

# MONTHLY NEWSLETTER

## GST/HST New Housing Rebates



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*Our goal is to provide updates on topical tax issues. Information contained in the newsletters is not meant to be a comprehensive summary of the issues raised. Rather, we wish to bring what we believe to be important issues to the attention of our valued clients. We would be pleased to discuss any questions that you, the reader, might have in greater detail.*

### OVERVIEW

Residential real estate does not attract GST/HST on the rental or sale of the property. For example, if an individual taxpayer purchases a home from another individual taxpayer, there would be no GST/HST payable in addition to the purchase price. Newly built or substantially renovated residential homes, however, are subject to GST/HST in Canada. A “home”, for purposes of GST/HST has a very broad definition, including single family homes, duplexes, condominium units, mobile homes, and even floating homes.

In order to minimize the GST/HST burden to individuals looking to purchase a newly built home, there are federal and provincial rebate programs that allow qualifying purchasers to recover a portion of the GST/HST. These rebates are subject to a number of restrictions which are outlined below. The criteria vary for each provincial rebate. For purposes of this discussion, the Ontario rebates will be addressed.

### COMMON TYPES OF REBATES

#### *New Housing Rebate Application for Owner-Built Houses (Federal Form GST 191)*

In order to qualify for this rebate, the taxpayer must have built or substantially renovated the home. The total fair market value of the completed home must not exceed \$450,000 for purposes of the federal credit (there is no limit for the Ontario credit). Taxpayers are only eligible for the credit where the home is their primary place of residence. A primary place of residence is defined as a home that is owned, or jointly owned, by the taxpayer, where the taxpayer intends to live on a permanent basis. Administratively, the Canada Revenue Agency (“CRA”) considers “primarily” to mean 90% or more.

While the term “built” is conceptually simple, substantially renovated is a question of fact. Substantial renovation of a residential residence means the renovation or alteration of a building to such an extent that all or substantially all of the building that existed immediately before the renovation or alteration was begun, other than the foundation, external walls, interior supporting

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walls, floors, roof and staircases, has been removed or replaced where, after completion of the renovation or alteration, the building is, or forms part of, a residential complex. “All or substantially all” is understood to mean 90% or greater. This is generally determined based on square footage or number of rooms renovated. This prohibits taxpayers who are renovating their home to claim a GST/HST rebate on the supplies and labour of the renovation where the renovation is not substantial.

The federal rebate is equal to 36% of the federal portion of GST/HST paid, to a maximum of \$6,300 and the Ontario rebate is equal to 75% of the Ontario portion of GST/HST paid, to a maximum of \$24,000.

Please see an example below.

*New Housing Rebate Application for Houses Purchased from a Builder (Federal Form GST 190)*

The rebate application for houses purchased from a builder has almost identical criteria, requirements and limitations. It is important to note again that in order to qualify, the home must be purchased by a taxpayer that will live in the property as their primary place of residence.

Often, builders will advertise the price of a home net of this rebate. For example, if the purchase price of the home is listed by the builder as \$300,000, this will generally include the 13% GST/HST, as well as a reduction for the maximum federal and provincial rebate. In the process of purchasing the home, the builder will often prepare the application and have the taxpayer assign the rebate to the builder, such that the taxpayer will pay only the net list price and the CRA will issue the rebate directly to the builder. Taxpayers purchasing from a builder should review and understand the implications before approving the transfer to ensure they are receiving the reduced purchase price.

*New Residential Rental Property Rebate (Federal Form GST 524)*

When a property is purchased as a rental investment, the taxpayer is not eligible for either of the rebates discussed above. As the property will be rented to a third party tenant, it will not qualify as the taxpayer’s primary place of residence. If the taxpayer is purchasing the rental property from a builder, the purchase price would be adjusted, increasing the list price to remove the rebate, as the taxpayer would not be eligible for the credit.

In order to compensate the taxpayer for the GST/HST paid on residential real estate purchased as a rental investment, the new residential rental property rebate exists. This rebate is similar in terms of the amounts that can be claimed as a rebate. In order to claim the rebate, the taxpayer must submit a copy of a signed lease agreement documenting that they have acquired a tenant for the property.

**CONCLUSION**

As illustrated above, the value of the rebate applications can be quite high, depending on the amount of GST/HST paid on the property. Generally, the applications can be filed within two years of the closing date of the purchase. If you believe that you may qualify for a rebate or have additional questions regarding a rebate for a purchase or potential purchase of residential real estate, please contact our office.

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Example: A taxpayer is building a home that cost \$280,000 plus HST. Including 13% HST in Ontario, the total expense would be \$316,400 ( $\$280,000 \times 1.13$ ).

Total cost (before HST)	\$280,000
Federal Portion of HST (5%)	\$14,000
Ontario Portion of HST (8%)	<u>\$22,400</u>
Total Cost	\$316,400

Federal Rebate:

Federal Portion of HST	\$14,000
Rebate Portion	<u>36%</u>
Total Rebate	\$5,040 (to a maximum of \$6,300)

Ontario Rebate:

Ontario Portion of HST	\$22,400
Rebate Portion	<u>75%</u>
Total Rebate	\$16,800 (to a maximum of \$24,000)

Total Rebate: \$21,840