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## How new GST will affect homebuyers

Rate reduced from 7 to 6 per cent this July 1

### Maximum rebate will drop from \$8,750 to \$7,560

It's easy to say that the goods and services tax is being reduced from 7 per cent to 6 per cent on Canada Day, but when it comes to new housing, the devil is in the details.

Reduced to its simplest terms, the 1 per cent cut in the GST will amount to a cash savings for most buyers of a new home, effective July 1.

Under the new rules, the maximum rebate has been reduced from \$8,750 to \$7,560 to account for the reduction in the GST rate.

Here is a guideline to the new GST, distilled and translated from "tax speak" into English from the Canada Revenue Agency website, together with my own editorial comments.

The word "home" refers to a house or a condominium unit.

**Q** Does the 6 per cent rate apply to new homes purchased before May 2, 2006?

**A** Where a written agreement of purchase and sale was entered into on or before May 2, and both ownership and possession are transferred on or after July 1, the GST at 7 per cent applies.

However, in these circumstances, a transitional rebate is available to the purchaser from the government, after closing, to account for the rate reduction.

**Q** What rate applies to new homes purchased after May 2, 2006?

**A** If an agreement of purchase and sale is signed after May 2, 2006, the new 6 per cent tax rate applies if both ownership and possession are transferred after July 1, 2006.

If ownership or possession is transferred before July 1, the GST rate is 7 per cent and no transitional rebate applies.

**Q** My builder has scheduled occupancy of my condominium before July 1. Is there any way I can get the benefit of the tax reduction? **A** Yes. Ask the builder to delay possession until after July 1.

If that's not possible, the answer is no.

**Q** Final closing of my condominium is scheduled before July 1. Is there any way I can get the benefit of the tax reduction?

**A** If you are already in possession, the answer is no. If you haven't taken possession before title transfer, and closing is after July 1, the answer is yes.

**Q** I bought a home in November 2005, but will not take possession and close until after July 1. What rate applies?

**A** Tax in this case is 7 per cent but you are entitled to apply for the transitional rebate.

**Q** My condominium occupancy is scheduled for next month, but the final closing will occur later this summer, after July 1. What GST rate applies?

**A** The GST is 7 per cent since you will take possession before Canada Day.

You are not eligible for the transitional rebate.

**Q** How do I claim the transitional rebate?

**A** You have to complete an application form and file it with the Canada Revenue Agency.

If two or more people take title, the person who claims the original rebate through the builder or directly with CRA is the same person who claims the transitional rebate.

The application form will soon be available on the CRA website (<http://www.cra.gc.ca>) or by calling 1-800-959-2221.

**Q** The price of my new home exceeds \$500,000, so I cannot claim a new housing rebate. Can I still get the transitional rebate?

**A** Yes. The transitional rebate is not conditional on receiving a new housing rebate nor is it subject to any maximum purchase or fair market value amount.

**Q** I signed a contract to buy my new home last year for \$350,000, but will get title and possession after July 1. The GST rebate of \$8,750 is reflected in the net purchase. Am I entitled to the transitional rebate, and how much is it?

**A** Yes. You get a transitional rebate of \$2,240. The rather complex formula is shown on the CRA website and will appear on the application forms.

**Q** How is the new GST rebate calculated?

**A** Where GST is payable at 7 per cent on the base (tax-out) price of the home, the rebate is the lesser of 36 per cent of the GST paid and \$8,750. Where GST is payable at 6 per cent on the base price of the home, the rebate is the lesser of 36 per cent of the GST paid and \$7,560.

**Q** I'm going to rent out my new condominium, so I won't be able to claim the new housing rebate on closing.

Will the GST rate reduction have any effect on the new residential rental property rebate?

**A** As with the new housing rebate, there will be a reduction of the maximum GST rebate amount from \$8,750 to \$7,560.

**Q** My builder wants to charge me at the 7 per cent GST rate even though I now qualify for the lower rate.

Is the builder profiting from this rate reduction?

**A** No. You will get the transitional rebate from the government, and the builder and government will reconcile the tax after closing.

**Q** I am about to buy a new home, to close next year. The builder's price is the same today as it was before the budget on May 2, but the builder will only be paying 6 per cent GST. Who benefits by the tax reduction?

A The builder.

If the price hasn't dropped, the builder gets the difference.

- For the ordinary taxpayer buying a new home, the GST field is a minefield of tax issues. If you have any concerns, be sure to get professional advice.

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