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### **BASIC INFORMATION ON H.S.T. FOR RESIDENTIAL REAL ESTATE**

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H.S.T. has different implications for used residential real estate and new residential real estate. In this part of our website we outline the basic rules regarding H.S.T., and the basic rebates applicable.

#### **General Discussion**

The Harmonized Sales Tax (“H.S.T.”) came into effect in B.C. on July 1, 2010 and is a combination of the 5% federal G.S.T. and the 7% B.C. Provincial Sales Tax (“P.S.T.”), resulting in a single sales tax of 12% in B.C.

When determining if H.S.T. is payable on real estate, try to remember this. Goods and services that were subject to G.S.T. are taxable under H.S.T. Goods and services that were not subject to G.S.T. are not taxable under H.S.T. A more complete explanation is below.

#### **How does H.S.T. apply to used residential housing?**

Used residential housing has not been subject to G.S.T. and will not be subject to H.S.T. That is the good news. The bad news is that clients who are buying or selling used residential housing will still pay more in tax for services such as appraisals, home inspections and real estate commissions. Legal fees do not increase as lawyers were required to charge P.S.T. on their fees prior to the implementation of H.S.T.

Although there are higher costs when purchasing or selling used residential real estate, the costs are generally not prohibitive and should not stop anyone from buying or selling used property.

#### **How does H.S.T. apply to new residential housing?**

Much like G.S.T., H.S.T. is payable on the purchase price of newly constructed or substantially renovated residential homes. Substantially renovated 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.

This means that, without considering transitional rules and rebates, the price of a new home will increase by 7%. Don't forget, all of the other services, such as appraisals, home inspections and real estate commissions also increase by 7%.

### **What are the transitional rules?**

Contracts dated prior to November 18, 2009 where ownership and possession of the new home is transferred after July 1, 2010 will be grandfathered so that the provincial portion of the H.S.T. will not apply on completion. Therefore, only the 5% federal portion of the H.S.T. will be payable.

Contracts dated after November 18, 2009 where ownership and possession of the new home is transferred after July 1, 2010 will not be grandfathered and the provincial portion of the H.S.T. will apply on completion as well. Therefore, the full 12% H.S.T. will be payable.

### **Are there any rebates if the new home is to be the primary place of residence?**

First, let us define primary place of residence. This means a home that you own, jointly or otherwise, that you intend to live in on a permanent basis. To be eligible, the intent to use the home as the primary place of residence must be evident at the outset of buying the home. A recreational cottage, an investment property or a property you might retire to in the distant future do not qualify.

If the Purchaser (or a certain related family member) is planning to reside in the new home as their primary place of residence, there are, depending on the purchase price, two rebates that may be available.

**The first rebate** is the G.S.T. New Housing Rebate, which existed prior to H.S.T. being introduced. This rebate was (and is) available to recover some of the 5% that is charged for G.S.T. and equals 36% of the G.S.T. portion of the price.

For example, assume the purchase price of a new home is \$350,000 excluding H.S.T. The 5% federal portion of the H.S.T. (the "old G.S.T.") is \$17,500. The G.S.T. New Housing Rebate is 36% of \$17,500, which is \$6,300. The net federal portion of the H.S.T. payable is then \$17,500 less \$6,300, which equals \$11,200. This is exactly the same as under the G.S.T. rules.

The full G.S.T. New Housing Rebate is available for new homes priced up to \$350,000. 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 on your high school math):

$$\$6,300 \times [\$450,000 - \text{the purchase price}] / \$100,000$$

For example, assume the purchase price of a new home is \$400,000 excluding H.S.T. The partial G.S.T. NH Rebate is

$$\$6,300 \times [\$450,000 - \$400,000.00] / \$100,000$$

which equals \$3,150. The federal portion of the H.S.T. would be 5% of \$400,000.00, which equals \$20,000.00, less the partial G.S.T. New Housing Rebate of \$3,150.00, for a net tax of \$16,850.00.

There is no G.S.T. New Housing Rebate on homes valued at over \$450,000.00.

**The second rebate** is a B.C. New Housing Rebate available to recover some of the 7% provincial portion of the H.S.T. ("B.C. New Housing Rebate"). The B.C. New Housing Rebate is 71.43% of the 7% provincial component of the H.S.T. paid, up to a maximum of \$26,250. The maximum flat rebate of \$26,250 applies to new homes priced at \$525,000 and above. The conditions for claiming the B.C. New Housing Rebate mirrors the conditions for claiming the G.S.T. New Housing Rebate except that the B.C. New Housing Rebate is applicable to all qualifying properties rather than just those properties under \$450,000.

In some cases, the Contract will state that if the Purchaser certifies that they qualify for the rebates and signs the completed rebate forms, the Developer will credit the Purchaser on the Statement of Adjustments for the applicable G.S.T. New Housing Rebate and B.C. New Housing Rebate amounts on completion. The Developer

will then submit the signed rebate forms to Canada Revenue Agency (“C.R.A.”) for reimbursement after completion. This will save the Purchaser from having to pay the full 12% H.S.T. on completion. Please note that if the Developer does not agree in the Contract to credit the Purchaser on completion for the rebates, the Purchaser will have to pay the full 12% H.S.T. on completion and will then have to apply directly to C.R.A. for the G.S.T. New Housing Rebate and B.C. New Housing Rebate afterwards which means the Purchaser will have to ensure that they have additional funds to cover the 12% H.S.T. on completion. Neither the G.S.T. New Housing Rebate nor the B.C. New Housing Rebate is available to a corporation or a partnership.

### **Are there any rental rebates?**

If a Purchaser is planning to rent out the new home instead, then depending on the purchase price, two rebates may be available.

The G.S.T. New Residential Rental Rebate (“G.S.T. NRR Rebate”) is available to recover some of the 5% federal portion of the H.S.T. Like the G.S.T. New Housing Rebate, the full G.S.T. NRR Rebate is only available on new homes priced up to \$350,000. A partial G.S.T. NRR Rebate is available for homes priced between \$350,000 and \$450,000. The actual rebate calculations are identical to rebate calculations for the G.S.T. New Housing Rebate. To be eligible for the G.S.T. NRR Rebate, the Purchaser must meet certain conditions which include:

- i) the Buyer must not be entitled to claim input tax credits in respect of any part of the tax payable on the acquisition of the rental unit.
- ii) 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;
- iii) the unit must be held by the owner for the purpose of making exempt supplies (for example, a residential tenancy);
- iv) the unit must be used as a primary place of residence by the tenants and must be so used for at least one year and the buyer will have to provide a copy of the tenancy agreement showing a term of at least one year.

In addition, there is a B.C. New Residential Rental Property Rebate available to recover some of the 7% provincial portion of the H.S.T. (“B.C. NRR Rebate”). The B.C. NRR Rebate calculation is identical to the calculation for the B.C. New Housing Rebate and is 71.43% of the 7% provincial component of the H.S.T. paid, up to a maximum of \$26,250. The maximum flat rebate of \$26,250 applies to new homes priced at \$525,000 and above. The conditions for claiming the B.C. NRR Rebate mirror the conditions for claiming the G.S.T. NRR Rebate except that the B.C. NRR Rebate is applicable to all qualifying rental properties rather than just those rental properties under \$450,000.

Please note that the Developer is not allowed to credit the Purchaser on completion with either the G.S.T. NRR Rebate or the B.C. NRR Rebate amounts. This means the Purchaser will have to pay the full 12% H.S.T. on completion and then claim the G.S.T. NRR Rebate and B.C. NRR Rebate afterwards directly from C.R.A.. The Purchaser will have to ensure that they have additional funds to cover the 12% H.S.T. on completion. The G.S.T. NRR Rebate and the B.C. NRR Rebate are claimed on the same form. Therefore, even if the Purchaser does not qualify for the G.S.T. NRR Rebate because the purchase price is above \$450,000, they still would fill out the section on the form for the B.C. NRR Rebate.

### **Where can I obtain more H.S.T. information?**

For more information on H.S.T. see [www.rev.gov.B.C..ca](http://www.rev.gov.B.C..ca) and/or phone Ministry of Finance at 1-877-388-4440 and see [www.cra-arc.gc.ca/gncy/hrmnztn](http://www.cra-arc.gc.ca/gncy/hrmnztn) and/or phone the C.C.R.A. line 1-800-959 5525 or 1-800-959 8287 specifically for questions about transitional rules and H.S.T. rebates.