

# GST/HST Info Sheet

## GST/HST Rate Reduction and Purchasers of New Housing

May 2006

This info sheet explains the transitional rules for the GST/HST rate reduction that apply to purchases of new housing in Canada. It also explains when a person may claim a GST/HST transitional rebate on the purchase of a new house and the procedure for obtaining the rebate.

In this document, a “house” includes a single family home, a semi-detached house, a duplex, a townhouse, a residential condominium unit, a mobile or modular home and a floating home. Where this document refers to an agreement entered into before May 3, 2006, the agreement must be evidenced in writing. A purchaser of a new house is required to have evidence in writing of the purchase agreement in order to claim a GST/HST transitional rebate.

The HST applies only to supplies made in or imported into a participating province (Nova Scotia, New Brunswick or Newfoundland and Labrador). The GST applies to supplies made in or imported into the rest of Canada. If you are uncertain as to whether a supply is made in a participating province, refer to the Technical Information Bulletin B-078, *Place of Supply Rules under the HST*, available from any Canada Revenue Agency (CRA) tax services office.

If your house is located in Nova Scotia, you may be entitled to claim the Nova Scotia new housing rebate for a part of the provincial portion of the HST. This rebate is in addition to the new housing rebate for a part of the federal portion of the HST and the GST/HST transitional rebate. Note: the calculation for the GST/HST transitional rebate does not take

into account the Nova Scotia new housing rebate since it only relates to the federal part of the HST. For more information on the GST/HST new housing rebates, including the Nova Scotia rebate, refer to the guide RC4028, *GST/HST New Housing Rebate*.

### Application of GST/HST – general rule

Effective July 1, 2006, under proposed legislation, the GST rate will be reduced from 7% to 6%, and the HST rate from 15% to 14%.

Generally, the new rates of tax apply to the supply of taxable (other than zero-rated) goods and services in the following circumstances:

- If the GST/HST becomes payable after June 30, 2006 without having been paid before that day, GST/HST applies at the rate of 6% or 14%.
- If the GST/HST is paid after June 30, 2006 without having become payable before that day, GST/HST applies at the rate of 6% or 14%.

If the GST/HST becomes payable or is paid without having become payable before July 1, 2006, the GST/HST will apply at the rate of 7% or 15%. There are special transitional rules for real property transactions, particularly sales of new housing, and including deemed sales. In addition, a GST/HST transitional rebate may be available to take into account the GST/HST rate reduction where the agreement for the purchase of a new house was entered into before May 3, 2006. This rebate is explained later in this info sheet.

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**Application of GST/HST to purchases of new housing**

In general, GST/HST at the rate of 6% or 14% will apply to a taxable purchase of real property where both ownership and possession are transferred after June 30, 2006. Special transitional rules apply to purchases of new housing that straddle the July 1, 2006 effective date.

**Agreement of purchase and sale entered into before May 3, 2006**

If you entered into an agreement before May 3, 2006, for the purchase of a new house, GST/HST will apply at the rate of 7% or 15%. However, you may be entitled to a GST/HST transitional rebate if you paid GST/HST at 7% or 15% and both ownership and possession of the house are transferred to you after June 30, 2006.

**Ownership or possession transferred before July 1, 2006 – GST/HST applies at 7% or 15%**

You entered into an agreement before May 3, 2006, for the purchase of a new house. The closing date for the purchase is July 15, 2006. You make arrangements with the builder to take possession of the house on June 10, 2006, but ownership of the house does not transfer to you until July 15, 2006. Since you take possession of the house before July 1, 2006, GST/HST will apply at the rate of 7% or 15%. You are not entitled to a GST/HST transitional rebate under these circumstances.

**Both ownership and possession transferred after June 30, 2006 – GST/HST applies at 7% or 15% and GST/HST transitional rebate**

You entered into an agreement before May 3, 2006, for the purchase of a new house. The closing date for the purchase is July 20, 2006. Ownership of the house transfers to you on the date of closing. You also take possession of the house on that date. Since the agreement was entered into before May 3, 2006, GST/HST will apply at the rate of 7% or 15%. However, since both ownership and possession are transferred after June 30, 2006, you may claim a GST/HST transitional rebate.

**Agreement of purchase and sale entered into after May 2, 2006**

If you enter into an agreement after May 2, 2006, for the purchase of a new house, the GST/HST rate that applies on the purchase will depend on when ownership and possession are transferred. Note: a GST/HST transitional rebate is not available for agreements entered into after May 2, 2006.

**Ownership or possession transferred before July 1, 2006 – GST/HST applies at 7% or 15%**

You enter into an agreement after May 2, 2006, for the purchase of a new house. The closing date for the purchase is June 25, 2006. Ownership of the house transfers to you on June 25, 2006. Since ownership of the house is transferred to you before July 1, 2006, GST/HST will apply at the rate of 7% or 15%. If either ownership or possession is transferred before July 1, 2006, GST/HST will apply at the rate of 7% or 15% and a GST/HST transitional rebate is not available.

**Both ownership and possession transferred after June 30, 2006 – GST/HST applies at 6% or 14%**

You enter into an agreement after May 2, 2006, for the purchase of a new house. The closing date for the purchase is August 30, 2006. Ownership and possession of the house transfer to you on August 30, 2006. Since both ownership and possession are transferred after June 30, 2006, and the agreement was entered into after May 2, 2006, GST/HST will apply at the rate of 6% or 14%.

**Changes to an agreement of purchase and sale**

Generally, changes to an agreement to provide for upgrades will not have an impact on these transitional rules.

For example, if your agreement provides for standard kitchen cabinets and you ask the builder to upgrade to deluxe cabinets, the additional amount that the builder charges for the upgrade will be an additional amount payable for the house. You are not considered to have entered into a new agreement as a result of such a change and there would be no

impact on the application of the transitional rules. If the agreement was entered into before May 3, 2006, and both ownership and possession are transferred to you after June 30, 2006, GST/HST will apply at the rate of 7% or 15% on the total amount payable for the house, including the upgrade. In this case, you would claim a GST/HST transitional rebate. When determining the amount of the rebate, the total amount paid for the house includes the additional amount paid for the upgrade.

However, where an existing agreement is modified, varied or otherwise materially altered to such an extent that it is considered to be a new agreement, the application of the transitional rules will be based on the date that the new agreement is entered into, as well as the dates that possession and ownership are transferred under that new agreement. Reference should be made to the draft policy statement entitled *Agreements and Novation*, released on June 27, 2005.

If you and a builder renegotiate the terms of an agreement that was entered into before May 3, 2006, for the purchase of a new house, and enter into a new agreement after May 2, 2006, the transitional rules will apply based on the new agreement. For example, if you entered into an agreement before May 3, 2006, to purchase a new house and you and the builder renegotiate the terms of the agreement on June 1, 2006, and enter into a new agreement on that day, the GST/HST will apply at the rate of 6% or 14% if both ownership and possession, under the new agreement, are transferred to you after June 30, 2006. Furthermore, you will not be entitled to claim the GST/HST transitional rebate.

### **GST/HST transitional rebate**

Any person, including an individual, a non-profit organization or a corporation, who purchases a new house in Canada, may be eligible to claim a GST/HST transitional rebate. If you are entitled to claim the transitional rebate, a builder cannot pay or credit an amount to you for this rebate. You have to send an application for the transitional rebate directly to us and we will pay the rebate amount to you.

Generally, the GST/HST transitional rebate provides for a rebate to a purchaser of new housing to account for the 1% reduction in the GST/HST rate in certain circumstances where tax was paid at the rate of 7% or 15%. The transitional rebate is only available if you take ownership and possession of your new house after June 30, 2006, but paid GST/HST at the rate of 7% or 15% because you entered into an agreement of purchase and sale before May 3, 2006.

The GST/HST transitional rebate is not available if you are entitled to claim an input tax credit (ITC) in respect of the purchase of the new house.

The GST/HST transitional rebate is available for most purchases of new housing, regardless of the purchase price. The transitional rebate is not conditional on a purchaser's entitlement to other GST/HST new housing rebates. However, where a purchaser is entitled to another GST/HST rebate, the transitional rebate will take into account that other rebate (e.g., GST/HST new housing rebate or GST/HST new residential rental property rebate).

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Mr. and Mrs. Green buy a new house from a builder for \$344,784 (consideration is \$330,000, GST is \$23,100 and the GST/HST new housing rebate is \$8,316). The agreement of purchase and sale is signed on April 28, 2006. Both ownership and possession will transfer to Mr. and Mrs. Green on August 1, 2006. Since the house is purchased for use as their primary place of residence, the purchasers will be eligible to claim a GST/HST new housing rebate of \$8,316<sup>1</sup> provided all of the other conditions for claiming the new housing rebate are met. The purchasers and builder agree to have the builder credit the amount of the GST/HST new housing rebate to the purchasers at the time of purchase.

Since the agreement of purchase and sale was signed before May 3, 2006, and both ownership and possession are transferred after June 30, 2006, GST on the purchase will apply at the rate of 7%. However, the purchasers will also be entitled to claim a GST/HST transitional rebate. The amount of the transitional rebate will be adjusted to take into account the GST/HST new housing rebate of \$8,316, which was credited by the builder at the time of the purchase. Mr. and Mrs. Green will be entitled to claim a

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<sup>1</sup> The GST/HST new housing rebate is 36% of the GST paid (or the federal part of the HST paid). The maximum rebate available is \$8,750 under 7% GST (15% HST) and \$7,560 under 6% GST (14% HST). The rebate is phased-out for houses priced between \$350,000 and \$450,000. The GST/HST transitional rebate is the only rebate available for houses priced at \$450,000 and above.

transitional rebate of \$2,112 based on the following formula:

$$A \times [0.01 - ((B \div A) \div 7)]$$

Where

A = Consideration paid for the house (\$330,000)

B = Amount of the GST/HST new housing rebate (\$8,316)

The GST/HST transitional rebate available to Mr. and Mrs. Green is equal to \$2,112, as follows:

$$\begin{aligned} & \$330,000 \times [0.01 - ((\$8,316 \div \$330,000) \div 7)] \\ &= \$330,000 \times [0.01 - (0.0252 \div 7)] \\ &= \$330,000 \times [0.01 - 0.0036] \\ &= \$2,112 \end{aligned}$$

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Ms. White buys a new luxury condominium from a builder for \$575,000 (consideration is \$500,000, HST is \$75,000). The agreement of purchase and sale was signed on April 3, 2006. The closing date for the purchase of the condominium is October 2, 2006. Both ownership and possession will transfer to Ms White on October 2, 2006.

Since the agreement of purchase and sale was signed before May 3, 2006, HST on the purchase will apply at the rate of 15%. However, since both ownership and possession are transferred after June 30, 2006, Ms White will be entitled to claim a GST/HST transitional rebate. Because the purchase price of the condominium is more than \$450,000, Ms White is not entitled to claim a GST/HST new housing rebate. Ms White will be entitled to claim a transitional rebate of \$5,000, based on the following formula:

$$A \times 1\%$$

Where

A = Consideration paid for the condominium (\$500,000)

The GST/HST transitional rebate available to Ms White is equal to \$5,000, as follows:

$$\begin{aligned} & \$500,000 \times 1\% \\ &= \$5,000 \end{aligned}$$

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If you purchased a house or a unit in a multiple unit residential complex where the builder sells you the building, or part of the building, and leases you the land (or assigns a lease of the land) on which the house or unit is situated, you may also be eligible to claim a GST/HST transitional rebate. You would qualify for the rebate if you entered into the agreement before May 3, 2006, for the purchase of the house and lease of the land, possession is given to you after June 30, 2006, and the builder had to self-assess GST/HST at 7% or 15%. In the case of a purchase of a unit in a multiple unit residential

complex and lease of land, you would qualify for the rebate if the builder had to self-assess GST/HST at 7% or 15% and possession of a unit in the complex was given to you after June 30, 2006.

### **Application for the GST/HST transitional rebate**

To claim a GST/HST transitional rebate, you have to complete application Form GST193, *GST/HST Transitional Rebate Application for Purchasers of New Housing*, and file it with us. A copy of the application form will be available on our Web site or may be obtained by calling 1-800-959-2221.

Unlike the GST/HST new housing rebate, which can be paid or credited to a purchaser of a new house by the builder at the time of purchase, a purchaser has to file the application for the GST/HST transitional rebate directly with us and we will pay the transitional rebate amount to the purchaser. The builder cannot pay or credit this rebate.

If a GST/HST new housing rebate is available for the purchase of a house, the same individual who claimed the GST/HST new housing rebate (i.e., the individual who signed the application) has to claim the GST/HST transitional rebate and send it to us. If you and your spouse purchased a new house and your spouse claimed the GST/HST new housing rebate, only your spouse can claim the GST/HST transitional rebate.

You cannot claim the GST/HST transitional rebate until you meet all of the conditions. For example, you must have paid all of the GST/HST payable on the purchase of the house. A rebate application cannot be filed before July 1, 2006, since ownership and possession must be transferred after June 30, 2006, to be eligible to claim the GST/HST transitional rebate. You have to file the rebate application with us within two years after the day that ownership of the house is transferred to you. You also have to attach a copy of the purchase and sale agreement and a copy the GST/HST new housing rebate that you claimed. If the builder paid or credited you the new housing rebate, you may ask the builder for a copy of the rebate application if you do not have a copy.

This info sheet explains the most common GST/HST transitional rebates available. Other transitional rebates are available in certain circumstances. For example, a cooperative housing corporation (co-op) that purchases a residential complex may be entitled to claim a transitional rebate. If eligible, the co-op would complete application Form GST193, follow the instructions to calculate the transitional rebate amount using the appropriate formula, and file it with us.

In limited circumstances, a builder may be entitled to claim a GST/HST transitional rebate in respect of the land part of the property where the builder sells a house and leases the land. In this case, the builder has to complete application Form GST192, *GST/HST Transitional Rebate Application for*

*Builders of New Housing on Leased Land*, and file it with us.

There are also variations to the formula for calculating the GST/HST transitional rebate for certain purchases such as the purchase of a house by a public service body (PSB) that is entitled to claim a PSB GST/HST rebate. The amount of the GST/HST transitional rebate will take into account the amount of the PSB rebate.

For more information on the GST/HST transitional rebate please call 1-800-959-8287.

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST Rulings Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, ***Canada Revenue Agency GST/HST Rulings Centres***. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

This info sheet reflects changes to the Act announced by the Minister of Finance on May 2, 2006, and included in Bill C-13, the *Budget Implementation Act, 2006*, which received second reading on May 19, 2006. Any commentary in this info sheet should not be taken as a statement by the CRA that these amendments will be enacted in their current form.

If you are located in the province of Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the Internet at the CRA site at [www.cra-arc.gc.ca/tax/technical/gsthst-e.html](http://www.cra-arc.gc.ca/tax/technical/gsthst-e.html).