

The HST – what your clients need to know

Residential property

The provincial and federal governments will combine the 7% provincial sales tax (PST) and the 5% federal Goods and Services Tax (GST) into a 12% Harmonized Sales Tax (HST) on July 1, 2010.

Now is the time to start preparing for this change.

As a rule of thumb, the GST rules that now apply to residential property will also apply under the HST.

New Housing Rebate

Your clients may be eligible for a provincial New Housing Rebate if they buy, as their primary residence:

- a new home together with land;
- a new home together with leased land;
- a new mobile home or float home;
- a home you buy through shares in a housing cooperative; or
- a home constructed or substantially renovated (more than 90%) by the owner-builder.

Buyers of new homes will be eligible for a rebate of 71.43% of the provincial portion of the HST paid on the new home up to a maximum rebate of \$26,250. Homes priced at more than \$525,000 will be eligible for a flat rebate of \$26,250.

Home price	Federal GST New Housing Rebate (now)	Provincial New Housing Rebate (July 1, 2010)	Total Rebates
\$350,000	\$6,300	\$17,500	\$23,800
\$525,000	\$0	\$26,250	\$26,250

GST New Housing Rebate is 36% of the tax paid on the first \$350,000 of the home price. The GST rebate is phased out for homes priced between \$350,000 and \$450,000.

Presales

Agreements signed before November 18, 2009

- If your clients buy a presale residential property and they have an agreement dated on or before November 18, 2009 and they take ownership or possession before July 1, 2010, they will not pay the HST and will not be eligible for a New Housing Rebate. They will pay the GST.
- If your clients buy a presale property and the agreement is dated before November 18, 2009 and they take ownership or possession after July 1, 2010, they will pay the HST and may be eligible for a New Housing Rebate.

Agreements signed after November 18, 2009

- If your clients buy a presale property and the agreement is dated after November 18, 2009 and they take ownership or possession before July 1, 2010, they will not pay the HST and will not be eligible for a New Housing Rebate. They will pay GST.
- If your clients buy a presale property and the agreement of purchase and sale is dated after November 18, 2009 and they take ownership or possession after July 1, 2010, they will pay the HST and may be eligible for a New Housing Rebate.

Vacant land

Whether your clients pay the HST depends on who they buy the land from.

- If your clients buy a lot from an individual (not a developer) who has never used it for business purposes, they will be exempt from paying the HST.
- If your clients buy the lot from an individual who has subdivided it into more than two lots (three or more lots), or from a developer, your clients will pay the 5% GST if possession transfers before July 2010, even if the title transfers after July 1, 2010. If possession transfers after July 1, 2010, your clients will pay the 12% HST.

If your clients plan to build a home, if the majority (90%) is completed after July 1, 2010, they will pay the HST. They may be able to recover a portion of the HST through the New Housing Rebate.

These are examples. We strongly advise REALTORS® to consult with the Canada Revenue Agency on rules for land sales. (See online resources on www.realtorlink.ca).

If your clients are selling personal use vacant land and the sale is now exempt from the GST, the sale will be exempt from the HST after June 30, 2010.

New Rental Housing Rebate

There is an enhanced provincial New Rental Housing rebate. If your clients construct or substantially renovate a residential property to rent to tenants, your clients are eligible for a rebate up to \$26,250 on units priced up to \$525,000. There is a flat rebate of \$26,250 for units priced above \$525,000.

The first use of the home must be by a renter of the unit or as a primary residence by the owner for at least one year. Eligible units include:

- a detached, attached or condominium apartment, with or without a legal secondary suite;
- a mobile or float home;
- units in a multiple unit building including long-term care residential facilities; or
- the land component of a single-unit or multiple-unit housing, where the land is leased or is a housing cooperative.

If your clients buy a new apartment which is not their principal residence and they don't rent it, for example, if strata bylaws prohibit rentals, or your clients buy a new apartment to use on weekends, the unit is not eligible for the New Housing Rebate.

But, if you have clients who buy a new rental apartment building so long as they rent all of the units, they will be eligible for a New Rental Housing Rebate for each unit up to a maximum rebate of \$26,250 per unit.

If your clients build or substantially renovate rental property, they will be required to self-assess and pay the GST before July 2010 and the HST after June 2010.





Will residential landlords pay the HST?

If your clients now pay the GST, they will pay the HST on maintenance, electricity, cable television and other services provided to tenants.

Your clients will not be able to claim input tax credits and will not be allowed to recover the HST from tenants because owning residential rental property is an exempt activity and landlords can't register for the GST/HST.

Parking spaces

If you rent a parking space the HST will apply as of July 1, 2010.

Resale homes

The HST applies to new homes. It does not apply to resale homes.

Buying either a new or a resale home

Did you know? The 12% HST will be charged on a range of goods and services including:

- home renovations;
- energy efficient appliances, insulation, windows and doors;
- heating and electricity bills, telephone, cable;
- closing costs such as appraisals and inspections;
- moving costs; and
- REALTOR® fees or commissions.

Transitional rules for REALTOR® commissions and fees

The HST will apply to REALTOR® services performed on or after July 1, 2010. If 90% or more of the services are performed before July 1, 2010, the HST will not apply.

Example: a REALTOR® performs services from May 1, 2010 to July 1, 2010, the property sale closes July 31, 2010 and the commission is due then. Two thirds of the services were performed before June 30, 2010 and one third, from July 1, 2010 to July 31, 2010. The REALTOR® will charge GST on two thirds of the amount charged for their services and the HST on the remaining one third.

The HST is not the PTT

The Property Transfer Tax (PTT) is a separate provincial tax on all property transfers. The rate is 1% on the first \$200,000 and 2% on the remainder of the home price and charged on the price of the home before the GST/HST is applied. Eligible first-time home buyers may qualify for a PTT exemption.

For information about the PTT: http://www.sbr.gov.bc.ca/individuals/Property_Taxes/Property_Transfer_Tax/ptt.htm

IMPORTANT DATES

- **May 1, 2010** – the HST will apply to amounts that are paid or payable on or after this date for goods or services provided on or after July 1, 2010.
- **July 1, 2010** – the HST rate will be 12% (5% federal + 7% provincial). The PST will be eliminated.
- **July 1, 2010** – the HST will not apply to a service where most (90% or more) is completed before July 2010.

Non-residential property

As a rule of thumb, the GST rules that now apply to non-residential property will also apply under the HST.

Non-residential property sales

The HST will apply to the sale of non-residential property where both ownership and possession are transferred on or after July 1, 2010.

For the sale of real property, other than new housing, the date the agreement of purchase and sale is entered into doesn't affect the application of the HST.

Example: Your clients entered into a written agreement of purchase and sale in May 2009 for the taxable sale of commercial real property. Possession and ownership don't transfer until July 2010. Is the sale subject to the HST?

Yes, since both ownership and possession transfer after June 2010, the HST applies to the sale.

Non-residential property leases

The HST applies to lease payments due after July 1, 2010. It does not apply to a non-residential lease payment for a lease interval that begins before July 2010 and ends before July 31, 2010.

Leases of non-residential property that are now exempt under the GST rules will also be exempt under the HST rules. For example, an exempt lease would include a charity that leases real property to a tenant and the lease is exempt from the GST. Under the HST, the lease of the real property would also be exempt and the charity would not be required to charge or collect the HST.

Leases - Transitional Rules

The HST will apply to leases due or prepaid after October 14, 2009 and before May 2010 if the lease or any part it begins on or after July 1, 2010.

Input tax credits for the full amount of the GST/HST paid will be available to buyers and tenants who are GST/HST registrants using the property for commercial activity.

Did you know?

- Your clients who are business owners who sell or lease property will be able to claim input tax credits on the HST paid on REALTOR® fees or commissions.
 - If you are a GST registered REALTOR®, you will be automatically registered for the HST.
 - Businesses will pay the HST on costs such as office leases, supplies and equipment and will be able to recover some costs by claiming input tax credits.
- ➔ **We've made it easy! We've put valuable resources online to answer your questions. Go to www.realtorlink.ca and then to Lobbying & Legislation, and then Harmonized Sales Tax Resources**