ECONOMIC VIEWPOINT

Additional GST Relief for First-Time Homebuyers:

A Good Start, but Is It Enough?

By Kari Norman, Economist

Highlights

- The federal government plans to eliminate the 5% GST on newly built homes priced up to $1M and lower the GST payable on homes up to $1.5M—but only for first-time homebuyers. No relief is available above that threshold or for anyone other than a first-time homebuyer.
- Eliminating the federal sales tax of $50k on a $1M home could translate to mortgage savings of about $240 per month.
- This policy is a substantial addition to the partial GST discount given under the New Housing Rebate, with its long-unchanged purchase price cap of $450,000. The updated GST rebate aligns with a broader suite of past and current federal government policies to expand housing supply and improve affordability.
- As with any policy that increases demand, it risks accelerating price inflation if supply can't keep up. To build a more resilient and inclusive housing market, affordability interventions must address both sides of the equation—buyers and builders—with all levels of government rowing in the same direction.

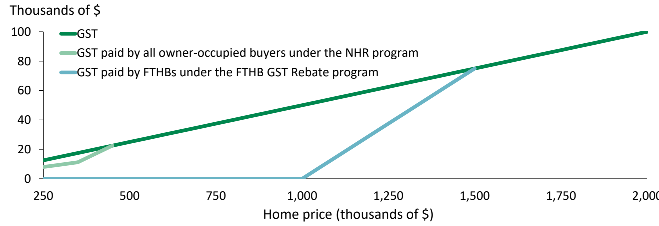
In March 2025, Prime Minister Mark Carney announced a change in policy aimed at addressing Canada's housing crisis: the full or partial elimination of the 5% GST for first-time homebuyers (FTHBs) on newly constructed homes with a purchase price of up to $1.5M. The FTHB GST Rebate is part of a broader strategy to make homeownership more attainable for Canadians and to stimulate housing supply across the country. It has the potential to make meaningful advances on affordability, albeit with a few caveats.

Understanding the Policy

The proposed policy eliminates 100% of the GST (or the federal portion of the HST) on newly built homes priced up to $1M (including substantially renovated properties) purchased by first-time homebuyers. The maximum GST rebate is therefore $50,000. The policy also includes a GST reduction for this same group of buyers on homes priced between $1M and $1.5M, recognizing the high costs of housing in some urban markets. It will be phased out linearly, so that a home priced at $1.25M would receive 50% of the maximum GST rebate, or $25,000 off the GST owing of $62,500 (graph 1). There is no GST rebate

Graph 1
The FTHB GST Rebate Is Phased Out for Homes Priced $1M–$1.5M

GST paid by buyers of newly built homes



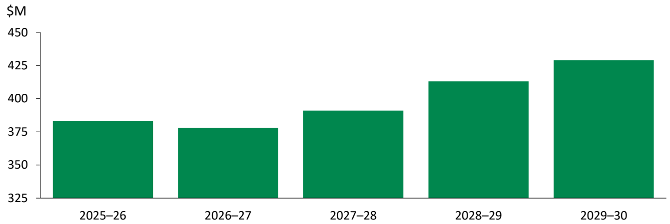
FTHB: First-time homebuyer; NHR: New Housing Rebate
Desjardins Economic Studies

for buyers of new homes priced at $1.5M or above. The rebate will be applicable to purchase agreements dated on or after May 27, 2025, and before 2031, as long as construction begins before 2031 and is substantially completed before 2036. Similar qualifications apply to owner-built homes and shares of co-operative housing.

According to figures published by the Parliamentary Budget Officer (PBO) during the 2025 federal election, the rebate is expected to cost government coffers just under $2B over the next five fiscal years (graph 2). However, the Department of Finance expects it to deliver $3.9B in tax savings over five years. The source of this costing discrepancy may be a more generous estimation of the number of qualifying FTHBs of newly built homes.

Graph 2
Removing GST Is Projected to Cost About $2B over Five Years

Fiscal implications of removing GST on newly built homes for FTHBs



FTHB: First-time homebuyer
Office of the Parliamentary Budget Officer and Desjardins Economic Studies

The PBO's costing doesn't include behavioural impacts, but it's possible that a modest increase in demand by FTHBs could spur additional residential construction. While the government will forgo direct GST revenue on qualifying home sales, broader economic activity could generate some offsetting revenues, such as GST on related consumer spending by new FTHBs.

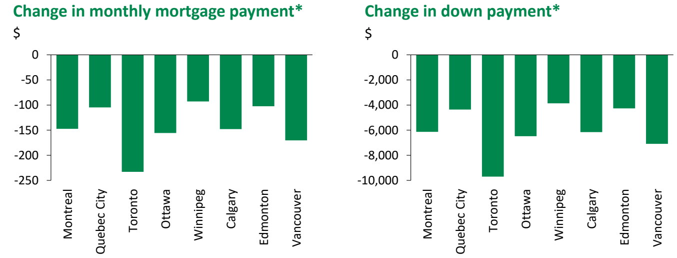
Policy Benefits for Homebuyers

When new homes are priced with GST included, homebuyers can roll the tax into the mortgage principal. Eliminating the federal sales tax on a $1M home could translate to mortgage savings of about $240 per month and a slightly smaller minimum down payment for homebuyers.

But not all developers price homes this way. Some advertise a "+ GST" price, requiring buyers to pay the tax upfront. For these homes, eliminating the GST will help prospective buyers reduce upfront closing costs, helping them get their foot in the door sooner.

Based on the Desjardins Affordability Index (DAI), a new home priced at approximately $670k would see a modest improvement in affordability under the GST rebate, effectively rolling back to late-2021 levels. But only for qualifying first-time buyers. The impact of the FTHB GST Rebate will be particularly strong in high-cost markets such as Toronto and Vancouver, where the average price of a home is above the $1M threshold (graph 3).

Graph 3
Policy Savings Should Be Greatest for Homebuyers in Toronto and Vancouver



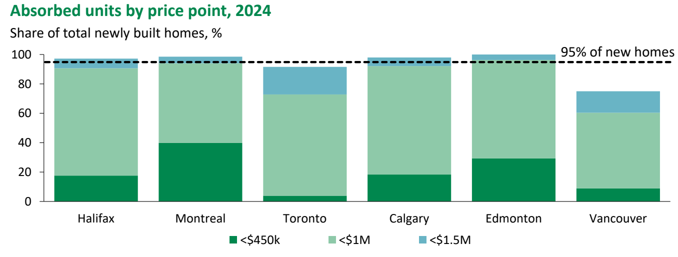
* Assumes a 20% down payment and newly built homes priced similarly to average resale prices.
Canadian Real Estate Association, Statistics Canada, Bank of Canada and Desjardins Economic Studies

This policy is a substantial addition to the New Housing Rebate (NHR) introduced in 1991, which offers a 36% rebate on GST paid on newly built homes intended for owner occupancy. The NHR is capped at $6,300 on a purchase price of up to $350,000 and phased out entirely at a $450,000 purchase price. When the rebate was first introduced, the federal government estimated that over 95% of new homes would qualify, so as to not pose a barrier to affordability. By 2022, fewer than 1 in 4 new homes were eligible.

The proposed new policy is an attempt to account for home price inflation, albeit restricting the benefits to FTHBs only. Advancing the cutoff to $1M means that nearly 85% of new builds should qualify for a rebate of 100% of the GST owing. Phasing out the rebate on homes priced up to $1.5M could extend benefits to at least 95% of new builds in most major centres and slightly less in Toronto (92%), but only 75% in Vancouver (graph 4). Looking forward, the new policy could be indexed to home price inflation to avoid erosion over time—particularly important for buyers

Graph 4
Vancouver Has the Fewest Homes Qualifying for a GST Rebate

Absorbed units by price point, 2024



Canada Mortgage and Housing Corporation and Desjardins Economic Studies in Canada's least affordable cities. But this would come at an increased fiscal cost due to lost revenues.

As noted earlier, the expected increase in demand for newly built homes may spur more construction projects. This expansion of the housing supply could help address the chronic shortage of housing in many Canadian cities. But as we've previously highlighted, the industry still faces many headwinds, including high financing and construction costs, an aging workforce, pessimistic homebuilder sentiment, persistent regulatory delays and the ongoing trade war.

Unintended Consequences of the New GST Rebate Policy

While the GST cut appears beneficial to qualifying homebuyers and potentially to builders as well, some unintended effects could emerge. Increased purchasing power may be partly offset by materials suppliers and labour if they charge more for their products and services in response. This could dilute some of the intended benefit, especially in overheated markets.

The GST rebate could also introduce behavioural distortions in the housing market. If prospective FTHBs foresee increased demand pushing up prices, they may rush to secure purchase agreements before price increases erode the relative value of the rebate. This could result in a temporary surge in new home sales, followed by a slump once pent-up demand is exhausted. Moreover, if developers anticipate increased buying power among eligible purchasers, they may adjust presale pricing strategies upward.

While the policy is intended to improve affordability, in the near term it may instead inflate prices or compress inventory, at least temporarily, if not paired with supply-side supports for meaningful increases in the amount and pace of construction. That said, this may be the perfect time to introduce the FTHB GST Rebate. With condo presales currently soft, particularly in formerly hot housing markets like Toronto, any potential surge in demand may do more to sop up excess inventory rather than reignite price inflation. Moreover, given that the rebate applies neither to repeat buyers nor to investors, the increase in demand may be mild enough to have little influence on prices.

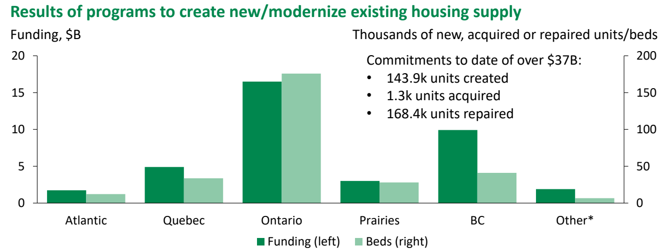
Nevertheless, to mitigate the risk of demand outpacing supply, the FTHB GST Rebate should be bundled with other housing policies—particularly those focused on streamlining permitting processes, investing in innovative practices, addressing skilled labour shortages and improving zoning flexibility—in order to accelerate the pace and quantity of residential construction. The Liberal Party of Canada election platform includes other measures addressing these issues, such as simplifying national building codes in an effort to accelerate approvals and investing in prefabricated construction. Desjardins Economic Studies will be discussing these in more detail in an upcoming report.

The GST Exemption in Context

The updated GST rebate aligns with a broader suite of past and current federal government policies to expand housing supply and improve affordability. Canada's National Housing Strategy (NHS), launched in 2018, is a $115B plan spanning more than a decade and encompassing a broad range of individual policies. At the close of 2024, just over $60B had been spent or committed. Results include the creation or commitment to build over 156k homes and the protection of over 354k community social housing units. About 60% of the funds allocated have gone to programs to build new or modernize the existing housing supply (graph 5). The NHS was intensified in 2024 with Canada's Housing Plan (CHP), with a shift towards immediate, large-scale interventions to rapidly increase housing supply and affordability.

Graph 5
NHS Supply Programs Will Likely Be Insufficient to Meet Targets

Results of programs to create new/modernize existing housing supply



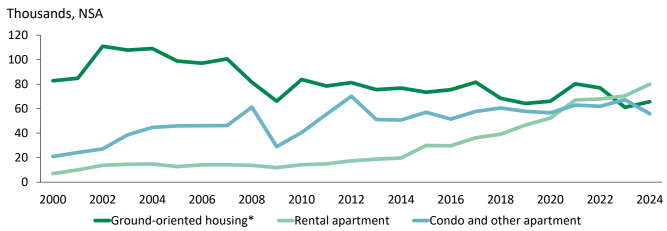
NHS: National Housing Strategy; * Includes territories and projects spanning multiple regions.
Government of Canada and Desjardins Economic Studies

Other programs under the NHS umbrella focus on improving affordability, such as the First-Time Home Buyer Incentive. However, the now-completed program fell well short of its objectives. It had funding commitments of $1.25B over the 5-year period from 2019–20 to 2023–24 to assist up to 100,000 first-time homebuyers through shared-equity mortgages. In the end, well under $500M was spent on the 25,540 approved applications.

Still other programs focus on speeding up the pace of homebuilding, such as 2023's Housing Accelerator Fund (HAF). A total of $4.3B was committed over two rounds to fund local governments that agree to ease restrictive zoning practices, reduce excessive red tape and address outdated processes that slow residential construction and increase costs to builders. To date, with applications now closed, the program has fast-tracked nearly 115k housing units. As with all programs, it can be challenging to determine whether new housing units are fully attributable to government support or if they would have been built regardless. An analysis of HAF initiatives in five BC municipalities found that only 17% of units were fully attributable to the HAF program, while 36% of initiatives weren't incentivized by the funding. The remaining funded initiatives were typically begun prior to the HAF launch but had components that were incentivized by the program. A look at Toronto's HAF-funded projects also found many were underway prior to the launch of the HAF program. And—perhaps most concerning for a program meant to accelerate the pace of homebuilding—several projects were running behind schedule, while the city hit only 15 of 23 milestones scheduled for completion by the end of 2024.

In 2023, the federal government announced it would be removing the GST on purpose-built rental (PBR) construction to spur the supply of long-term rentals. PBR starts have continued to increase—though partly at the expense of condo construction (graph 6).

Graph 6
Rental Apartment Construction Continues to Outpace Condo Construction
Housing starts, CMAs



* Single detached, semi-detached and row housing. CMA: Census metropolitan area. NSA: Not seasonally adjusted.
Canada Mortgage and Housing Corporation and Desjardins Economic Studies

According to its election platform, the new federal government's objective is to ultimately boost construction by an additional 250k units per year above current private sector homebuilding levels. However, our previous research found that the federal government's prior—and much less ambitious—targets were unrealistic. Regulatory hurdles as well as constraints on labour, materials and financing are all barriers that will need to be addressed.

Conclusion

The federal plan to eliminate or reduce the GST on newly built homes priced up to $1.5M for FTHBs offers timely relief amid Canada's persistent affordability challenges. The rebate could ease upfront costs, improve access for younger buyers and potentially support construction activity. Still, the policy's success will depend on how well it's paired with measures to boost supply volume and bring homes to market faster. To build a more resilient and inclusive housing market, affordability interventions must address both sides of the equation—buyers and builders—with all levels of government rowing in the same direction.