \$100 of operating costs in a typical unit, then applied the cost increases to each component, first with only GST, then with HST. If we only paid GST, the cost would increase from \$101.80 (\$100 + GST where payable) to \$107.45, an increase of 5.5%. Applying HST to the same increases raises the cost to \$108.68, an increase of 6.8% -- 1.3 percentage points more. Translate the \$100 into \$100,000 of operating costs, and a landlord will pay about \$1300 in added taxes.

Where will the \$1300 come from? It can only come from reducing operating costs or reducing net income, neither of which are viable for most landlords.

Our letter was obviously taken seriously, as we were invited to meet with the Executive Director of the Tax Policy Branch, the person who will make recommendations to the Finance Minister. With BCAOMA representatives we met with him on September 10.

The bad news is that the BC government is unable to provide exemptions or exceptions to the tax unless the federal government agrees to change the GST legislation. We know there is no hope of that happening! The good news is that we were encouraged to develop any alternatives that might mitigate or minimize the impact of HST on our industry, which is what we're working on now on your behalf.

The government needs to recognize the catch 22 position in which it has placed our industry; we need to find a way for them to do that and provide some relief to this additional tax burden.

On your behalf, we'll give it our best shot!



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