

HST Transitional Rules for New Residential Real Property Sales

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Reference material
GST/HST Notice - 246

GRANDPARENTED SALES – agreements dated before November 19, 2009

If agreement entered into before November 19, 2009 then the sale will only be subject to the 5% federal GST even if the sale closes after June 30, 2010.

The builder/vendor in the grandparented sale (including both houses and condominium units) must remit a **Transitional Tax Adjustment** to CRA if the construction of the property sold straddles June 30, 2010 and the house was less than 90% complete at June 30, 2010. This adjustment is intended to approximate the amount of PST that the builder would have paid on construction costs incurred after June 30, 2010 if PST had not been eliminated. This adjustment increases the builders cost!

Change orders are subject to the 5% rate if a grandfathered sale. As long as they do not significantly change the contract.

Purchaser may qualify for the **Federal New Housing Rebate** (primary residence) – 36% of GST paid to a maximum of \$6,300 – phased out if selling price is between \$350,000 and \$450,000. Does not apply to recreational properties.

May qualify for GST New **Federal Rental Property Rebate** – same limits as above.

How to calculate the Transitional Tax Adjustment?

The Transitional Tax Adjustment is calculated at a flat rate of 2% of the selling price for condominium units.

The following schedule is used to calculate the Transitional Tax Adjustment for all other grandparented sales of houses.

<u>% of Completion At June 30, 2010</u>	<u>Transitional Tax Adjustment Rate as a % of Consideration</u>
Less than 10%	2.0%
10 – 24.99%	1.5%
25 – 49.99%	1.0%
50 – 74.99%	0.5%
75 – 89.99%	0.2%
90% or more	0%

ALL OTHER SALES – agreements dated after November 18, 2009

For all agreements entered into after November 18, 2009, the **12% HST must be charged** on all sales closing after June 30, 2010.

If a property is either a new rental property or a primary residence then purchasers may qualify for:

- BC New Housing Rebate

- this rebate is equal to 5% of the sale price up to a maximum of \$26,250
- this credit reaches its maximum on a sale price of \$525,000
- homes over \$525,000 qualify for maximum rebate of \$26,250

- Federal New Housing Rebates

- 36% of GST paid to a maximum of \$6,300
- phased out if selling price is between \$350,000 and \$450,000
- does not apply to recreational properties

The criteria to qualify for both credits is the same.

The purchaser can either apply for these credits after the purchase or the vendor/builder can provide the credit to the purchaser. There will be one combined form to claim both credits available by July 1, 2010.

Owner Built Homes

If paid HST on purchase of land then yes owner can claim BC New Housing Rebate up to maximum of \$26,250.

If only GST was paid on the purchase of the land then the maximum BC New Housing Rebate will be \$17,588.

The owner can claim the Federal New Housing Rebate.

Summary of BC and Federal New Housing Rebates

<u>Sale Price</u> <u>FMV</u>	<u>12%</u> <u>HST</u>	<u>BC</u> <u>Rebate</u>	<u>Federal</u> <u>Rebate</u>	<u>Net</u> <u>HST</u>	<u>Effective</u> <u>Tax Rate</u>
300,000	36,000	15,000	5,400	15,600	5.2%
350,000	42,000	17,500	6,300	18,200	5.2%
400,000	48,000	20,000	3,150	24,850	6.2%
450,000	54,000	22,500	0	31,500	7.0%
525,000	63,000	26,250	0	36,750	7.0%
625,000	75,000	26,250	0	48,750	7.8%
750,000	90,000	26,250	0	63,750	8.5%

PST Transitional New Housing Rebate – to be claimed by purchasers

This rebate essentially credits the purchaser for the fact that the builder would have paid PST on construction costs incurred up to June 30, 2010. This is referred to as the embedded PST up to June 30, 2010. This credit only applies to sales that are not grandfathered.

An individual that purchases a new home – excluding condos (either for personal use or rental) can claim this credit when the **construction of the home straddles the July 1, 2010** implementation date and HST applies to the purchase. The construction must be at least 10% complete on July 1, 2010 and the builder must certify the degree of completion as of July 1, 2010 in order to claim this rebate.

This rebate can either be credited to the purchaser by the builder or by application directly to CRA. Builders will apply to CRA to obtain clearance certificates to be able to credit this rebate.

This rebate is only available for single detached, semi-detached, row, and duplex housing. This rebate does not apply to owner built homes, mobile homes, floating homes, nor residential condominiums.

A builder that has to self-assess HST on a home (ie to become a rental property) and the **construction of the home straddles the July 1, 2010** implementation date may claim this credit. The construction must be at least 10% complete on July 1, 2010 and the builder must certify the degree of completion as of July 1, 2010 in order to claim this rebate.

A builder of a new residential condominium unit can claim this credit if the builder sells the condominium and the builder is required to pay the Transitional Tax Adjustment (this would be in the case for a grandfathered sale) or the sale of the unit is subject to the HST – ie after June 30, 2010. **Therefore this rebate is available to builders on the sale of all condominium units whether grandfathered or not and the units were more than 10% complete at July 1, 2010.**

This rebate is not available to corporations purchasing residential rental properties unless they are owner built by the corporation.

How to calculate the PST Transitional New Housing Rebate?

<u>% of Completion</u>	<u>% of Embedded PST to be Rebated</u>
Less than 10%	0%
10 – 24.99%	25%
25 – 49.99%	50%
50 – 74.99%	75%
75 – 89.99%	90%
90% or more	100%

How to calculate the amount of the embedded PST?

One of the following two methods is to be used:

The floor space method

The total square meters of floor space completed in the housing multiplied by \$60

The consideration method

2% of the total consideration paid for the housing or the fair market value if the fair market value is higher

HST Example for the Sale of a New House to be used for Primary Residence

- completion occurs after June 30, 2010 and is not grandparented
- the PST Transitional Rebate is calculated using the consideration method

Sale Price	% Complete 30-Jun-10	HST	BC Rebate	Federal Rebate	PST Rebate	Net Tax
300,000	75%	36,000	(15,000)	(5,400)	(5,400)	10,200
350,000	50%	42,000	(17,500)	(6,300)	(5,250)	12,950
400,000	60%	48,000	(20,000)	(3,150)	(6,000)	18,850
450,000	20%	54,000	(22,500)	0	(2,250)	29,250
525,000	80%	63,000	(26,250)	0	(9,450)	27,300
625,000	90%	75,000	(26,250)	0	(12,500)	36,250
750,000	50%	90,000	(26,250)	0	(11,250)	52,500

\$300,000 X 2% X 90% = \$5,400 for a house 75% complete at June 30, 2010
\$350,000 X 2% X 75% = \$5,250 for a house 50% complete at June 30, 2010
\$400,000 X 2% X 75% = \$6,000 for a house 60% complete at June 30, 2010
\$450,000 X 2% X 25% = \$2,250 for a house 20% complete at June 30, 2010
\$525,000 X 2% X 90% = \$9,450 for a house 80% complete at June 30, 2010
\$625,000 X 2% X 100% = \$12,500 for a house 90% complete at June 30, 2010
\$750,000 X 2% X 75% = \$11,250 for a house 50% complete at June 30, 2010

Disclosure Requirements for Agreements after November 18, 2009

For agreements entered into after November 18, 2009, the builder is required to disclose in the written agreement whether the provincial part of the HST applies to the sale and, if so, whether the stated price in the agreement includes the provincial part of the HST, net of the BC New Housing Rebate and the PST Transitional New Housing Rebate, if applicable.

If the transaction is subject to HST and the builder did not make a disclosure as outlined above, the stated price in the written agreement would be deemed, under the transitional rules, to include the provincial part of the HST. In such case, the purchaser would not be required to pay the provincial part of the HST in addition to the stated price in the agreement.