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Foregone revenue from enhanced GST Rental Rebate on purpose-built rental housing

OFFICE OF THE PARLIAMENTARY BUDGET OFFICER
BUREAU DU DIRECTEUR PARLEMENTAIRE DU BUDGET

The Parliamentary Budget Officer (PBO) supports Parliament by providing economic and financial analysis for the purposes of raising the quality of parliamentary debate and promoting greater budget transparency and accountability.

To help increase the construction of purpose-built rental units, the government introduced an enhancement to the goods and services tax (GST) Rental Rebate.

To be eligible for the enhanced rebate, construction must have begun between September 14, 2023 and December 31, 2030. Construction must be finished by December 31, 2035.

The PBO estimates that the total foregone GST due to this measure would be $5.8 billion between 2023-24 and 2028-29.

Lead analyst:

Katarina Michalyshyn, Senior Analyst

Prepared under the direction of:

Govindadeva Bernier, Director, Budgetary Analysis

Nathalie Desmarais, Marie-Eve Hamel Laberge, Martine Perreault and Rémy Vanherweghem assisted with the preparation of the report for publication.

For further information, please contact the Office of the Parliamentary Budget Officer.

Yves Giroux
Parliamentary Budget Officer

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Highlights

To help increase the construction of purpose-built rental units, the government introduced an enhancement to the goods and services tax (GST) Rental Rebate.

The enhancement increases the amount of rebate given and the number of purpose-built rental units that will qualify for a rebate.

To be eligible for the enhanced rebate, construction must have begun between September 14, 2023 and December 31, 2030. Construction must be finished by December 31, 2035.

The PBO estimates that the total foregone GST due to this measure would be $5.8 billion between 2023-24 and 2028-29.

Summary

To help increase the construction of purpose-built rental units, the government introduced an enhancement to the goods and services tax (GST) Rental Rebate.

Before the enhancement, a newly constructed purpose-built rental unit with a fair market value (FMV) of less than $450,000 was eligible for a rebate of up to 36% of GST paid. After the enhancement, all the GST on newly constructed units of any FMV will be rebated.

To be eligible for the enhanced rebate, construction must have begun between September 14, 2023 and December 31, 2030. Construction must be substantially finished by December 31, 2035.

The Parliamentary Budget Officer (PBO) estimates that the total foregone GST due to this measure would be $5.8 billion between 2023-24 and 2028-29. This includes $2.3 billion of foregone revenue from units that would have received a rebate without the enhancement, as well as $3.5 billion from newly eligible units.

Due to a lack of data, PBO's cost estimate does not include the territories.

Summary Table 1

Foregone GST revenue by fiscal year in millions of dollars

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total foregone GST revenue	1	66	969	1,385	1,565	1,773
Foregone revenue from units that would have still received a rebate without the enhancement	0.3	28	387	538	611	698
Foregone revenue from units that will newly receive a rebate	0.4	39	583	847	954	1,075

Source:
Office of the Parliamentary Budget Officer calculations.

Background

To help increase the construction of purpose-built rental units, the government introduced an enhancement to the goods and services tax (GST) Rental Rebate.

The measure was announced on September 14, 2023. It became law on December 15, 2023, as part of Bill C-56: *Affordable Housing and Groceries Act*.[1]

Before the enhancement, a newly constructed unit with a fair market value (FMV) of less than $450,000 was eligible for a rebate of up to 36% of GST paid. After the enhancement, all the GST on newly constructed units of any FMV would be rebated.

To be eligible for the enhanced rebate, construction must have begun between September 14, 2023 and December 31, 2030. Construction must be substantially finished by December 31, 2035.

Only certain types of new rental units would be eligible for the enhanced rebate. Eligible units must be in buildings that include no less than four individual apartments or no less than ten rooms or suites (such as dorm rooms in post-secondary residences). The buildings must also rent 90 per cent of their total units to long-term tenants.

Units can be newly constructed or converted into apartments from real estate that was previously used for non-residential purposes.[2]

The rebate is received at the end of a construction project. It is based on the GST paid on the FMV of the unit, as opposed to the GST paid on the inputs that were used to construct the unit.

Before the enhancement, the federal GST Rental Rebate provided a rebate of up to 36% of GST paid on a unit's FMV. For any unit that had a FMV above $350,000, the rebate amount decreased as the FMV increased, until it reached zero for units with an FMV of $450,000 or more.

After the enhancement, all GST paid on a unit of any FMV would be rebated.

See Appendix A for more technical details and a comparison of rebate amounts for units of various FMVs pre- and post-enhancement.

Data

Through an Information Request to the Canada Revenue Agency (CRA), the PBO obtained averages and counts of various lines from forms GST525 Supplement to the New Residential Rental Property Rebate Application – Co-op and Multiple Units and GST524 Ontario Rebate Schedule, from 2015 to 2022.[3,4,5] For both forms, only the types of projects that would have been affected by the measure were included in the data.

The PBO also used publicly available data from various sources. Housing market and population data were taken from Statistics Canada. Various regional data, including annual apartment completions by building size, average rents, and number of units in rural areas, were obtained from the Canadian Mortgage and Housing Corporation (CMHC). Housing price data from Royal LePage was used. As well, data from the United States Census Bureau helped the PBO estimate construction timelines.

Due to a lack of data, it was not feasible for the PBO to produce an estimate for the territories.

Methodology

For each province/region, calculations were done for two categories: units that would have still received the rebate if there was no enhancement and units that will receive a rebate due to the enhancement. [6]

Units that would have still received a rebate if there was no enhancement

Fair market value

Based on CRA administrative data, the PBO estimated the average FMV of units that received rebates in 2022. To project the FMV for the future years, the PBO used province/region specific growth rates calculated as the average between 2021 and 2023 of Statistics Canada data about condominium unit price growth.[7,8] After 2024, the growth rates were assumed to decrease by 5% per year because, as the supply of apartments increases, the growth rate of apartment prices should slightly decline.

Number of units

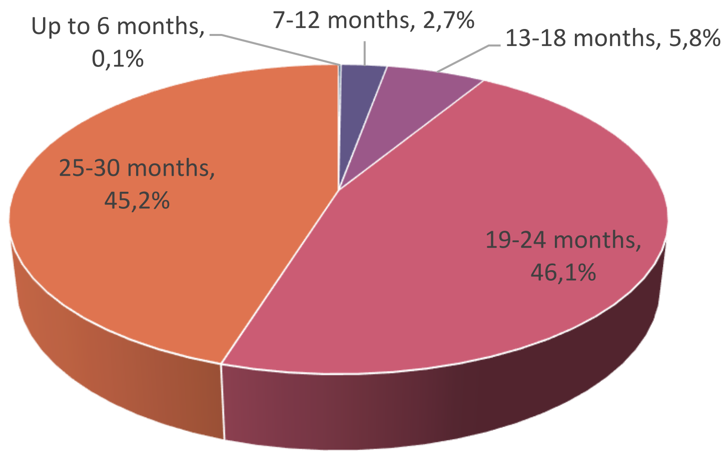
The number of newly built units that would have qualified for a rebate regardless of the policy was based on CRA data. The 2022 data was projected forward based on an average growth rate from 2021 to 2023, using CMHC apartment completion data for each province/region.

Because the rebate is given when a unit is finished, the PBO estimated how many units would be completed in each year.[9] The United States (US) Census Bureau has data about the average number of months taken to complete an apartment unit, as well as the proportions of units that had various construction times (i.e. 4-6 months, 7-9 months, etc.). Data from the US northeast region was deemed to be most comparable to what would take place in Canada under the enhanced rebate. As well, further adjustments were made to the US data to take into account that policy changes and economic conditions would result in longer construction times. The PBO then created a distribution of construction times that assumed that all units would finish construction within two and a half years of construction starting.

Figure 1 shows the PBO estimations of construction completion time. The vast majority of units were estimated to take between 19 and 30 months to complete.

Figure 1

Percentage of units completed by construction time, in months



Textual description:

Construction time (months)	Percentage of units completed
Up to 6	0.1%
7-12	2.7%
13-18	5.8%
19-24	46.1%
25-30	45.2%

Source:

Office of the Parliamentary Budget Officer calculations based on US Census Bureau data.

Note:

Totals may not add due to rounding.

Increased rebate

The increased amount of rebate per unit was calculated by subtracting the unenhanced rebate amount from the enhanced rebate amount.

The rebate amount per unit before the enhancement was up to 36% of GST paid on the FMV (see Appendix A for details). The enhanced rebate amount is the full GST paid on the FMV.

Multiplying the average increased rebate amount for a given year by the number of qualifying rental units completed in that year gives the total fiscal cost of the rebate enhancement among this subset of units.

Units that newly receive a rebate

Fair market value

The PBO assumes that the units that will newly receive a rebate are those with a FMV above $450,000, as well as units with a FMV just under $450,000. In the latter case, builders might have decided the unenhanced rebate amount would be too small to be worth applying for.[10]

To estimate the FMV of units that did not receive the rebate pre-enhancement, the PBO used Royal LePage median condo price data for urban areas.[11] To adjust the data so that it better reflected the average price of a purpose-built rental unit, the PBO used CMHC data about smaller urban centres and rural locations and assumed that the average FMV of a purpose-built rental unit would be only 80% of the average FMV of a condominium unit.

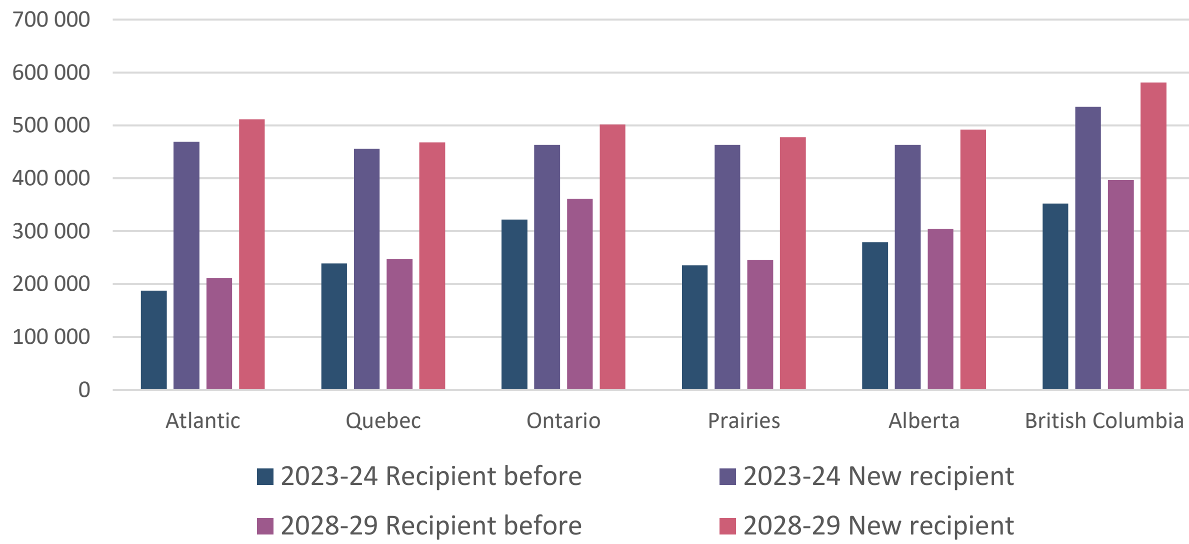
The adjusted price was assumed to be the FMV, unless the adjusted price was less than $450,000. In those cases, the average unit that would newly receive a rebate was assumed to be $450,000.

The growth rates of FMVs were assumed to be 30% less than the corresponding growth rates among units that would have still received rebates without the enhancement. This reduced growth rate was chosen based on the assumption that there would be lower demand for more expensive units and therefore, lower price growth.

Figure 2 shows the FMV projections for units that will receive an enhanced rebate in 2023-24 and 2028-29, to indicate the evolution over the time period covered by the costing. The projections for both types of units, those that would have received a rebate regardless of the enhancement and those that will be new recipients, are shown.

Figure 2

Fair market value projections at beginning and end of costing, in dollars



Textual description:

Fiscal Year	2023-24 Recipient before the change	2023-24 New recipient	2028-29 Recipient before the change	2028-29 New recipient
Atlantic	187,302	468,991	211,761	511,231
Quebec	238,941	456,031	247,680	467,656
Ontario	322,020	462,846	361,105	501,630
Prairies	235,362	463,233	245,852	477,611
Alberta	278,741	462,817	304,415	492,343
British Columbia	352,421	534,867	396,573	581,110

Source:

Office of the Parliamentary Budget Officer calculations.

Note:

The Atlantic region includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick. The Prairies region includes Manitoba and Saskatchewan.

Number of units

To estimate the number of units that will newly receive a rebate in each province/region, the PBO used CMHC data about historical rental apartment completions. Because this data excluded PEI and municipalities that had less than 10,000 residents, adjustments were made so that all areas in all provinces were taken into account. The data was also adjusted to exclude buildings with less than four units.

From the adjusted CMHC apartment construction totals in 2023, the PBO subtracted the number of units that had received a rebate from the CRA data. The result was the number of units that did not receive a rebate in 2023 but would receive a rebate with the enhancement.

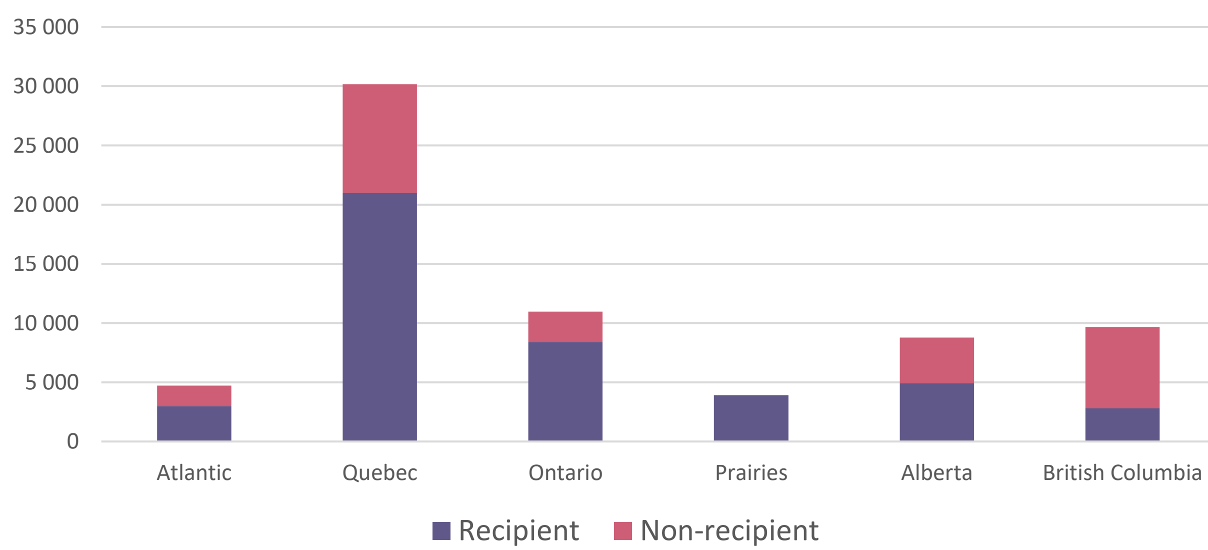
This number of units was projected forward using the same province/region specific growth rates that were used for units that would have still received a rebate without the enhancement.

The same distribution of construction times was also used.

Figure 3 compares the number of units that were rebate recipients and non-recipients in 2022, before the enhancement had been introduced.

Figure 3

Number of units that were rebate recipients and non-recipients pre-enhancement, in 2022



Textual description:

Admissibility	Recipient	Non-recipient
Atlantic	3,000	1,730
Quebec	21,000	9,174
Ontario	8,400	2,569
Prairies	3,900	0
Alberta	4,900	3,876
British Columbia	2,800	6,874

Source:

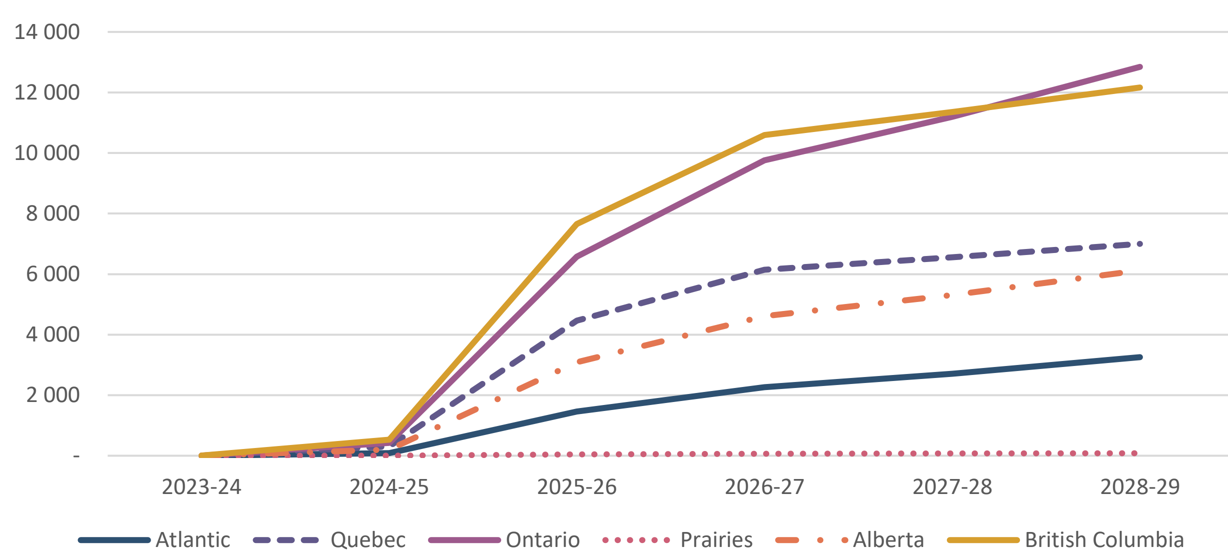
Office of the Parliamentary Budget Officer calculations.

Note:

The Atlantic region includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick. The Prairies region includes Manitoba and Saskatchewan.

Figure 4 shows the evolution of the number of units that will newly receive a rebate.

Figure 4
Number of units newly receiving a rebate



Textual description:

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Atlantic	-	90	1,457	2,259	2,712	3,256
Quebec	3	311	4,460	6,148	6,560	6,999
Ontario	4	427	6,579	9,754	11,194	12,846
Prairies	-	3	46	66	74	82
Alberta	2	200	3,094	4,607	5,311	6,123
British Columbia	6	533	7,655	10,595	11,353	12,164

Source:
Office of the Parliamentary Budget Officer calculations.

Note:
The Atlantic region includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick. The Prairies region includes Manitoba and Saskatchewan.

Increased rebate

The increase in rebate per unit was the entire GST paid, as the units were not receiving any rebate pre-enhancement.

Multiplying the number of qualifying units by the increased rebate gave the total fiscal cost of the policy among units that would not otherwise have received a rebate.

Results

Table 1 shows the yearly foregone GST revenue due to the rebate enhancement. The estimated total is $5.8 billion over the first six fiscal years of the policy. This includes $2.3 billion in foregone revenue from units that would have still received a rebate without the enhancement and $3.5 billion from units newly eligible.

The fiscal cost increases sharply in 2025-26 because it is the first year in which the majority of completed units were expected to qualify for the policy. Before 2025-26, most units started construction before September 14, 2023 and are therefore not eligible for the enhanced rebate.

See Appendix B for a provincial/regional fiscal cost breakdown.

Table 1
Foregone GST revenue by fiscal year, in millions of dollars

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Total foregone GST revenue	1	66	969	1,385	1,565	1,773
Foregone revenue from units that would have still received a rebate without the enhancement	0.3	28	387	538	611	698
Foregone revenue from units that will newly receive a rebate	0.4	39	583	847	954	1,075

Source:
Office of the Parliamentary Budget Officer calculations.

The Department of Finance published projections for the GST rebate enhancement in the Fall Economic Statement 2023.[12] Table 2 shows a comparison between the PBO's projections and the Department of Finance's projections. Overall, the PBO projects a higher cost.

Table 2

Comparison with Department of Finance's costing by fiscal year, in millions of dollars

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
PBO estimate	1	66	969	1,385	1,565	1,773
Department of Finance Estimate	5	145	645	1,065	1,250	1,455
Difference (PBO - Finance)	-4	-79	324	320	315	318

Sources:

Office of the Parliamentary Budget Officer calculations and Fall Economic Statement 2023.

Among provinces/regions, the largest contributors to total foregone GST revenue were Ontario, British Columbia and Quebec.

In terms of foregone revenue from units that would have received a rebate regardless of the enhancement, Quebec was by far the largest contributor, followed by Ontario and Alberta. Data shows Quebec having a large number of rental units constructed compared to its population. As well, many units in British Columbia had average FMVs high enough that a relatively small number of units would have qualified for the policy pre-change. While Ontario units also have high average FMVs, they were not as high as in British Columbia.

For units that would newly qualify for a rebate, British Columbia and Ontario were the largest contributors to the fiscal cost. These provinces had the highest FMVs, which meant that pre-enhancement, a lower proportion of their total new rental units qualified for a rebate. As well, the high FMVs meant that the increased rebate amounts were higher.

Table 3

Total foregone GST revenue by province/region by fiscal year, in millions of dollars

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Atlantic	0.01	4	62	98	120	147
Quebec	0.2	18	259	359	385	414
Ontario	0.2	17	236	330	387	458
Prairies	0.02	2	34	50	56	63
Alberta	0.1	8	129	196	229	267
British Columbia	0.2	17	249	353	387	424

Source:

Office of the Parliamentary Budget Officer calculations.

Note:

The Atlantic region includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick. The Prairies region includes Manitoba and Saskatchewan.

Sources of uncertainty

The fiscal cost of the enhanced GST rebate depends on the number of units constructed and the value of these units. There is a large amount of uncertainty regarding these factors because the GST rebate enhancement is only one of many factors that determine apartment supply and fair market values. Some other factors are:

- Rebates on provincial sales tax in some provinces:
  - At the time of publication of this report, Ontario, Newfoundland and Labrador, Nova Scotia and Prince Edward Island had implemented or intend to implement a reduction of the provincial portion of their Harmonized Sales Tax (HST).
- Other programs from various levels of government that will affect housing supply and prices.
- Potential changes in trends by the private sector:
  - For example, increasing the rebate on rental unit construction may entice builders to build more rental units and fewer condominium units.
  - The enhancement creates a proportionally larger reduction in GST for units above $450,000. On the one hand, this could incentivize the construction of more of these units. However, these units would charge rent that would be unaffordable or unappealing to many potential renters, dampening demand for these units.
- General economic conditions.
- Availability of labour and construction materials.
- Municipal regulations and fees.

The number of units used in the calculations in this report is the same number of units that would have been constructed in the absence of the enhancement. While it is likely that the enhancement will incentivize the construction of additional units, it is unclear how many. As well, given that there are so many other factors that impact unit construction, it would be impossible to project how many units would be constructed solely due to the federal rebate enhancement.

The enhancement is expected to have a cost in the territories, but the scale of that cost is uncertain.

Appendix A: Increased rebate amounts

Before the rebate enhancement, the following formulas applied to eligible units:

GST paid on unit = Unit FMV * 5%

If the unit had a FMV of $350,000 or less:

Rebate amount = lower of (GST paid on unit * 36%) and ($6,300)

If the unit had a FMV of more than $350,000 but less than $450,000:

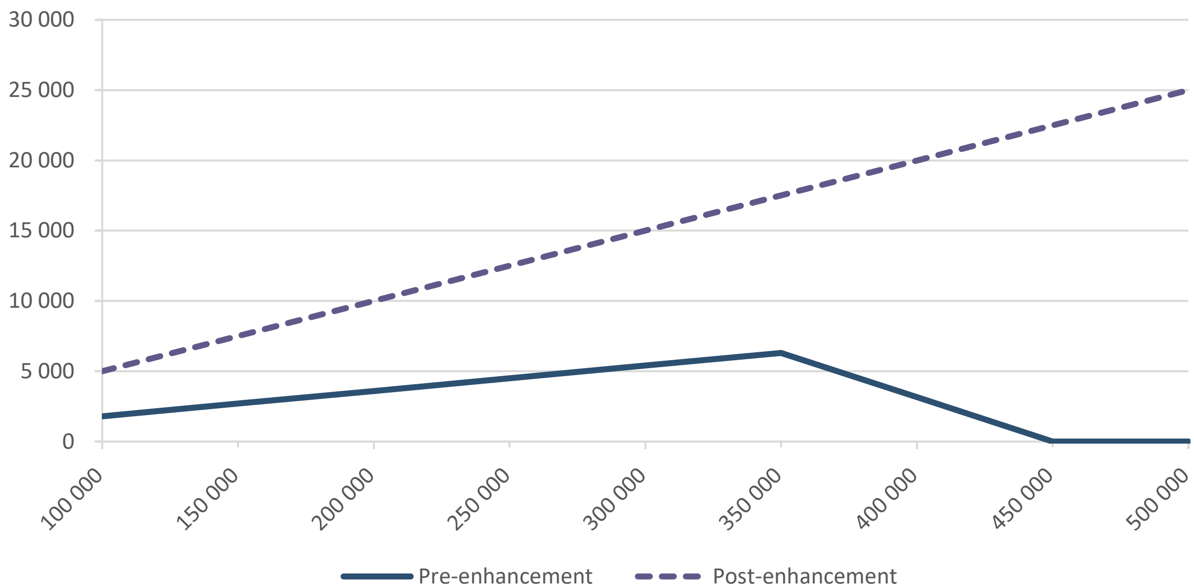
Rebate amount = (($450,000 – Unit FMV) / 100,000) * $6,300

Note: The result of (($450,000 – Unit FMV) / 100,000) will be a number between zero and one. Therefore, the rebate will be lower than $6,300 but higher than zero.

If the unit had a FMV $450,000 or more: No rebate.

Figure A1 shows examples of the impact of the enhancement on rebate amounts for various FMVs. As FMVs increase, the amounts of extra rebate due to the enhancement increase.

Figure A1
Rebate amount per unit pre- and post-enhancement, by fair market value, in dollars



Text description:

Fair market value ($)	Rebate pre-enhancement ($)	Rebate post-enhancement ($)
100,000	1,800	5,000
150,000	2,700	7,500
200,000	3,600	10,000
250,000	4,500	12,500
300,000	5,400	15,000
350,000	6,300	17,500
400,000	3,150	20,000
450,000	-	22,500
500,000	-	25,000

Source:
Office of the Parliamentary Budget Officer calculations.

Appendix B: Provincial/regional cost breakdown

Table B1

Foregone GST revenue from units that would have received a rebate without the enhancement by province/region by fiscal year, in millions of dollars

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Atlantic	0.01	2	27	42	52	64
Quebec	0.1	11	156	217	233	250
Ontario	0.1	7	78	92	110	136
Prairies	0.02	2	33	48	54	61
Alberta	0.04	4	56	85	99	116
British Columbia	0.02	2	37	55	62	71

Source:

Office of the Parliamentary Budget Officer calculations.

Note:

The Atlantic region includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick. The Prairies region includes Manitoba and Saskatchewan.

Table B2

Foregone GST revenue from units that would newly receive a rebate due to the enhancement by province/region by fiscal year, in millions of dollars

Fiscal Year	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029
Atlantic	-	2	35	56	68	83
Quebec	0.1	7	103	142	153	164
Ontario	0.1	10	158	237	277	322
Prairies	-	0.1	1	2	2	2
Alberta	0.05	5	74	111	129	151
British Columbia	0.2	15	212	299	325	353

Source:

Office of the Parliamentary Budget Officer calculations.

Note:

The Atlantic region includes Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick. The Prairies region includes Manitoba and Saskatchewan. The “-” symbol indicates that there is no cost.

Notes

[1] See the text of Bill C-56 and the associated draft regulations.

[2] For more details, please consult the Department of Finance backgrounder.

[3] See IR-715.

[4] See GST525 Supplement to the New Residential Rental Property Rebate Application - Co-op and Multiple Units.

[5] See GST524 Ontario Rebate Schedule.

[6] The Atlantic provinces (Newfoundland and Labrador, Prince Edward Island, Nova Scotia and New Brunswick) were grouped together, as were the Prairie provinces (Manitoba and Saskatchewan). This aggregation was done to avoid data suppression when requesting data from CRA.

[7] For 2023 only, observed growth rates were calculated from two sources: median condominium price data from Royal LePage and apartment-style unit building construction price data from Statistics Canada. Both datasets are not perfect proxies for the FMV of purpose-built rental units, as what they measure is slightly different and they only take into account urban areas. Given these limitations, the PBO assumed that the lowest of these two growth rates would be the most accurate proxy.

[8] See Statistics Canada Table 18-10-0273-01.

[9] The GST becomes due when the latter of two events take places: the unit is substantially completed, or the first rental contract takes effect. For brevity, this report will refer to the unit being “finished” as the point at which the GST becomes due.

[10] Some builders may decide the opportunity cost of filling out the forms, or paying someone to fill them out, is high compared to the rebate that would be received.

[11] Multiple years of fourth quarter condominium price data were retrieved from the Home Prices and Forecasts section of the Royal LePage website.

[12] See Fall Economic Statement 2023.

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