

Plan to defer property taxes divides experts

BY KIM WESTAD AND ROB SHAW, CANWEST NEWS SERVICE FEBRUARY 10, 2010

The provincial government's plan to allow families with children under the age of 18 to defer property taxes could lead to a snowball of debt for those who aren't careful with their money, say some financial experts.

The government said Tuesday in its throne speech that a new "family with children property tax deferral option" could be the break some need to get into the housing market or move up.

The deferral program is similar to an existing program for senior citizens and low-income residents, the speech said. Those programs allow people to defer their taxes for as long as they live and own their home. Eventually, the deferred taxes must be fully repaid with interest before the home is sold.

That makes sense for seniors, said Saanich Mayor Frank Leonard, but not so much for young homeowners. Seniors see their home's value increase more than the taxes deferred, so they lose little. With escalating house prices, the cost of the home when it sells easily covers the deferred taxes, so all it means is that inheritors get a little less. But it's a different situation for younger homeowners.

Taxes eventually have to be paid, and it may be putting off the inevitable until it becomes insurmountable for new homeowners, he said.

Government will pay the deferred taxes to municipalities, ensuring local governments don't lose much-needed property tax revenue, said Finance Minister Colin Hansen.

Families can choose to not pay the tax until they die or decide to resell the home, at which point the back taxes are owed in addition to accumulated interest.

"It's certainly not going to be for everybody," Hansen said. "But particularly for families that are feeling the financial pinch of raising children ... this is one more option for them."

John Pankratz, president of the Certified General Accountants of B.C., likes the fact that it provides an option for homeowners.

The flexibility is good for new homeowners and for those for whom a few hundred dollars a month in property taxes can make or break a family budget, he said. "We do have younger clients who will take advantage of this."

But interest will accrue on the deferred taxes and if a person isn't careful, they could end up in a situation where the debt has been deferred so long, they can't get out from under it.

A handwritten signature in black ink, appearing to be 'J. Pankratz', is located in the bottom right corner of the page.

Randi Masters, president of the Victoria Real Estate Board, said the key word in the program is "defer."

"Deferring means that at one point you have to pay it back, so that's the point to look toward. What are the repayment terms? Anything to help [make] home ownership more affordable is great, but we need more details."

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Property tax deferral plan just puts off painful day of reckoning

Young families need tax cuts. Pay-me-later scheme doesn't make home ownership more affordable -- it just creates that illusion

BY CRAIG MCINNES, VANCOUVER SUN FEBRUARY 12, 2010

Scott Hannah sees a lot of young families that are having trouble paying their bills.

He is the president and CEO of the Credit Counselling Society, a non-profit organization that helps people who are drowning in debt.

Last year, they fielded 40,000 calls for assistance and signed up 9,000 new clients in British Columbia. So he is always looking for anything that offers relief for people who have waded in over their heads.

Naturally, Hannah listened with interest when the provincial government announced in the speech from the throne earlier this week that it was preparing a new lifeline for young families.

But from what he's seen so far, he's not impressed with a new program that would let parents with children 18 and under defer payment of their municipal property taxes.

While there are no details, the Family with Children Property Tax Deferral Option is described as being similar to the one already available for seniors.

It allows them to put off paying property taxes until their home is sold, while paying below market rates on the unpaid balance.

For seniors who have little income and who live in homes that have increased in value, it can be a useful option for allowing them to stay put.

But what makes sense for seniors does not translate well into meeting the needs of young families.

Deferring property taxes doesn't make home ownership more affordable, even though it may create that illusion for a short while.

For seniors, deferring taxes may make sense because the effect is essentially to reduce that net value of their homes. That will mean their children will have less to inherit, but it is unlikely they will ever have to pay back the deferred taxes out of their income stream.

For young families, the opposite is true.

"Giving them the ability to defer taxes for a long period of time is not going to make the debt go away,"

Hannah points out. "It just becomes a bigger burden to deal with."

The recession has pushed more middle-class families to the brink, Hannah says. In 2008, the average consumer debt carried by people seeking credit counselling was \$20,000 to \$25,000. Last year, it jumped to \$33,000 to \$40,000.

Hannah says that the increase was because the people getting into financial trouble had higher incomes and were able to borrow more: "So it's a growing problem."

Hannah says for people who understand the ramifications of what they are doing and who are facing a short-term crunch, tax deferment may be useful.

But for people who already have trouble managing money, it may only add to their troubles.

Many young families have large mortgages obtained at historically low interest rates. As those rates inevitably rise over the next couple of years, they will face what are in many cases dramatically higher payments. If they defer taxes now, the added burden of paying them later will be compounded by the pain of higher interest rates.

"All you are doing is mortgaging future paycheques," he says.

If the option is available, it will be taken by people who don't fully understand what they are doing.

"If you look at typical consumer behaviour, they are going to take the path of least resistance," he says.

The only real way to make taxes less of a burden for young families is to reduce them. That isn't happening.

So if people find they can't afford to pay their taxes, they may have to take a hard look at whether they can really afford to own their own home.

That's not an easy question to face, but for most people, deferring taxes will only make it harder.

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