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HARMONIZED SALES TAX HOW IT APPLIES TO RESIDENTIAL REAL ESTATE

GENERAL DISCUSSION

On July 23, 2009, British Columbia announced its plans to implement a Harmonized Sales Tax ("H.S.T.") for B.C. effective July 1, 2010. The H.S.T. is a combination of the 7% Provincial Sales Tax ("P.S.T.") with the 5% federal Goods and Services Tax ("G.S.T.") for a single sales tax rate of 12%.

For consumers, goods and services (with some exceptions) will be subject to the H.S.T. in the same manner as they are currently subject to GST. This applies to real estate as well.

For both used and new homes, there are some extra costs for buyers or sellers but these are for the services required to buy or sell, not on the price of the home.

Buyers of used residential real estate can expect to pay H.S.T. on items such as home inspectors, appraisals and other such services. Lawyer fees will not change as they have been forced to charge P.S.T. for years.

Sellers of used residential real estate can expect to pay H.S.T. on realtor commissions, and any other services they may use (we can't think of any).

H.S.T. has different implications for used residential real estate and new residential real estate. There are also different rules for commercial properties, mobile homes and other types of real estate. Below is an explanation of each situation.

USED RESIDENTIAL REAL ESTATE

There is no H.S.T. on the price of used residential real estate, much like the current rules regarding G.S.T. There are no extra closing costs on the purchase or sale of a used residential house, subject to the comments above.

NEW HOUSING

Here is where the costs will increase.

H.S.T. will be payable on the sale of new or substantially renovated homes, where the Contract of Purchase and Sale was entered into after November 18, 2009 and both ownership and possession of the home is transferred after June, 2010. **H.S.T. will not be payable on** sales of newly constructed or substantially renovated homes where ownership or possession of the home is transferred before July 2010, or where the Contract of Purchase and Sale is dated prior to November 18, 2009.

New Housing Rebate

The Provincial Government is proposing a New Housing Rebate ("the Rebate") to ensure that purchasers of homes priced up to \$525,000 would pay no more tax, on average, than under the current P.S.T.

The Rebate is 71.43% of the provincial component of the H.S.T. paid, up to a maximum of \$26,250.00.

To illustrate this, let's assume a purchaser is purchasing a new home for \$500,000.00.

	Current Tax Payable G.S.T.	Proposed Tax Payable H.S.T.
Purchase Price	\$ 500,000.00	\$ 500,000.00
G.S.T.	\$ 25,000.00	\$ 25,000.00
H.S.T. additional tax	\$ -	\$ 35,000.00
Rebate of H.S.T. (71.43% of H.S.T. additional tax)	\$ -	\$ 25,000.50
Total Purchase Price	\$ 525,000.00	\$ 534,999.50

Note that in the above example the purchaser is paying about \$10,000 more with the H.S.T. This is approximately 2% more than under the current G.S.T.

The government states that while sales of new homes in B.C. are not directly subject to the P.S.T., building materials used in the construction of homes are subject to the 7% P.S.T. The total amount of P.S.T., on average, embedded in the selling price of a new home is estimated to be equal to two percent. As a result, the government claims that purchasers of homes priced up to \$525,000 would pay no more tax, on average, than under the current P.S.T. This of course assumes that the price of homes drop 2% due to the elimination of P.S.T. on building supplies.

Note also that the maximum rebate is \$26,250.00. This means that the extra tax will increase dramatically for homes over \$525,000.00. Consider the following example for a home priced at \$900,000.00.

	Current Tax Payable G.S.T.	Proposed Tax Payable H.S.T.
Purchase Price	\$ 900,000.00	\$ 900,000.00
G.S.T.	\$ 45,000.00	\$ 45,000.00
H.S.T. additional tax	\$ -	\$ 63,000.00
Rebate of H.S.T. (maximum of \$26,250.00)	\$ -	\$ 26,250.00
Total Purchase Price	\$ 945,000.00	\$ 981,750.00

Using the above example, the purchaser of a new home priced at \$900,000 will pay an additional \$36,750.00 with the imposition of the H.S.T.

The new housing rebates would be federally administered in a manner similar to the G.S.T. rebates for new housing. Individuals would be able to file an application for the rebate directly with the Canada Revenue Agency. However, in the case of homes sold by the builder, similar to the G.S.T. new housing rebates, the builder would have the option of paying or crediting the new housing rebate to the purchaser at the time of purchase.

Other rebates

New housing rebates would be available for the provincial component of the H.S.T. paid for all types of housing eligible for G.S.T. new housing rebates. This includes rebates for the following:

New housing rebate – for purchasers of new houses together with leased land

New housing rebate – for purchasers of new mobile homes and floating homes

New housing rebate – for houses acquired through the purchase of qualifying shares in a housing co-op

New housing rebate – for owner-built homes

New rental housing rebates

Rather than retyping the government announcement on these rebates, please visit http://www.rev.gov.bc.ca/documents_library/shared_documents/HST/new-housing-rebates.pdf. This has complete details on all of the above rebates. It also has information on rentals of new homes by builder-landlords and purchaser-landlords, as well as transitional rebates for partially constructed homes.

We have been unable to find information related to the change in use of properties (primarily short term rental property).