

WELCOME TO BELL SPAGNUOLO LEGAL OFFICES

October 20, 2006

INFORMATION ON GOODS AND SERVICES TAX FOR RESIDENTIAL REAL ESTATE

The following are the questions that we are most often asked by our clients, and the answers that we provide. If your question is not answered below, please give us a call or email bs@bellspag.com

When is G.S.T. paid?

Goods and Services Tax ("G.S.T.") is payable on the purchase of a new or substantially renovated home.

What is a substantial renovation?

A substantial renovation is defined in the legislation as the removal or replacement of most of the house construction components except for the foundation, external walls, interior supporting walls, floor, roof and staircase.

How much must be paid?

The amount payable is equal to 6% of the purchase price of the property.

Do I qualify for a rebate?

In certain situations, a rebate is available to reduce the amount of G.S.T. payable. These rebates are set out below.

What is the rebate if I am moving to the new home?

For purchasers who intend to make their new home their "primary place of residence", a rebate is available which reduces the amount of G.S.T. paid to the federal government. This is called the **New Housing Rebate** and it reduces the G.S.T. paid by 36%.

For example, assume the purchase price of the new home is \$300,000.00. G.S.T. is 6% of \$300,000.00, which equals \$18,000.00. The rebate is 36% of \$18,000.00, which is \$6,480.00. The net G.S.T. payable would be \$11,520.00, which equals \$18,000.00 less \$6,480.00.

In order to qualify for this **New Housing Rebate**, the purchaser must certify that they will be moving into the property and using the property as their primary place of residence. Further, the purchase price must be under \$350,000.00 to qualify for the entire **New Housing Rebate**. A partial rebate is available for homes between \$350,000.00 and \$450,000.00 as set out below.

The **New Housing Rebate** is generally given at closing which means the purchaser usually pays the net G.S.T. to the Vendor.

What is the rebate if I am not moving to the new home and am renting the home to a tenant?

For purchasers who intend to make their new home a rental unit, the **Residential Rental Property Rebate** allows for the net G.S.T. to be paid, but with a few differences from the **New Housing Rebate**.

In order to claim this rebate, certain conditions must be met. These include:

- The purchaser must not be entitled to claim input tax credits in respect of any part of the tax payable on the acquisition of the property.
- The rental unit must be a "qualifying residential unit" which means the person applying for the rebate must be the owner of the unit and the unit must be a self contained residence as defined in the Excise Tax Act.
- The unit must be held by the owner for the purpose of making exempt supplies (for example, a residential lease).
- The unit must be used as a primary place of residence by the tenants and must be so used for at least one year.

The **Residential Rental Property Rebate** must be applied for after closing so the Purchaser must pay the full G.S.T. on closing. Supporting documentation will be required when applying for the rebate from the federal government, and includes the Statement of Adjustments, the Contract of Purchase and Sale, the lease/rental agreement and the insurance policy that the purchaser has on the property.

In order to claim the full **Residential Rental Property Rebate**, the value of the qualifying unit must be under \$350,000.00. A partial rebate is available for rental units with a fair market value between \$350,000.00 and \$450,000.00 as set out below.

What is the rebate if my home is priced between \$350,000.00 and \$450,000.00?

For homes valued between \$350,000.00 and \$450,000.00, the rebate is gradually reduced and is calculated by using the following formula (get ready to brush up your high school math):

$$\$7,560.00 \times (\$450,000.00 - B) / \$100,000.00$$

"B" is the fair market value of the home being purchased.

For example, assume the value of the home is \$400,000.00. The rebate would equal:

$$\$7,560.00 \times (\$450,000.00 - \$400,000.00) / \$100,000.00$$

Assuming our math is correct, the rebate would equal \$3,780.00.

The G.S.T. payable would be \$24,000.00 (6% of \$400,000.00) less \$3,780.00 which would equal \$20,220.00.

What is the rebate if my home is priced over \$450,000.00?

No rebate is available and the full G.S.T. is paid for homes over \$450,000.00.

What is the transitional rebate and how do I apply for this rebate?

G.S.T. was reduced on July 1, 2006 from 7% to 6%. For the reduced rate to apply, two conditions must be met. The first is that the contract of purchase and sale must have been entered into on or after May 2, 2006 and second is both the completion and possession date must be on or after July 1, 2006.

Where the contract is entered into before May 2, 2006 and the completion and possession occur after July 1, 2006, G.S.T. at the rate of 7% will apply. There is a **Transitional Rebate** available to the purchaser to account for the rate reduction. This **Transitional Rebate** is separate from the **New Housing Rebate**. Therefore, even if the purchaser is not eligible for the **New Housing Rebate** because the purchase price is over \$450,000.00, the purchaser can still apply for the **Transitional Rebate**.

In order to ensure the reduction in savings is being given to the consumer, the government is requiring that the full G.S.T. be paid on closing, and the buyer apply for the **Transitional Rebate** after closing. This is done through a government form that Bell Spagnuolo Legal Offices will provide to the purchaser at their closing appointment.

Disclaimer

Please remember that the rules regarding G.S.T. frequently change. While we try to keep our website up to date as much as possible, please do not rely upon the information without talking either to one of our lawyers or your financial advisor.

The information you obtain at this site is not, nor is it intended to be, legal advice. You should consult a lawyer for individual advice regarding your own situation.

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