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# Underground Economy & Residential Renovations

## Economic Impact of Residential Renovations

- The residential renovation sector accounts for some \$23.2 billion in investment activity in Ontario, supporting nearly 200,000 jobs in the province.
- Of the \$23.2 billion, over \$14 billion is spent through contractor renovations while the remaining is accounted for by "do-it-yourselfers."

## The Underground Economy

- In a 2010 EnviroNics Survey of 1,113 Ontario homeowners, 56% **admitted to paying cash** for a home repair or renovation job, while 68% said they'd be less likely to pay cash if they could receive a tax credit.
- The underground economy prior to the implementation of the HST represented an estimated 37% of the total output of residential renovation contractors in Ontario or approximately \$5.2 billion.
- The underground economy in the renovation sector presents a myriad of problems including:
  - Significant government revenue leakages in Ontario, such as:
    - Loss of up to \$298 million in **GST** revenues annually;
    - Loss of up to \$1.6 billion in **income tax** revenue annually;
    - Loss of up to \$767 million from other revenues such as **CPP, WSIB, EHT** and **Employment Insurance** premiums;
- When consumers participate in the underground economy, they expose themselves to:
  - Financial and **liability** risks;
  - **Health** and **safety** risks for construction workers and the homeowners who hire them; and
  - Undermining the **integrity** of the tax system.



## The Impact of a 13% Single Sales Tax on Renovations & The Underground

- A 13% Single Sales Tax in Ontario increased the annual tax burden on homeowners and rental housing investors in the province by approximately \$757 million and **tripled the provincial sales tax rate** on contractors' renovations in Ontario (2.6% PST was already embedded in renovations due to materials costs).
- A 13% Single Sales Tax shifted more renovation and repair jobs from professional contractor assignments to **do-it-yourself** work and into the underground economy.

## Help OHBA Fight the Underground Economy

- The Provincial and Federal Governments should introduce **permanent Home Renovation Consumer Tax Rebates** for their portions of the Single Sales Tax in Ontario. The rebates should go directly to consumers to encourage the collection of receipts from legitimate business.
- The Ontario Government should implement a permanent Home Renovation Consumer Tax Rebate for contractor renovations, which would rebate 5.4% of the contract value on all **qualifying contractor renovations**. The 5.4% is calculated as the difference between the 8% provincial portion of the Single Sales Tax, and the 2.6% estimated to be currently embedded in contractor renovations as a result of Provincial Sales Tax.
- The Federal Government should implement a new permanent Home Renovation Consumer Tax Rebate following the **success of the Home Renovation Tax Credit**, which would rebate 2.5% of the contract value on all qualifying contractor renovations. The 2.5% is calculated as the difference between the 5% GST and the 2.5% estimated to previously have been embedded in contractor renovations under the Federal Sales Tax.