

Harmonized Sales Tax in Ontario



What does this mean to homebuilders?

On July 1, 2010 the Ontario Retail Sales Tax (RST) will be combined with the federal Goods and Service Tax (GST) to create a federally administered Harmonized Sales Tax (HST). The HST would have a combined rate of 13% of which 8% would be the provincial portion and 5% would be the federal portion. The HST, except for some exceptions, would generally use the same rules and tax base as the GST.



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Transitional rules

Many homes will be partially constructed as of July 1, 2010. To assist in the transition, the following rules have been introduced:

1. Builders' sales of newly constructed or substantially renovated homes will be subject to the single sales tax where both ownership and possession of the home are transferred after June 30, 2010 with the exception of homes which were sold on or before June 18, 2009 under written agreements of purchase and sale. These sales will be grandfathered and will not be subject to the provincial portion of the single sales tax where both ownership and possession of the grandfathered home is transferred after June 30, 2010.
2. Where ownership or possession of the new home is transferred before July 1, 2010 under a written agreement, the 8% provincial portion does not apply.
3. Builders of grandfathered homes will be required to pay a transitional tax adjustment to account for the tax that would otherwise have been embedded in the new homes under the current RST regime. The transitional tax adjustment will be calculated as a percentage of the greater of the purchase price and the fair market value of the home on July 1, 2010 as follows:
 - 100% of the transitional tax adjustment rate of 2%, where the home is less than 10% completed on July 1, 2010
 - 75% of the transitional tax adjustment rate of 2%, where the home is 10% or more but less than 25% completed on July 1, 2010
 - 50% of the transitional tax adjustment rate of 2%, where the home is 25% or more but less than 50% completed on July 1, 2010
 - 25% of the transitional tax adjustment rate of 2%, where the home is 50% or more but less than 75% completed on July 1, 2010
 - 10% of the transitional tax adjustment rate of 2%, where the home is 75% or more but less than 90% completed on July 1, 2010
 - 0% of the transitional tax adjustment rate of 2%, where the home is 90% or more completed on July 1, 2010

4. As of July 1, 2010, builders will generally be able to recover the provincial portion of the HST as an input tax credit in addition to the federal portion. However during the first eight years of the HST tax, builders with taxable sales in excess of \$10 million, will be restricted in claiming input tax credits for certain categories of expenditures.

RST Transitional Housing Rebate

SINGLE HOMES

The RST transitional housing rebate for non-grandparented homes will provide relief, to individuals who purchased the home or for builders who first rent the home, for RST embedded in the cost of the home constructed in whole or in part prior to July 2010 to ensure that there is no double taxation.

Individuals purchasing these new homes will have the option of obtaining the RST transitional rebate through the builder or by filing an application directly with the CRA. Individuals filing their own rebate will have to obtain the percentage of completion certificate from the builder.

CONDOMINIUMS AND APARTMENTS

The transitional rebate will be available to the builder, rather than the purchaser, for newly constructed or substantially renovated homes that are residential condominiums or traditional apartment buildings including qualifying new additions to traditional apartment buildings.

REBATE CALCULATION

This transitional rebate calculation is based on a percentage of the estimated RST content, which will vary according to the degree of completion of the home on July 1, 2010. The estimated RST content can be calculated in one of two ways:

1. the floor space method at \$45 per square metre of floor space in the home; or
2. the selling price method calculated at 2% of the total price of the home established for GST purposes.

The rebate will be calculated based on the extent of construction or substantial renovation completed as of July 1, 2010 as follows:

- 100% of the estimated RST content, where the home is 90% or more completed on July 1, 2010
- 90% of the estimated RST content, where the home is 75% or more but less than 90% completed on July 1, 2010
- 75% of the estimated RST content, where the home is 50% or more but less than 75% completed on July 1, 2010
- 50% of the estimated RST content, where the home is 25% or more but less than 50% completed on July 1, 2010
- 25% of the estimated RST content, where the home is 10% or more but less than 25% completed on July 1, 2010
- 0% of the estimated RST content, where the home is less than 10% completed on July 1, 2010

The RST transitional housing rebate will be administered by the CRA. Builders will be required to obtain a certificate—a letter of good standing—from the Ontario Ministry of Revenue and attach it to the first RST transitional housing rebate application submitted to the CRA. A certificate will generally be issued provided the builder has no outstanding provincial debts. Once issued, a certificate will generally remain valid for one year unless revoked by the Province.

The application for the rebate will generally need to be filed before July 1, 2014. Under extenuating circumstances, the builder may request in writing before this date to extend the filing deadline.

OTHER

Newly constructed or substantially renovated homes built by owners for their personal use, as well as mobile homes and modular homes, would not be eligible for the RST transitional housing rebate as the transitional rules would apply differently to these homes.

Owner-Built Homes

A new housing rebate would be provided to an individual who constructs or substantially renovates his or her primary place of residence, or that of a relative, or who hires another person to do such new construction or substantial renovation.

Where the 8% provincial component of the HST was paid on the purchase of the land, the rebate will be equal to 75% of the provincial component of the HST paid on qualifying construction expenses (including land), to a maximum rebate amount of \$24,000, such that owner-built homes with qualifying expenses over \$400,000 would qualify for the maximum rebate.

Where the provincial component of the HST was not paid on the purchase of the land the rebate will be equal to 75% of the provincial component of the HST paid on qualifying construction expenses (excluding the land), to a maximum rebate amount of \$16,080.

The transitional rules for services and tangible personal property generally would apply to contracts entered into for the purposes of constructing owner-built homes where the house construction straddles July 1, 2010.



Purchases of new mobile homes and new floating homes

The new housing rebate is provided for the purchase of new mobile homes and floating homes where the home is purchased by an individual for use as a primary place of residence of the individual or a relative of the individual.

The rebate will be equal to 75% of the provincial component of the HST paid, up to a maximum rebate of \$24,000, such that purchases above \$400,000 would qualify for the maximum rebate.

Where the home is purchased and then placed on a site in a residential park or docked at a moorage facility, the rebate will not apply to the provincial portion of the HST paid for the site or the moorage.

Where the mobile home and land are purchased together, the housing rebate will be based on the provincial component of the HST paid on the purchase of the home and the land. Where the mobile home is purchased together with leased land (other than a site in a residential trailer park), the rules for the purchase of a new home on leased land will apply. A purchaser would have the option of claiming the new housing rebate for owner-built homes where the mobile home and land were purchased from separate suppliers.

New mobile homes and new floating homes would be subject to the general transitional rules for real property such that the HST would apply to the sale of these housing types if both ownership and possession are transferred on or after July 1, 2010. If either possession or ownership is transferred prior to July 1, 2010 under a written agreement, then the provincial component of the HST would not apply.

New rental homes

SELF SUPPLY

Builders of newly constructed or substantially renovated homes or residential condominiums who rent out the new homes or condominiums and are required to pay GST on self supply, would be required to pay the provincial portion of the HST on the self supply after June 2010.

PURCHASER-LANDLORDS

Purchaser-landlords would generally be required to pay the provincial portion of the HST on the purchase of newly constructed or substantially renovated rental homes, residential condominiums and traditional apartment buildings where both ownership and possession has been transferred after June 2010. In the case where ownership or possession of the home is transferred before July 2010, the purchaser-landlord would not be required to pay the provincial portion of the HST.

Other considerations:

Builders should consider the following:

- Review the impact of HST on their costs and review their pricing to ensure that the savings from the removal of the RST on their costs is passed on to their customers. This will provide a competitive advantage.
- Consider postponing certain major purchases until after the implementation of HST. This may result in a tax savings.
- Systems currently used to comply with the GST will need to be modified to handle the HST. Modifications will include accounts receivable and billing systems as well as accounts payable.
- Adjust systems to track restricted input tax credits separately.
- Plan and modify their systems to deal with the removal of RST from costs.
- Review contracts with their customers to ensure they can contractually add on the provincial component of the HST to their prices.

Should you have any questions concerning the above, please contact

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