

GST/HST Info Sheet

Operating a Bed and Breakfast in Your Home

September 2006

This info sheet explains how the goods and services tax/harmonized sales tax (GST/HST) applies to bed and breakfast (B & B) establishments operated by individuals.

In this publication “taxable” means subject to the GST/HST at 6% or 14%, and “exempt” means not subject to the GST/HST.

If you are a registrant, you must collect the GST/HST in your B & B operation on amounts charged for the following taxable sales:

- accommodation of less than one month;
- prepared meals and many other food and beverages; and
- parking.

But if the total price for

- accommodation and a meal, or
- accommodation only (if no meal is provided)

is \$20 per day or less, you do not charge or collect the GST/HST.

If you provide accommodation and a meal for a single price that is more than \$20 per day, you must collect the GST/HST on the entire amount even if you consider the accommodation portion to be \$20 or less. For example, if you charge a single price of \$22 of which \$15 is for accommodation and \$7 is

for breakfast, you must collect the GST/HST on the single price of \$22.

The \$20 threshold is based on the per room charge not the charge per person. Splitting a room rental charge that is more than \$20 per day by invoicing separately the individuals sharing the same room so that the price per individual is not more than \$20 does not relieve you from having to charge the GST/HST on the accommodation. For example, if three individuals are each charged \$15 for a shared accommodation in one room, you must charge and collect the GST/HST on each of the \$15 charges.

On the other hand, if you are simply providing a right to non-exclusive use of a room (such as typical dormitory-type hostel accommodation) and your pricing practice takes the form of a “per occupancy charge” as opposed to a “per room charge”, you do not charge or collect the GST/HST if your “per occupancy charge”, including any meals that you provide, is \$20 per day or less.

Registration rules

You must register for the GST/HST if your revenues from taxable sales and rentals in the last four calendar quarters are more than \$30,000. You must also register if your taxable revenues at any time in a single calendar quarter are more than \$30,000. However, if your taxable sales and rentals are below \$30,000, you may still register voluntarily.

GI-007R

*More Ways to Serve You!
Pour vous servir encore mieux !*



Canada Revenue
Agency

Agence du revenu
du Canada

La version française du présent document est intitulée
Exploitation d'un gîte touristique dans votre habitation.

Canada

If you are a registrant, you may be eligible to claim input tax credits (ITCs) to recover tax paid on purchases or expenses such as dishes, cutlery, linens, utilities, maintenance or cleaning services used in your B & B operation. More information on ITCs is provided below.

If your taxable revenues are below \$30,000 and you choose not to register, you do not charge or collect the GST/HST on your sales and rentals. As well, you are not eligible to claim ITCs for the tax paid on your purchases or expenses.

ITC rules related to the operation of a B & B establishment

If a purchase or expense (other than capital property) relates exclusively (90% or more) to your taxable B & B operation, you may claim an ITC for the full amount of the GST/HST that you paid on it, provided that you are a registrant. For example, if 90% of a linen cleaning service that you purchased relates to your taxable B & B operation, you may claim an ITC for the entire amount of tax paid on it.

You may also claim, as an ITC, a portion of tax paid on a purchase or expense that is used less than 90% in your taxable B & B operation. For example, if 30% of your utilities bill relates to the taxable B & B operation and 70% relates to the part of the house that you live in, you may claim an ITC of 30% of the GST/HST you pay on the utilities charge. However, the purchase or expense must be used more than 10% in your taxable B & B operation before you may claim an ITC.

The general rule for capital personal property such as furniture is different from the ITC rule for non-capital property discussed above. If you purchase capital personal property for use primarily (more than 50%) in your taxable B & B operation, you may claim an ITC for the full amount of the GST/HST paid on that property. You may not claim an ITC for the GST/HST paid on the purchase of capital personal property if that property is used 50% or less in your taxable B & B operation.

For example, if you purchase bedroom furniture for use primarily in your taxable B & B operation, you

may claim an ITC for the full amount of the GST/HST paid on the furniture.

The method you use to determine the extent of use in your B & B operation must be fair and reasonable for your specific circumstances and must be used for at least one year before changing to another method.

ITC rules related to the purchase or renovation of a house are explained below.

Non-residents who visit Canada and stay at a B & B establishment may apply to the Canada Revenue Agency (CRA) for a refund of the GST/HST they pay on the accommodation provided in the establishment. For additional information refer to these pamphlets: RC4031, *Tax refund for Visitors to Canada* (rebate application GST176) and RC4117, *Tax Refund for Business Travel to Canada* (rebate application GST510).

Purchasing, renovating or selling your house when it is used primarily as your place of residence

If you begin operating a B & B establishment in your home, you will not incur any tax liability on your house while operating the B & B establishment, or when you close your B & B operation, or on any later sale of your house, provided you continue to use your house primarily as your place of residence.

You may not claim an ITC for the GST/HST paid on a house you purchase or renovate when you use the house partly in your B & B operation but primarily as your place of residence. For more information, refer to paragraph 41 in GST/HST Memorandum 19.4.2, *Commercial Real Property: Deemed Supplies*.

You may be able to claim a GST/HST New Housing Rebate for a portion of the GST/HST paid to a builder for the purchase of a new or substantially renovated house (whether you purchase the land or lease it long-term from the builder), or for a portion of the GST/HST paid on your costs if you build or substantially renovate your house, provided the house is used primarily as your place of residence. Substantial renovation means 90% or more of the

interior of the house has been removed or replaced. For additional information on substantial renovations, refer to the GST/HST Technical Information Bulletin B-092, *Substantial Renovations and the GST/HST New Housing Rebate*. The rebate is not available to individuals that are members of a partnership or to an incorporated entity. For more information on the rebate, refer to the GST/HST Guide RC4028, *GST/HST New Housing Rebate*.

Finally, since you are using your house primarily as your place of residence, you would not charge the GST/HST when you sell it.

In August 2006, Ms. Green buys a new house from a builder for a price of \$300,000 (excluding GST or HST). The house is bought for use primarily as her place of residence and she uses two bedrooms to operate a B & B establishment. Ms. Green is eligible to claim a GST/HST New Housing Rebate for a portion of the GST/HST paid to the builder on the purchase of the new house. Since Ms. Green uses her house primarily as her place of residence, she would not charge the GST/HST when she sells it.

Mr. Brown lives in a four-bedroom house and, in September 2006, adds an addition consisting of two bedrooms and a common sitting room in which he operates a B & B establishment. Since he uses his renovated house primarily as his place of residence, ITCs are not available for the GST/HST that he pays on expenses related to the renovation of the house. Also, Mr. Brown is not able to claim a GST/HST New Housing Rebate for expenses related to the addition because he has not substantially renovated his house. As mentioned earlier, substantial renovation means 90% or more of the interior of the existing house has been removed or replaced. If he is a registrant, Mr. Brown may be eligible to claim ITCs for the GST/HST paid on purchases and expenses used in his taxable B & B operation. Since Mr. Brown uses his house primarily as his place of residence, he would not charge tax on any later sale of his house.

If your house is used primarily for your taxable B & B operation

Purchasing and selling your house

If you purchase a new house primarily for use as a taxable B & B operation (and therefore not primarily as your place of residence), you would be eligible to claim partial ITCs for the GST/HST paid on the purchase of the house to the extent that it is

used in your taxable B & B operation, provided you are a registrant. In other words, you may not claim ITCs on the portion of the house in which you live, but you may claim as an ITC the GST/HST that applies to the price attributed to the portion of the house used for the taxable B & B operation.

Since you are not using your house primarily as your place of residence, any later sale of your house is treated as the sale of two separate portions or properties. Tax does not apply to the portion of the house in which you live. However, the GST/HST does apply to the price attributed to the remaining portion of the house.

The price attributable to each portion may be determined using comparable sales of similar properties in the local real estate market. If you sell your house to a registrant, it is the purchaser who is required to pay the tax to the CRA. As well, you and the registered purchaser may be entitled to file an election to relieve the tax on the sale of your house as part of the sale of your B & B operation, provided certain conditions are met. For more information, refer to GST/HST Policy Statement P-188, *The Supply of a Business or Part of a Business for the Purpose of the Election under subsection 167(1)*.

In August 2006, Ms. White buys a new three-story house and uses the main floor and second storey to operate a B & B establishment. She lives in the third storey of the house. Therefore, the house is used primarily in the operation of a B & B establishment. If she is a registrant, Ms. White may claim an ITC for the GST/HST paid on the purchase price to the extent that her house is used in her taxable B & B operation. Ms. White may also be eligible to claim ITCs for the GST/HST she has to pay on purchases and expenses used in her taxable B & B operation. When Ms. White sells her house, to determine the price on which the GST/HST is calculated, the purchase price is divided between the ineligible portion of the house (i.e., the property) in which Ms. White resides and the remaining (taxable) portion of the property used in the B & B operation. If Ms. White sells her house to a registrant, the purchaser (rather than Ms. White) would have to pay the GST/HST on the B & B portion to the CRA.

Beginning B & B operations in your existing house and later selling your house

If you register for the GST/HST and begin operating a B & B establishment in your existing house and use the house primarily for that operation, at that time you are treated as if you had:

- purchased the house; and
- paid the GST/HST, based on a basic tax content calculation, on the B & B portion.

However, if you become a registrant some time after you begin using your house primarily for your B & B operation, you are treated as if you had purchased the house and paid tax based on the basic tax content calculation that is attributable to the B & B portion at the time you become a registrant.

This enables you to claim partial ITCs for the GST/HST that you paid, if any, when you previously purchased the house as well as on any improvements (e.g., installation of a central air conditioning unit) you made in respect of the taxable B & B portion. For additional information on basic tax content, refer to the Appendix in GST/HST Memorandum 19.2.3, *Residential Real Property – Deemed Supplies*.

On any later sale of your house, you would have to charge the GST/HST only on the price attributed to the portion of the house or the property used in your B & B operation and not on the portion in which you live.

Beginning B & B operations after renovations (not substantial) and later selling your house

If you renovate your house (i.e., not a substantial renovation), register for the GST/HST and begin using the house primarily for your B & B operation, when you start your B & B operation, you are treated as if you had

- purchased the house; and
- paid the GST/HST, based on the basic tax content calculation, on the B & B portion.

This enables you to claim partial ITCs for the GST/HST paid on your renovation (provided the

renovated section is used for your taxable B & B operation). It also enables you to claim ITCs for the portion of the GST/HST paid on the previous or last purchase of the house that relates to your B & B operation.

On any later sale of your house, you would have to charge the GST/HST only on the price attributed to the portion of the house or property used in your B & B operation and not on the portion in which you live. For additional information, refer to paragraph 43 of GST/HST Memorandum 19.4.2, *Commercial Real Property – Deemed Supplies*.

After living in his house for five years, in August 2006, Mr. Black makes minor renovations to the main floor and upper storeys. After completing the renovations, he registers for the GST/HST and begins operating a B & B establishment in the house, while living in the basement. Assuming that Mr. Black had purchased the house primarily for his personal use, he would not have been able to claim ITCs for the tax paid on the renovation. At the time that he begins using the house primarily in the operation of a taxable B & B establishment, he is treated as if he had purchased the house at that time and paid the GST/HST at that time based on a basic tax content calculation related to the B & B portion. This would have enabled Mr. Black to claim partial ITCs for the GST/HST paid on the renovation or on the last purchase of the house (if any tax was paid).

As explained earlier, under the ITC rules, Mr. Black may be eligible to claim ITCs for the tax paid on purchases and expenses used in his taxable B & B operation. Since Mr. Black's house is not used primarily as his place of residence, any subsequent sale of his house would be treated as two separate portions or properties. Tax would not apply to the portion in which Mr. Black lives, but would apply to the price attributed to the remaining portion.

Closing B & B operations and beginning using your house primarily as your personal residence

If you are a registrant and you close your taxable B & B operations and begin using your house primarily as your personal residence (assuming you were not previously using it primarily as your personal residence while operating your B & B establishment), you are treated as if you had sold and repurchased the part of the house formerly used in the B & B operation. You incur a tax liability based on the fair market value of the portion of the house or property that had been used in your taxable

B & B operation, provided that this amount exceeds the basic tax content related to that portion. In this case, you do not incur a future tax liability in respect of your house when you de-register for the GST/HST or sell your house.

For additional information on basic tax content, refer to the Appendix in GST/HST Memorandum 19.2.3, *Residential Real Property – Deemed Supplies*. For additional information on calculating the tax liability, refer to paragraphs 48 and 49 of the GST/HST Memorandum 19.4.2, *Commercial Real Property – Deemed Supplies*, and paragraphs 90 and 91 of the GST/HST Memorandum 19.2.3, *Residential Real Property – Deemed Supplies*.

In September 2006, Mrs. Grey, a registrant, uses her house primarily in her taxable B & B operation and partly as her place of residence. In March 2007, she closes the B & B operation and starts to use the entire house as her place of residence. Based on a fair market value calculation, she must remit the GST/HST on the portion of the house previously used in her taxable B & B operation. When Mrs. Grey then de-registers for the GST/HST, she would not incur any tax liability on her house. If she were

to later sell her house, she would not charge the GST/HST.

GST/HST forms

If you make a taxable sale of the B & B portion of your house and you are not a registrant, you are required to remit the GST/HST using form GST62, *Goods and Services Tax/Harmonized Sales Tax (GST/HST) Return (Non-personalized)*. Note, however, that you are not required to register for GST/HST purposes.

If you are a registrant, you are required to remit the tax using your regular personalized GST/HST return.

If you are selling a taxable B & B portion of a house to a registrant, the purchaser is required to remit the GST/HST to the CRA. The purchaser would remit the tax using either form GST 60, *GST/HST Return for Acquisition of Real Property*, or if using the house primarily in commercial activities, the purchaser's regular GST/HST return.

The information in 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 Canada Revenue Agency 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.

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.

Reference in CRA publications is made to the harmonized sales tax (HST) that applies to property and services provided in Nova Scotia, New Brunswick, and Newfoundland and Labrador (the “participating provinces”) at a rate of 14%. The goods and services tax rate is 6%.