EP 2 v1.txt
English (US)

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There's actually tax at like every stage of buying a home, building a home, buying a home, selling the home and building it again. Do you know what the percentage of taxes, fees, government charges make up the cost of a house? Yeah, it's it's a lot. It could be almost one third, 25 to to 30% of the total cost of the home around December 2021.

Toronto had collected a reserve fund made up of nearly $3 billion of development charges that they had collected, but they hadn't spent. That's four years ago. I wonder where that reserve fund is today. I wonder too, I don't know, but that's pretty shocking to hear. I don't know what the numbers look like now, but I mean, must be more than 3 billion for sure in 2010.

Average development cost in Toronto was about just under 13,000. Now, like last year, it was recorded at 141,000. You have a house when you've already purchased. You paid the HST on it when it was brand new. Then you're not supposed to pay HST again. Why do I have to pay HST on our house again?

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and again, he said. He goes back to the conversation. It's easy to collect. Yeah, they can target these, these individuals. But these are like landmines, like people are being put into these positions and they don't know any better.

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Do you know what the percentage of taxes, fees, government charges make up in the in the cost of the house, average house? Yeah, it's it's a lot. And I think it's going to surprise a lot of people that it could be almost one third, 25 to, to 30% of the total cost of the home. So that's made up of your municipal development charges.

Yeah. The sales tax. So HST on the new housing. Um, there's, uh, land transfer tax charged by municipal or by the provincial government, um, and sometimes municipal government to Toronto, which has their own land transfer tax. Yeah. Right. So you add all those things up, that's about 25 to 30%. Is the average statistics that I find when we researched it.

Yeah. It's funny because the goal in the current economy is to build more affordable housing. And you hear that often. Yeah. But we're getting taxed one third of the housing. And it seems as if there's, there's actually tax at like every stage of buying a home, building a home, buying a home, selling the home and building it again.

Like if you pay on the acquisition of the land. Yeah. Then on the building itself, then on the sale of the transfer, then on rental income, then on capital gains once you sell it and then it starts all over again when someone else buys it. Yeah. Another land transfer tax. Yeah. Right. So it's like an end of cycle.

Like, I mean, what why is the government so addicted to it? Like. Like what? What the nature of this property is makes it so easy for someone to tax it. Yeah. No, I think it's easy to collect. Right. Yeah. And that's probably their biggest incentive to tax it. Yeah. But the problem is we're in a housing crisis.

But I want to go back to, like. Why? Uh, like you just said, it's easy to collect. Right. So, like, okay, it's a percentage of a property that's easily identifiable. Yeah. No ownership changes happened before paying these taxes. Mhm. No one can carry the house with them and run away with it. So the government can easily keep making sure that it keeps getting tax on it.

It's there. Yeah. It's there. Um so um and that's and there's no question about collection. Like you can't buy a house or you can't buy a property without a proper closing. With the financing ready to go and money has to be exchanged, hands and lawyers will transfer the money directly to the government when the closing happens.

In most cases, if the developer is building it, they're going to pay all the charges to make sure the project keeps moving, like developing charges, etc.. Yeah, government perspective. It's definitely easier to collect and keep track of. Like you said, the house. The house isn't running anywhere. It's there, is there?

And there's there's people. There's professionals working with you. It's very clear cut, you know, unfortunately, it just shows up everywhere. This is like four years ago, around December 2021, um, Toronto had, um, collected a reserve fund made up of nearly $3 billion of development charges that they had collected, but they hadn't spent.

Yeah, that's four years ago. I wonder where that reserve fund is today, I wonder too, I don't know, but I think it's funny that the whole point of development charges and collecting that revenue is for infrastructure and growth in the economy, but it's taxing the same builders that are supposed to build for the economy.

Yeah, I haven't seen like $3 billion worth of spending being done. Infrastructure transforming something. It's just sitting in some bank account that they're collecting interest on. Like they don't know where to spend the money. Like they shouldn't be taxing you. Yeah. I think if anything, it's just causing more issues because it's eating into the cost of the builder.

Why? Why would the builder. Well, it's not really a cost of the builder. I mean, it gets passed on to the. And then it does get passed down to the people buying it. So it's kind of like just an overall it's it's not helping anyone really. Especially if you're sitting on that money and not spending it and putting it back into the city.

Yeah. Right. So that's it's surprising that it's that large a lot of activity. I don't know. We're talking Toronto as an example right now. But like I mean what development's going to happen within core downtown when there's more condos going up. They're not putting, you know, um, more schools because there's no space for it.

Uh, they're not putting in, uh, you know, new fire station again. No space for it. Um, I mean, you can't really transform a neighborhood where there's no space to grow. The developments can only happen vertically. Right? Yeah. There's no space to grow outside of the core. Mhm. But the development charges don't start.

I mean don't don't stop. Yeah. And um,

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another shocking stat that I heard was um, that, you know, in 20 tens. And I'm just using again Toronto as an example. In 2010, the average development cost in Toronto was about just under 13,000. Mhm. Now, um, to like last year it was recorded at 141,000. Yeah. No I saw that. Yeah. When we saw that table. That's shocking.

Yeah. That increase is 1,000%. It's 1,000% increase. 1,000% increase. I mean, what's going on? No, I have no idea. Like, it just it it just continues to, like, shock. Like, how much cost is this just government. Yeah, right. And then. And then the problem is that no one sees it per se. These are so hidden.

And then once you once builders or whoever's, you know, within the market, you look at, okay, what's my cost of buying a new property. And look at these sticker shocking prices, charging all these prices, making it so expensive. So they are the ones making money. They're the ones that are like, you know, charging an arm's and length for these properties.

And it's not helping the average Canadian. But really they're also hit with this, these big greedy that they're being greedy. Really. Right. Yeah. Yeah. Like if you think about it from a builder perspective, like we said, they're buying the land. Yeah, they're paying the tax on that. And all the costs that go into it's also the delays and the delays that they face with the permits and dealing with the government again, and then having all the costs that go goes into, you know, building these homes and these developments.

And then they're they're charged these development charges that we're mentioning at such high amounts. Right. I mean, HST was in the news recently because, um, federal government, uh, Carney government, the liberal platform, they ran on an election promise that they will make it more affordable to buy a house, someone who's buying for the first time.

And that house is under $1 million. They will, um, uh, give you a break on the GST portion. Yeah. Then depending on the province you're in, like in Ontario, they matched it. So like, there's no HST on the on the if the House is under $1 million and you're the first time homebuyer. Yeah. Let's talk about how it is right now just to set the stage that if you're if you're purchasing a home currently right from a new build is as a first time homebuyer because we're comparing that.

Mhm. Currently you're getting like nothing back. Right. As a rebate like the federal portion of the federal portion you get like nothing if you buy a home over $450,000. Right. You're not getting any exemption on the federal portion. Well no, I think people don't see the fact that when you buy a house and you see the price that you signed on, it includes 13% sales tax.

Yeah. No, they don't know that there's a premium already that has a 13% tax. Yeah. So if a house is being sold for a million. Assume there's 13% tax in it. Yeah. And all they're saying is that look, um, which nobody really sees, it's in the fine print of a lot of documents that in the agreement you sign. Yeah.

Um, and that money is going straight to the to the to the government here. And then they have created these, you know, rebate systems. Mhm. That if the I mean there's a federal portion of the rebate and then there's a provincial portion of the rebate, uh the rebates depending on the province here. And they have a different mechanism.

But let's use Ontario for now. And I think you're getting into the fat part of the, the the federal portion. Be the 5% or the 13%. Yeah. Um, that if the house is under $450,000. Yeah. Uh, then you can qualify. Yeah. If it's above 450,, then you can't. You're not. You're out of the picture. A lot of people don't know, like you said, that these prices are.

They. They have that 13% added to it. Yeah, right. They don't know that. You know that, right? And and it's important to know that because it's adding to your cost of of buying. Right. And then the provincial portion there's Ontario does provide a small rebate there. I mean they that's very compared to all the other jurisdictions like Ontario does have a very good rebate.

Yeah. Relatively speaking it's $24,000 you can get. Yeah. Um, but again, like in the bigger scheme of things, it's still a small drop in the bucket as a rebate. If you look at the, the, the 13%, that's part of the purchase price. And that purchase price could be like an entirely a down payment. Like, you know, when you want when you need to buy a house.

Yeah. You need minimum for your own home purposes. You need 5% down payment. Yeah. Right. And then you can get CMHC insurance to buy a house. but 13% is your sales tax on it? Yes. Yes. Right. So I mean, you know, it's a it's not helping. It's not helping. I mean, that's a whole down payment for somebody. That's crazy.

Yeah I know yeah. And how are you supposed to raise that much savings when, um, when this much cost is already part of. Well, no, that's the problem, right? People. People don't have the savings. And that's why we're seeing these issues. Right. And people can't buy. And it's frustrating. And that's part of the problem.

And yeah, like you were saying in the federal budget, now they're wanting to change that to have that limit of the for the purchase price of 450. They're changing that to 1 million. Right. So any house within um, $1 million, you're going to get that GST, GST off. Yeah. Yeah. The the federal portion of federal sales tax off.

Yeah. And I think Ontario wants to match that or is matching it. They're speaking about that. Yeah. Yeah. But I think the like Doug Ford raised an interesting question in the media a couple of days ago when someone anything he just like said it like, why limit this rebate or reduction of sales tax to just first time homebuyers?

Yeah, give it to everybody that's buying a house within $1 million, right. Like what type of economy it's going to, what type of, you know, activity that's going to germinate. Right. Like every house that you buy, you need movers. Potentially you need to furnish that house. You need to buy appliances, you need to decorate the house.

There's like, you know, you need trades to renovate sometimes. I mean, all these things, uh, you know, spurs up the economy. It does. And and if there's demand, right, if the prices come down a bit, then builders are building more. Right. And builders stimulate the economy. Yes. There's transportation, there's logistics.

There are material. There's there's so many things that go into building a home that will stimulate the economy. So like I think housing is so important for the economy in general. Yeah it does. It does spurs up like, uh, it's an economic engine in a way. It's got so many interconnected web of industries that that are dependent on it.

Yeah. Um, which, which is good in a way. If you're not a first time home buyer, then you don't get any of it. No. You just go back to your standard potentially. And in most cases nobody gets any rebate on the federal side and on Ontario side, just the 24,000. Yeah. And then there's this other program that came in in September 2023, um, that, uh, you know, is also a very interesting program.

I feel, uh, which is geared towards the purpose built rental properties. Right. So

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where they what they did was that if you have a construction of a purpose built rental property that started after Sometime in September 2023. Hmm. Then, um. And if it's more than four plex, so more than four units generally, then when you complete the property, there will be no sales tax on that property.

So there's basically no rental. Uh, no sales tax on a rental properties per se. Yeah. Right. So which is a lot of good news and stuff. Yeah. Apartments are like multiplexes that has at least four units. Yeah. So that's I mean that's spurred a lot of builders now who can't really sell in this economy, their properties anyway.

They have shifted their view in terms of what type of product they'll be developing. Yeah. They went from developing, you know, a house that was meant for a sale since they can't potentially sell it, or they feel like there's not going to be a lot of profit or demand, they're just still potentially considering to, to to create a single family home or homes or condo units that will just be developed, but they will be just for rental.

Yeah. And then and then because they'll be easier for them to fill those homes. Right. But they can't be selling. Well, that's the thing though. I mean, in 23, in the hindsight, it looked like a good idea. Yeah. Right. But now we're sitting in 2025. Um, I mean, rental market is not doing well either. No. Right.

Like the there's a pricing pressure just because the demand has dried up quite a bit where people are not able to rent their units. Yeah. You know, there's not I mean, it's the same problem like the the demand is just isn't there as much. So it's putting a pricing pressure on it. Yeah. Like overall I feel like with things changing, it takes a long time to build right from a builder's perspective to, to get the permits to plan out how they're going to want the neighborhood to look like.

And then these policies are changing as well, and their business plan has to shift to be. I mean, it's a decade project. It is. Yeah. Right. You started something in, like, you buy a land maybe scouted out in 2017. Now maybe is the time that condos coming for, you know, closing.

Yeah. That's how long it takes.

Mhm. So I mean it's a tremendous amount of planning and foresight and like what the economy is doing. I mean the last ten years the landscape has changed so much. Right. Like Covid came and gone. Mhm. Uh the economy has gone from ups and downs and like it's been yo yoing this whole time. You know we've had two Trump.

Yeah. You're gonna say um, uh, terms almost. Right. Yeah. Like he's on the second term now. Yeah. And so much can change. There's not a lot of trust and there's a lot of uncertainty. There's a lot of uncertainty for for a developer, for a developer, and for for a buyer to to some extent. And. Yeah. So that's, that's adding to the supply crisis as well.

Right. Yeah I think the, the the problem Within this type of economy is that developers generally are seen in a bad light to some extent, because they're seen as greedy. That's what I hear. That's my perception of other people thinking of them. Yeah, right. But really they are some of these developers, obviously very large, have been doing this for a long time.

But there's also these like smaller developers that are really trying hard to, you know, create names for themselves. Yeah. Um, and, and doing right by all the things that they're supposed to do, it's supposed to be doing. We rely on our builders to build the homes we live in. Yeah. Right. Yeah. And we need them.

Without them, there is no house as a starting point. We need them. Yeah. So, like, it's important to recognize that, I think. Right. Like, not the average person can go build a, like, build their own home. We need them. And from from their perspective, it needs to make sense for them to build. They need to make some progress.

They need to make money. They're not going into this to break even. Yeah. It's not a non-for-profit, right? Like. Like they need to ensure they're incentivized to do this. Absolutely. Let's say they bought a condo, and I'm just using condos and example. And there's a lot of inventories there right now.

Yeah. You know, um, which let's say it got sold for $1 million. Um, but the real value of it today is like, maybe like, you know, 20% down, 30% down, which is very true, is happening right now. A lot of people are not instant like, people don't want to close these condos. People can't afford them. People can't close them.

They can't close them because values doesn't support them and their value doesn't support it. But some people thought that the prices weren't going to come down as much as they did. Right. And now they can't get financing. Yeah. Some people there's some people that can't get financing. Yeah. Well, right.

I think the problem is the gap. Right. Like, I mean, the financing generally happens when like, okay, the the bank does their own valuation of the property when you need the money. Yeah. Yeah. And they look at it. And usually when you're closing. When you're closing. Yeah. So. So if you bought a condo for like $1 million.

Yeah. That's the purchase price. That's the purchase price you're going to give to the developer on the day of the closing. Yeah. And you use Woodstock as an example. $600,000 right now? 40%. Yeah. But the value only supports, let's say 600,000. Let's use that example now. Yeah. The bank is only going to give you the a percentage of that fair market value being 600,000.

So if you have that gap so let's say they're going to give you six, you know 80% loan to value. Yeah on $600,000. Yeah that's okay. But then you still need to close the gap between 600 to 1 million. That's another 400,000. Those people don't have that kind of money. No. People don't have that money laying around.

It makes no sense for them. Yes. Yeah. A lot of examples, like people are walking away from their deposits. They are. Right. And that impacts every like that's impacting the builders as well. Right. Like they They were relying on the sale of that unit. They have signed documents. Right. Right. And they're losing money as well.

Yeah. And I think you were telling me about an example. Like. Yeah, I know the exact example that you just told me. That's exactly what happened to someone that I know. And he's trying to walk away because he can't get financing. Right. And he's getting sued by the builder. Yeah. Right. By the developer.

So. Um. And it's it's it's a it's an unfortunate situation for all parties, right? It's not a good situation. Right. Yeah. You know, some things you can't control entirely. We can't control what's happening in the US. We can't control what's right. Um, some of the things that are happening. But what one thing we can talk about is tax.

Right. Because it does seem a bit inefficient when we were talking about it. Right where we're charging the sales tax, then we're chasing, then we're giving these rebates, rebates on certain properties. Yeah. And then we're adding limitations on how much can qualify. Yeah. And it's really confusing for everyone really.

Right. And it doesn't it's not clear as to why it's being done this way. Yeah. I mean it's almost like that. Um, I use this the analogy in thinking about this is that, you know, Trump is collecting a lot of tariffs. Yeah. And he thinks it's like in billions of dollars that he's collected so far. And that's going to be, um, paying down the national debt, which is in trillions.

And uh, because they've collected so much, they're going to be giving a dividend to everybody that's in the US, about $2,000 USD. Yeah. And, um, to compensate for them, you know, because of the cost of living in the US has gone up because of terrorists, potentially. Right. Suddenly thinking like, well, terrorists cause the values to increase, the cost to increase.

Yeah. Now you're trying to give back some. Give back with a dividend. Well, if you if you never raised the tariffs in the first place and never had the price, then you don't have to like give them that $2,000 dividend. Yeah. Which is very inefficient, very inefficient. And I think it's the same way how I think about like our housing market is that if it's so much tax that's built into it directly or indirectly, then you're trying to make it affordable by having all these like rebates and like discounts and like programs.

But you're you're causing uncertainty and builders don't know what market they're in and what and what their business model might be. And and people are not sure if they're paying sales tax investors that are maybe buying these units to invest out. Right. They have a cost. Yeah. And then they're going back and trying to fix it to say hey like we I understand it's unaffordable.

So for first time homebuyers will get this rebate. Yeah. So it seems very circular like you collect so much and then you figure out the rebate programs like, well, why don't you just charge less? Yeah. Don't collect as much tax. Yeah. Especially if the tax is sitting in a bank account like Toronto has over $3 billion and they're not doing anything with it.

Yeah. So it's very easy, especially when we have a housing crisis. Right. And we need to stimulate the economy. And yeah there's things to think about. Yeah. Yeah. So I mean, I mean, there's programs coming out of everywhere. Like, I mean, we were just this like HST is one how they're trying to discount that and reduce it for the first time homebuyers.

But then from an income tax perspective, over the last several years, they've tried to like, you know, bring in these like, you know, uh, first time, uh, first house, uh, savings account for say. Yeah. Right. Can you like, let's explain that what that is in the first place? Yeah. Like, essentially the way I think about it is it's a registered retirement savings plan and tax free savings account.

RSP and TFSA combined. Okay. In a way, it's for first time homebuyers. Right. So when you contribute to it, you get a tax deduction. Right? Right. And then the money that you invest grows tax free. And when you want to pull that money out to spend on a home first time home. Right.

You can't you can't have owned a home and open this account.

Um, you don't have to pay tax when you withdraw, but you have to pay it back. Right. So you can't. And there's limitations to it as well. What's the total amount that you can pay this account? $40,000. $40,000. Lifetime. So let's say a young person opens up this, uh, type of account with the bank, the deposit up to $40,000.

Yeah. Uh, I think it is an annual limitation of $8,000 per year. Yeah. But can grow up to 40 lifetime contributions. Yeah. And then you can leave that money in for invested. Hopefully it grows. And then whenever you are ready to buy a house, you can take all the money out tax free, all of it out. And then you you invest it into a house.

Yeah. I mean, I mean, that's, um, sounds complicated in terms of what needs to get done. Right. But that's like another example of like again, in the name of affordability. Just one more program that just added on. We already had a home buyers plan. We did. Yeah. Which is still on top of which is built on RRSP program.

Yes. But in which case you have to, um, you know, you can borrow money from your spouse. Usually when you have RSP account, you can if you draw money out of it, you pay taxes. Yeah. Um, but in this case, you don't have to pay taxes if you borrow for the purposes of buying a house. First time again, first time buyer, they allow you to withdraw a tax free.

If it's your first time as a loan, as a as a loan, you're paying it back over 15 years. Yeah. So you just take whatever money you took out. You must put it back in over 15 years. Um, it's kind of forcing you to save for your first. You've also increased the limits, right? You used to be around 35,000. I was like around 60,000.

Yeah. Or so. So I mean, they're they're adding more ways to like being able to pay for these. They're trying they're trying to help you save some tax annually a small portion. So a lot of Band-Aids. Right. Like yeah, it's just one program after another. Like just I think they I mean, I mean, there's a huge argument already within our tax community that, you know, our tax community needs tax system overall needs to needs like an overhaul.

Yeah. Right. Like needs to be simplified greatly. But it's very complicated. These are the layers of things that have just added on over a period of time. They're adding all these different Band-Aids like you said. But they're not stepping back and seeing the bigger issue, the bigger fiscal policy, the fiscal policy, the tax policy, how it impacts the economy, how can we simplify it?

Why do we keep adding these Band-Aids? Just, you know, you explained development charges earlier. There's a whole reason for it. Yeah. I got a question for you. Sure. What value do you think they put to land transfer taxes? What do you. Why is it there? Is it honestly just to change the title of a property from one person to another?

It's like an administrative. It's just an administrative cost to update a name, but like, it costs like 1.5%. Ontario. Yeah. Of the fair market value of the property. Yeah. So it's the market value of the property, right. So as our prices are increasing and changing. Yeah, it's on the whole value. Yeah.

And it can be significant. And then Toronto I mean as a city charges another their own version of land transfer tax which is the same as Ontario tax. Yeah. So you almost pay 3% if you're buying a property in Toronto.

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Yeah. It just adds for what everyone's like. What are you paying this for? It's to update paperwork. Yeah. So it's a very important job. So I mean, it's it's ridiculous. It takes a lot to update a name. It's ridiculous. I mean, I can see in the olden days, they kept it very simple, that, look, it's a small percentage percentage when the housing values are, like, so low, maybe $100,000 property buying it, and there's like $1,000 in ministry.

Okay, I can see that. Yeah. But like, I mean, if you're buying a property now for $1 million, which is like minimum, uh, how is it okay that you're paying a point and a half? Just it's not okay for tax. For what? It's definitely not okay. Right. So, I mean, not only that, I mean, there's so many points in time where land transfer tax gets in the way of other things like, yeah, say if I am in in a tax planning context.

Right. And then let's say we're doing some estate planning. Very commonly people have rental properties over their lifetimes in their own personal name, and there needs to be a succession planning or estate planning to reduce taxes on debt, so to speak. Again, I'm getting a lot of that good things. A lot of people are holding these properties personally for generations.

Yeah. Too personal. That's our goal. Yeah, but if they want to pass that on and do some tax planning around it, very commonly you need to potentially look at transferring the property from the personal name to a, let's say, a corporation. Yeah. In which in the corporation we can use your own corporation.

Yeah. Your own corporation that you own and control. And then you're just going to add other shareholders, which are also family members, a related party transaction. Yeah. I mean, it boggles my mind. You need to pay land transfer tax for that. Yeah. Just to do some tax planning.

Yeah. Say you have six properties, each worth a million.

Right. $6 million. You could be looking at in Toronto. 3%. Yeah. I mean, again, I mean boggles my mind that there's no, like, exemptions around these things where there's intergenerational transfers or, uh, estate planning reasons, where there's no meaningful change in the ownership of the property other than, like, it's just being planned for.

Yeah. Land transfer tax gets in the way all the time, and it's a real cost that people have to pay. Yeah. You know. Um, so I never understood, like, why that is. And I think the government should really look at the these types of relief at least, where if they don't want to let go of land transfer tax as a cost.

Mhm. They should at least look at a holistic view that there needs to be some relief mechanisms where the properties are just being transferred within the related party. You know, um from personal to corporation, there are some other like mechanisms, relief mechanism. And it goes from a company to company which is a related party contacts.

But those are also very complicated deferral mechanisms, not very straightforward either. The average person cannot fill out those forms and get those exemptions you need. You need a lawyer involved. You need a professional adviser. Yeah. So I mean, it's, uh, and it would take a long time, I think, for them to respond back to you to.

I'm not sure how long it takes, but the deferral mechanism. Yeah. Like, I mean, without getting into it too much, I mean, if let's say you take if you need to move property from one corporation to another corporation. They're related to each other. You can do the transfer, but you need to instead of paying land transfer tax.

What they do is that. And I'm not a land transfer tax expert. This is what I've seen in client scenarios being recommended. And we have seen it being executed. But the transferring company transfers the property and then the company that is buying it is going to post a security with the Land Transfer Tax office in Ontario to

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basically a letter of credit in the amount of the actual land transfer tax that they're trying to get exemption from and three years worth of interest. Right. So what happens is that the government wants you to see is that once you transfer property to one person to another, another corporation, you have to hold on to the property for three years from that time.

Once the third year ends, they're going to check with you. Did you sell the property or what happened to that property? If that property is no longer owned within that 36 month, they will yank that letter credit and get paid on the land transfer tax that you are getting into deferral on, plus all the interest that should be paid to them because land transfer tax paid was late.

Yeah. So again, like another mechanism where, you know these things should be automatic. You can simplify it if it's just being transferred within related parties. Right. And I think it gets into a way a lot of times it's not helping families. No it doesn't help. I mean, there's very common scenarios.

I mean, it looks like you just want to transfer one company to another. But like, there's very common scenarios we end up having, you know, sometimes people have not done proper planning. We come across corporations which have, you know, rental properties, residential and a business. Yeah, yeah. In the same corporation, you don't want to commingle those and for many different reasons you don't want to.

But then a lot of times people have already done that. So sometimes you think about, okay, I need to

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sell the business. But the buyer doesn't want these properties which they're not interested in. So you got to remove the properties out sometimes, right? That's what it ends up being. Or if you want to sell the business as a share sale. And we talk about that often, is that there's a lifetime capital gain exemption available.

Yeah. Which isn't available if you if you it's just only available if you sold the shares. Yeah. If the company has other assets in it it will make them disqualified for that type of exemption. So oftentimes you have to recommend well we need to remove the properties perhaps. But then this land transfer tax issue always gets in the way.

There's an actual cash flow that's going to go out. I feel like clients are very disappointed when they hear that this is the cost of doing this. Absolutely. I mean, that was on the land transfer tax where the government charges you just to update in their own records. Yeah. I mean, it really is not for my benefit.

No, to some extent maybe it is because people want to ascertain who owns the property. Yeah. But just record keeping at the end of the day. Yeah, that's all it is. It's updating a piece of paper. Piece of paper. Um, so I mean, land transfer tax is one thing, but then there's similar inefficiencies in HST. Tell me about it.

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It's going to make me even more frustrated when I think about these. I think it's going to surprise a lot of people. Yeah. I mean, very commonly

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you have a house when you've already purchased, you paid the HST on it when it was brand new. Then you're not supposed to pay HST again because it's a resident. Yeah. If it's a new build. If it's a new build. Yeah. Right. You just bought from a builder. You've already paid one time HST. You paid? You did pay and repaid whatever it got paid or whatever.

Right. Yeah. Because this is on new builds. Yeah. We want to talk about. Yeah, but now we have a used property. Yeah. Second time. Third time sales is not supposed to be an HST on it. No there isn't. Okay. But a lot of people don't realize it. That when people think of making income using their homes, there was a time where, you know, people were using Airbnb.

Airbnb. People were using Airbnb as a platform to rent out portion of their houses, or maybe an entire house. Yeah. No, I know two people in my close circle that have cottages. Yeah. In Ontario that they bought personal use cottages that, you know, previously these cottages were used by families that have their cottages to go to in the summer.

Right. That's how they're built. But they, they're both on Airbnb. So you can. Yeah. Let me tell you how it's gonna be an issue for them at some point. I hope they're listening to that. Yeah. Is that well, because the property has gone from, like, maybe a personal use, long term residential use to, like, short term rental, like a hotel, like use almost.

Yeah. These short term rentals for HST purposes changes that. the that we call a change in use. Yeah. So what happens is that your property is converted from a residential property for HST purposes to a commercial property. And now you have to subject yourself to HST. So when you're like renting these places, you got to charge HST.

You got an HST number like a business, which is fine. Again, not a huge deal when you collect HST on on it on the rental. But the biggest surprise happens is when you want to convert that property or sell that property to someone else, to someone that's maybe looking for a cottage for their personal use. Yeah.

Now they want to just use the by the property for their own personal use. And now they're going to convert that house from not an Airbnb to like their own personal use. Long term residential use home. Yeah. And then

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when you sell it. Yeah. The rules say that the person that the HST needs to be paid on that house at the fair market value all over again. Yeah. And I think that's like such a huge surprise to a lot of people, because a lot of people have inadvertently put themselves into a position where

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they have no clue to this day that they may have ping pong between, um, personal property to commercial use and residential use and commercial use and like, who knows how many times. But let's see, even if they do it one time, um, that there was supposed to be an HST assessment. Yeah, right. And, um, there are times in, in my, uh,

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you know, client experiences where these issues have come up after the fact, after they have sold them. Yeah. And then CRA has caught on to that because I don't know. I mean, real estate is a hot topic as it is. Yeah. And, you know, the government is always looking for CRA, particularly our projects, to find these types of issues.

We looked up all the. Maybe they got a listing of all the Airbnbs. Yeah. And they're looking for which Airbnb property was actually sold. And it was sold. Was easy to find that data like it's easy like. And what are they doing with that property? Whoever bought it. Oh are they using it as a home. Well boom. There's an HST that they should have charged.

Do we get that HST that compare that right. No, we didn't receive anything. Yeah. Okay. Goes an audit letter. They're going to give them a questionnaire. And then that could be hundreds of thousands of dollars. You know, that they were supposed to collect and remit. Well, the buyer is not going to pay more than the fair market value.

So it's a no the cost you have to eat. Yeah. The buyer is not going to pay that. You're obligated to remit that. Yeah. With interest and penalties. Like I mean these are the things that really frustrate me is like what? I mean, I get it to some extent that the government needs to charge some tax around, like these are the common issues.

Like, I mean, it doesn't make any sense to me. To me as a as an average person. Why do I have to pay HST on our house again? You know, it doesn't make any sense. It makes like I think it goes back. It goes back to the conversation. It's easy to collect. Yeah. It can target these these individuals. But these are like landmines.

Like people are being put into these positions and they don't know any better. I mean, I know ignorance of law is not a thing, but it's complicated. But nobody. It's very unintuitive. Yeah. Like, who would have thought that

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this thing can come up? Yeah. No, these aren't sophisticated investors where they're doing this full time all the time. Average, average people that have built some sophisticated people don't know. No they don't. But like, even the average person that, you know, they've done well for themselves, they've built some wealth.

They want to rent out a few things, make extra money. Yeah, right. Stimulating the economy. But then they're they're hit with these surprises. Yeah. And it's going to not make one people. People don't want to invest for that reason. Right. Yeah. I mean, there's another example that I just had a call recently with, with a doctor.

Um, so picture this, uh, another HST issue. Right. In a similar kind of tone. Um, a doctor wants to buy a house for himself and make it very easy for him to get to work. So what does he do? He he locates a property. He's like, okay, I'm gonna buy a semi semi semi-detached. Left side of the property is my home. Right side of the property is my clinic.

And then I'll put a door between the house, and I can just go in and out of the house between my clinic and my personal home.

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I mean, simple, right? Simple. Yeah. I don't have to step outside. I don't have to step outside your winter boots. We have a clear, uh, separation of what is a clinic. What is not. I mean, maybe zoning issues aside, I'm not sure if that's possible, but that's what was being contemplated. Yeah. So I said to him the same thing, like, look, you're going to buy the property

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and you're going to convert it into a clinic. you're going to have to charge HST on the rent that that he has to charge to his professional corporation. Whatever. That's fine. But when you leave the property and the new owner is going to buy for their home, you're going to have this 13% tax you have to pay. Yeah.

I mean, it's the same issue as Airbnb, but the issue is just propagates itself again in other form. Yeah. Right. So I mean okay, so I told him that and he's like, you delivered the bad news. Yeah. I mean, the guy changed his mind of buying a house. I mean, 13% on the future value of however many years after he lives.

Oh, so he had a he had he hadn't purchased the house. He hadn't. He was like, completely planning to buy one. But then that issue. He's like, let me get back to you because he doesn't know if you want to do this anymore. He would rather perhaps buy a clinic in a proper clinic spot. Yeah. And like in a plaza or something else.

But like, again, someone who wanted to make their lives easier, just really had to reconfigure their plans. Yeah. Because of a sales tax. And I get his plan. He didn't want to step outside in our winters. Yeah. You want to be driving again? But, I mean, these are the things that you know. I mean, why is the government getting in the way in these types of scenarios?

Also, it makes no sense. I mean, it's just added cost and added pressure. Yeah. Right. And not making anyone's life easier, that's for sure. And I think what you just described. No one knows about these rules unless you're in tax. Right. And they're very surprised. And if you're getting all these audit letters you're having people.

I mean, it's I don't know how many people are not getting that tax consultation first. Oh yeah. They're just going and doing these things right. Yeah. 100% after the fact that, hey, there might have been a tax risk that I've taken. And, um, at some point CRA is going to get to them, perhaps. And then surprisingly, they're going to have this tax bill to pay.

Yeah. If you're making all these. Right. Um, the legislation is it's so complicated. Right. And but the you're not supposed to be ignorant to the law, but it's so complicated, right? Like, it's not fair to them. HST legislation is not easy. No. I am an income tax person. I can tell you I dabble in HST, but like, man, if there's any complicated scenarios, I have to get an indirect tax specialist.

It's just a specialist for every single tax. I mean, even land transfer tax we can't comment on. I can't comment on land transfer tax. I mean, the things that I've spoken to about here, this is based on experience. And most accountants like they don't sometimes they don't specialize further. Right. And they don't know all of these things either.

No. So if no one knows

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yeah, we're running into a lot of issues. Yeah. I mean, again, it's like another issue that that's, uh, related to land related to the property again. Yeah.