

## Harmonized Sales Tax: Purchasers of New Housing in Prince Edward Island

The Government of Prince Edward Island has proposed a harmonized sales tax (HST) that would come into effect on April 1, 2013.

The HST rate in Prince Edward Island would be 14% of which 5% would represent the federal part and 9% the provincial part.

This info sheet reflects proposed tax changes announced in the *Prince Edward Island 2012 Budget and Revenue Tax Guide RTG185, Implementation of the Harmonized Sales Tax in Prince Edward Island*.

Any commentary in this info sheet should not be taken as a statement by the Canada Revenue Agency (CRA) that the proposed transitional rules will be enacted in their current form.

This info sheet provides information for purchasers of newly constructed or substantially renovated housing in P.E.I. including single unit housing that is not a condominium (e.g., detached houses, semi-detached houses, units in a rowhouse), residential condominium units, mobile homes, floating homes, duplexes and other multi-unit residences such as traditional apartment buildings, co-operative rental buildings and long-term residential care facilities.

Definitions for GST purposes, e.g., builder, residential complex, residential condominium unit, single unit residential complex and substantial renovation, would generally apply under the HST, as would the CRA's current policies on the application of the GST to housing. GST/HST Memorandum 19.2, *Residential Real Property*, discusses many of these important terms and concepts.

### New housing

The term “new housing” used throughout this info sheet refers to newly constructed or substantially renovated housing. Housing that has been substantially renovated is generally given the same

treatment under the GST/HST as newly constructed housing. Extensive modifications must be made to the housing in order to meet the definition of a “substantial renovation” for GST/HST purposes. For a full explanation of the factors to consider in deciding if a substantial renovation has taken place, refer to Technical Information Bulletin B-092, *Substantial Renovations and the GST/HST New Housing Rebate*.

### Application of the HST to sales of new housing – General rule

Purchasers would generally be required to pay the HST when they purchase new housing if, under a written agreement of purchase and sale for the housing, **both** ownership and possession of the housing are transferred to the purchaser after March 2013.

If either ownership or possession is transferred under the written agreement to the purchaser before April 2013, the GST will apply and the HST would not apply.

This general rule applies to purchases of all housing types, including single unit housing, residential condominium units, traditional apartment buildings, as well as mobile homes and floating homes. For more information on mobile homes, refer to GST/HST Info Sheet GI-145, *Harmonized Sales Tax: Information on Owner-built Homes, Mobile Homes and Floating Homes in Prince Edward Island*.

An exception would exist for certain types of housing if, among other conditions, the written agreement of purchase and sale was entered into on or before November 8, 2012 (refer to the section on grandparented purchases of housing).

La version française de la présente publication est intitulée *Taxe de vente harmonisée – Acheteurs d'habitations neuves à l'Île-du-Prince-Édouard*.



---

If the purchaser and the builder sign the written agreement of purchase and sale on different dates, for purposes of applying the transitional rules, the agreement is entered into on the date of the last signature of a party (i.e., the purchaser or builder) to the written agreement.

The GST or HST is generally payable on the earlier of the day on which ownership or possession of the housing is transferred to the purchaser. However, where the housing is a residential condominium unit and possession is transferred before the condominium has been registered under P.E.I.'s *Condominium Act*, the HST would become payable when ownership of the unit is transferred, or 60 days following the date of registration of the condominium, whichever is earlier.

---

#### **Example 1 – HST would not apply**

You enter into a written agreement of purchase and sale in March 2011 to purchase a newly constructed residential condominium unit. Under the agreement, ownership and possession will transfer to you in March 2013. Since ownership and possession transfer before April 2013, only the GST at 5% applies to the purchase of the condominium unit.

---

#### **Example 2 – HST would not apply**

You enter into a written agreement of purchase and sale in December 2012 to purchase a newly constructed detached house. Under the agreement, possession transfers to you on March 31, 2013. Ownership transfers on April 3, 2013. Since possession transfers before April 2013, only the GST at 5% applies to the purchase of the house.

---

#### **Example 3 – HST would apply**

You enter into a written agreement of purchase and sale on November 10, 2012 to purchase a newly constructed detached house. Under the agreement, ownership and possession of the house transfer to you in April 2013. Since the written agreement was entered into after November 8, 2012, and both ownership and possession of the house transfer to you after March 2013, the HST at 14% would apply to the purchase of the house.

---

#### **Example 4 – HST would apply**

You enter into a written agreement of purchase and sale in January 2013 to purchase a newly constructed detached house. Under the agreement, ownership and

possession of the house will transfer to you in March 2013. As a result of a delay in the construction of the house, ownership and possession will transfer on April 15, 2013. Since the written agreement was entered into after November 8, 2012, and both ownership and possession of the house transfer to you after March 2013, the HST at 14% would apply to the purchase of the house. Refer to the section on “Builder disclosure requirements for housing” for information with respect to builder disclosure requirements.

---

Refer to Appendix A for a summary chart of how the general rule would apply in examples 1 to 4.

## **Grandparented purchases of housing**

In the case of a written agreement of purchase and sale entered into **on or before November 8, 2012**, to purchase newly constructed or substantially renovated “single unit housing”, a residential condominium unit or condominium complex, where **both** ownership and possession of the housing are transferred under the agreement after March 2013, the purchase of the housing may be grandparented.

---

For purposes of this info sheet, “single unit housing” means a detached house, semi-detached house or rowhouse unit, that is not a condominium.

For single unit housing, the grandparenting rule would only apply if the purchaser is an individual. There would be no conditions with respect to how the individual will use the housing. For example, the purchase may be grandparented whether the individual (purchaser) rents the housing to a third party on a short or long-term basis or occupies the housing either as a principal residence or otherwise.

In the case of a grandparented purchase of housing, the purchaser would not be required to pay the provincial part of the HST on the purchase. The GST at 5% would apply to the grandparented purchase of the housing.

---

#### **Example 5 – Grandparented house**

Jaroslav enters into a written agreement of purchase and sale for a newly constructed detached house in September 2012. Under the agreement, Jaroslav will take ownership and possession of the house in June 2013.

---

The purchase of the house would be grandparented since the written agreement was entered into on or before November 8, 2012, the purchaser is an individual, and both ownership and possession of the house transfer under the agreement after March 2013. GST at 5% would apply to the purchase of the house.

---

If the purchaser in this example were a partnership or corporation, the purchase of the house would not be grandparented. The purchase of the house would be subject to the HST at 14% as the purchaser would have to be an individual for the grandparenting rule to apply to single unit housing such as a new detached house.

---

### **Example 6 – Grandparented condo unit**

You enter into a written agreement of purchase and sale to purchase a new residential condominium unit in March 2012. Under the agreement, ownership and possession of the condo unit transfer to you in 2014.

The purchase of the condo unit would be grandparented since the written agreement was entered into on or before November 8, 2012, and both ownership and possession of the condo unit transfer to the purchaser under the agreement after March 2013. GST at 5% would apply to the purchase of the condo unit.

---

For a residential condominium unit or condominium complex, the grandparenting rule would apply whether or not the purchaser is an individual.

Refer to Appendix A for a summary chart of how the grandparenting rule would apply in examples 5 and 6.

---

### **Example 7 – House not grandparented**

A corporation enters into a written agreement of purchase and sale to purchase a new detached house in October 2012. Under the agreement, ownership and possession of the house transfer to the corporation in May 2013.

Although the written agreement was entered into on or before November 8, 2012, the purchase would not be grandparented since the house is being purchased by a person other than an individual. As a result, the general rule would apply. Since both ownership and possession transfer under the agreement after March 2013, the HST at 14% would apply to the purchase of the house.

---

## **Exceptions to grandparenting rule**

The grandparenting rule would not apply to the purchase of new floating homes, mobile homes, including modular homes that qualify as mobile homes, or multi-unit residences (e.g., duplexes, co-operative rental buildings, apartment buildings and multiple unit residential care facilities that are not condominiums).

---

### **Example 8 – Apartment building not grandparented**

You enter into a written agreement of purchase and sale for a newly constructed apartment building in February 2011. Under the agreement, ownership and possession of the building transfer to you in September 2013.

Although the written agreement of purchase and sale was entered into on or before November 8, 2012, the general rule would apply to the purchase because a traditional apartment building would not qualify for grandparenting. Since both ownership and possession of the apartment building transfer under the agreement after March 2013, the HST at 14% would apply to the purchase of the apartment building.

---

Refer to Appendix B for a summary chart of how the grandparenting rule would apply.

## **Upgrades**

A request by a purchaser for upgrades to housing, such as a detached house or residential condominium unit, can generally be accommodated by an amendment to an existing written agreement of purchase and sale such that the upgrades form part of that agreement. In this case, the tax rate for the upgrades will be the same as the tax rate that applies to the purchase of the housing.

---

### **Example 9**

On November 8, 2012, Joy enters into a written agreement of purchase and sale with a builder to purchase a newly constructed detached house. On January 31, 2013, Joy requests some flooring and lighting fixture upgrades. The agreement of purchase and sale is amended to reflect these upgrades and their additional cost. Under the agreement, ownership and possession of the house transfer to Joy in April 2013.

---

---

As the written agreement was entered into on or before November 8, 2012, the purchaser is an individual and both ownership and possession of the house transfer under the agreement after March 2013, the purchase of the house would be grandparented. GST at 5% would apply to the total amount payable for the house (including the upgrades).

---

Where an existing agreement of purchase and sale is modified, varied or otherwise materially altered to such an extent that it is considered to be a new agreement (i.e., novation has occurred), the application of the grandparenting rule would be based on the date that the new agreement is entered into.

If a purchaser and a builder renegotiate the terms of a written agreement of purchase and sale for new housing that was entered into on or before November 8, 2012, and enter into a new agreement, whether or not the grandparenting rule would apply would depend on the date that the builder and purchaser entered into the new agreement.

---

#### **Example 10**

On October 18, 2012, Dan enters into a written agreement of purchase and sale with a builder to purchase Unit #5, a newly constructed residential condominium unit. Under the agreement, ownership and possession of the condo unit transfer to Dan after March 2013. On December 1, 2012, the written agreement is amended so that Dan will now purchase Unit #15 and not Unit #5. There is no additional cost to Dan to make this change.

Given that the individual is purchasing a different condo unit, the builder and the individual are considered to have entered into a new agreement on December 1, 2012. Since this agreement was entered into after November 8, 2012, the purchase of the condo unit (Unit #15) would not be grandparented and the HST at 14% would apply.

---

### **Assignment of purchase and sale agreement for grandparented housing**

Where a purchaser (original purchaser) enters into a written agreement of purchase and sale for housing with a builder, in some cases, the original purchaser may assign their rights and obligations under the agreement to another person (assignee purchaser).

If the purchase of the housing by the original purchaser was grandparented, the purchase by the assignee purchaser may retain its grandparented status if:

- the assignee purchaser receives ownership and possession of the home under the grandparented sales agreement from the original builder after March 2013;
- there is no novation of the agreement;
- the purchaser and the original builder are dealing at arm's length and are not associated persons as defined in the ETA; and
- the original builder or any specified related party does not acquire or reacquire by way of sale any legal or beneficial interest in the home, including a sale by way of reversion or the exercise of an option or a right of first refusal.

For a further discussion on the proposed tax treatment for these assignments, refer to GST/HST Info Sheet GI-152, *Harmonized Sales Tax: Assignment of Purchase and Sale Agreements for Grandparented Housing in Prince Edward Island*.

### **Transitional tax adjustment**

If the construction or substantial renovation of grandparented single unit housing is less than substantially complete immediately before April 1, 2013, the builder of the housing would be considered to have paid and collected a transitional tax adjustment (even though it would not actually be collected from anyone), and may be required to include that amount in its net tax calculation. For grandparented single unit housing other than a residential condominium, the transitional tax adjustment would be calculated based on the degree of completion of the unit immediately before April 1, 2013. For a grandparented residential condominium unit or condominium complex, the transitional tax adjustment would not be based on the degree of completion of the unit or complex and is instead calculated at 4.5% of the consideration payable for the unit or complex.

The transitional tax adjustment would be considered collected by the builder and would not be payable by the purchaser. It would approximate the amount of the provincial sales tax that the builder would have been required to pay on construction costs incurred after March 2013 and that is imbedded in the purchase price of the housing.

---

For additional information on the transitional tax adjustment, refer to GST/HST Info Sheet GI-150, *Harmonized Sales Tax: Information on the Transitional Tax Adjustment for Builders of Housing in Prince Edward Island*.

## **PST transitional new housing rebate**

A purchaser of new housing may be entitled to claim a provincial sales tax (PST) transitional new housing rebate if the following conditions were met:

- the purchaser is an individual;
- the housing is single unit housing or a duplex and the housing is not a condominium;
- the HST at 14% is payable on the purchase of the housing; and
- the construction of the housing is at least 10% complete immediately before April 1, 2013.

For details, refer to GST/HST Info Sheet GI-151, *Harmonized Sales Tax: Provincial Transitional New Housing Rebate for Housing in Prince Edward Island*.

## **Builder disclosure requirements for housing**

If a written agreement of purchase and sale for new housing is entered into after November 8, 2012 and before April 1, 2013, a builder would be required to disclose in the agreement whether the provincial part of the HST would apply to the purchase of the housing and, if so, whether the price stated in the agreement includes the provincial part of the HST and any PST transitional new housing rebate.

If the HST would apply to the purchase and the builder did not meet the disclosure requirement, the stated price in the written agreement would be deemed

to include the provincial part of the HST. In this case, the purchaser would not be required to pay the provincial part of the HST in addition to the stated price in the written agreement.

For details on the disclosure requirements, refer to GST/HST Info Sheet GI-153, *Harmonized Sales Tax: Builder Disclosure Requirements in Prince Edward Island*.

## **Appendix C – Summary tables**

Appendix C provides summary tables that indicate the tax rate that would apply to new housing in P.E.I. that is purchased by an individual and whether a rebate would be available to the purchaser in respect of the tax payable for the new housing.

To use the tables, choose the table that would apply to you based on the date that the purchase and sale agreement was entered into for your new housing purchase. Once you have chosen the appropriate table, determine which row applies to you based on the dates that ownership and possession are transferred to you.

The tables take into account the GST tax rates, including those that applied previously, the HST rate, the GST/HST new housing rebate in respect of the GST or federal part of the HST, the P.E.I. PST transitional new housing rebate that a purchaser may be entitled to claim and the 2006 and 2008 transitional rate reduction rebates that may be available.

The tables do not address purchases of new housing made by persons who are not individuals, the P.E.I. PST transitional new housing rebate that a builder may be entitled to claim and the transitional tax adjustment that a builder may be considered to have collected.

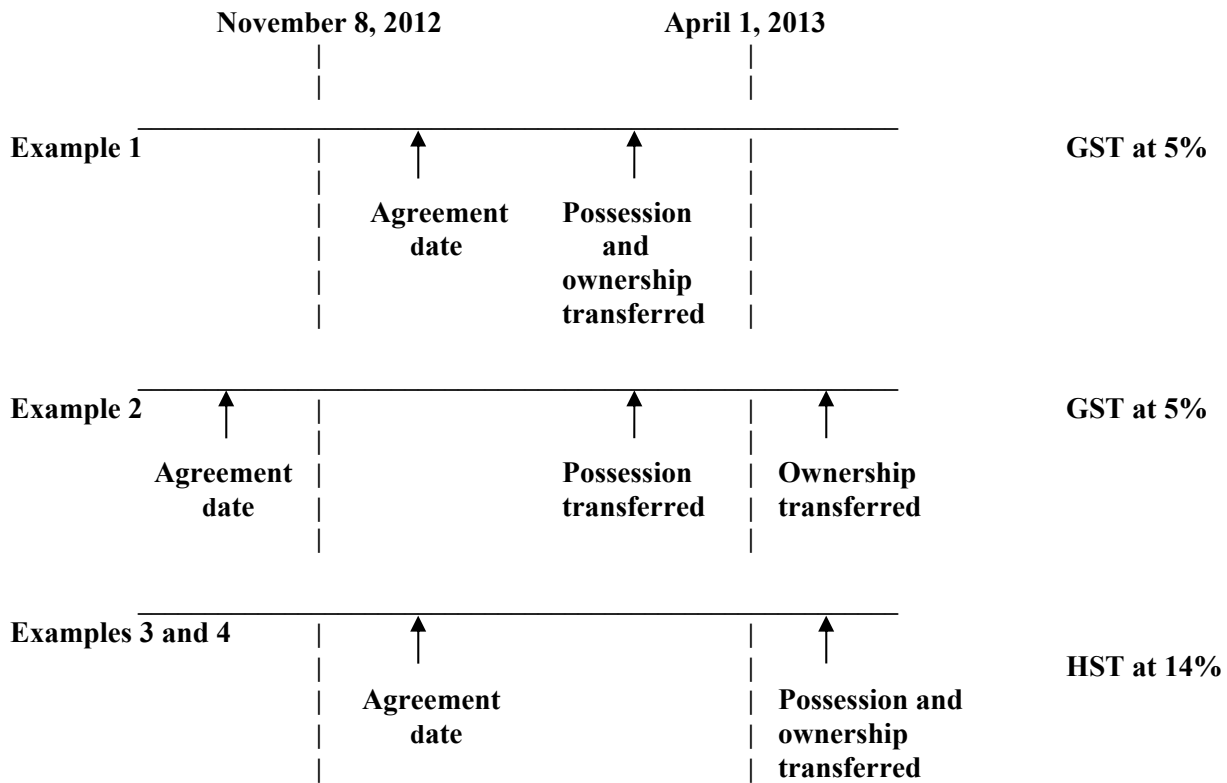
This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation* explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec at 1-800-567-4692. You may also visit the Revenu Québec Web site to obtain general information.

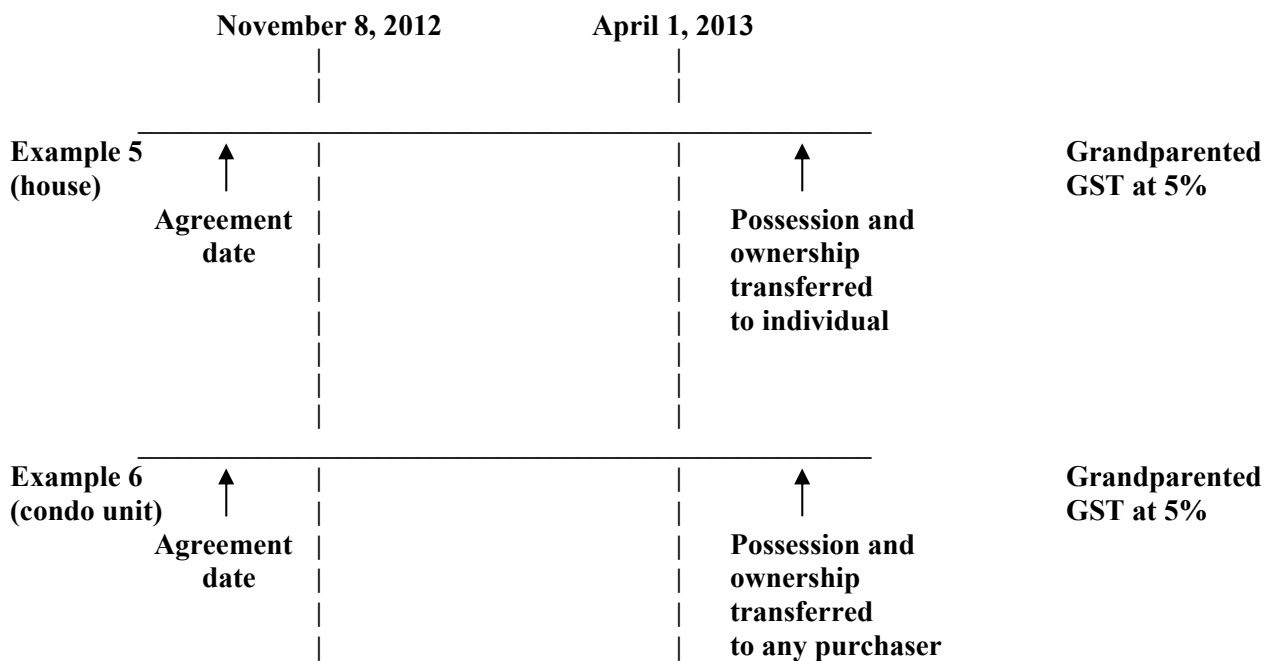
All technical publications related to GST/HST are available on the CRA Web site at [www.cra.gc.ca/gsthsttech](http://www.cra.gc.ca/gsthsttech).

# Appendix A – Summary chart – Purchases of newly constructed or substantially renovated housing

## APPLICATION OF HST – GENERAL RULE



## GRANDPARENTING RULE



## Appendix B – Summary chart

### APPLICATION OF HST – GRANDPARENTING RULE

#### Purchases of newly constructed or substantially renovated housing

HOUSING TYPE	WOULD THE GRANDPARENTING RULE APPLY?
Residential condominium unit	<p>Yes, if the written agreement of purchase and sale was entered into on or before November 8, 2012, and <b>both</b> ownership and possession of the unit transfer under the agreement to the purchaser after March 2013, regardless of who purchases the unit. GST would apply at 5%.</p> <p>No, if, under the agreement, <b>either</b> ownership <b>or</b> possession of the unit transfers to the purchaser before April 2013, regardless of when the builder and purchaser enter into the agreement. GST applies at 5%.</p>
Residential condominium complex	<p>Yes, if the written agreement of purchase and sale was entered into on or before November 8, 2012, and <b>both</b> ownership <b>and</b> possession of the complex transfer under the agreement to the purchaser after March 2013, regardless of who purchases the complex. GST would apply at 5%</p> <p>No, if, under the agreement, <b>either</b> ownership <b>or</b> possession of the complex transfers to the purchaser before April 2013, regardless of when the builder and purchaser enter into the agreement. GST applies at 5%.</p>
Single unit housing (detached house, semi-detached house, rowhouse unit that is not a condominium)	<p>Yes, if the purchaser is an individual and the written agreement of purchase and sale was entered into on or before November 8, 2012, and <b>both</b> ownership and possession of the single unit housing transfer under the agreement to the individual after March 2013. GST would apply at 5%.</p> <p>No, if under the agreement <b>either</b> ownership <b>or</b> possession of the single unit housing transfers to the individual before April 2013, regardless of when the builder and the individual enter into the agreement.</p> <p>No, if the purchaser is not an individual.</p> <p>GST applies at 5% if, under the agreement, ownership or possession (or both) transfers before April 1, 2013.</p>
Duplex	No
Apartment	No
Mobile home and floating home	No

Where the grandparenting rule would not apply, HST at 14% would apply if, under the agreement, both ownership and possession transfer to the purchaser after March 2013.

## Appendix C – Summary tables

The following tables illustrate the proposed transitional rules for purchases of newly constructed or substantially renovated residential complexes from a builder, taking into consideration the previous two rate reductions in the GST. Choose the table that applies to your situation, i.e., based on when you and the builder entered into your written agreement of purchase and sale.

Purchase and sale agreement entered into after November 8, 2012

Ownership transferred	Possession transferred	Rate of tax	2006 transitional rebate	2008 transitional rebate	GST new housing rebate <sup>1</sup>	PST transitional rebate
Before April 1, 2013	Before April 1, 2013	5%	No	No	Yes	No
Before April 1, 2013	After March 31, 2013	5%	No	No	Yes	No
After March 31, 2013	Before April 1, 2013	5%	No	No	Yes	No
After March 31, 2013	After March 31, 2013	14%	No	No	Yes	Yes <sup>2</sup>

Purchase and sale agreement entered into after October 30, 2007 and before November 9, 2012

Ownership transferred	Possession transferred	Rate of tax	2006 transitional rebate	2008 transitional rebate	GST new housing rebate <sup>3</sup>	PST transitional rebate
After December 31, 2007 and before April 1, 2013	After December 31, 2007 and before April 1, 2013	5%	No	No	Yes	No
After December 31, 2007 and before April 1, 2013	After March 31, 2013	5%	No	No	Yes	No
After March 31, 2013	After December 31, 2007 and before April 1, 2013	5%	No	No	Yes	No
After March 31, 2013	After March 31, 2013	5%	No	No	Yes	No

<sup>1</sup> The GST new housing rebate is available if all of the conditions for claiming the rebate are met, for example, the total consideration payable for the housing is less than \$450,000.

<sup>2</sup> The PST transitional new housing rebate would be available if the housing is a single unit residential complex or a duplex, the construction is at least 10% complete immediately before April 1, 2013 and the purchaser is an individual.

<sup>3</sup> See footnote no. 1.



Purchase and sale agreement entered into after May 2, 2006 and before October 31, 2007

Ownership transferred	Possession transferred	Rate of tax	2006 transitional rebate	2008 transitional rebate <sup>4</sup>	GST new housing rebate <sup>5</sup>	PST transitional rebate
After December 31, 2007 and before April 1, 2013	After December 31, 2007 and before April 1, 2013	6%	No	Yes	Yes	No
After December 31, 2007 and before April 1, 2013	After March 31, 2013	6%	No	Yes	Yes	No
After March 31, 2013	After December 31, 2007 and before April 1, 2013	6%	No	Yes	Yes	No
After March 31, 2013	After March 31, 2013	6%	No	Yes	Yes	No

Purchase and sale agreement entered into before May 3, 2006

Ownership transferred	Possession transferred	Rate of tax	2006 transitional rebate <sup>6</sup>	2008 transitional rebate <sup>7</sup>	GST new housing rebate <sup>8</sup>	PST transitional rebate
After June 30, 2006 and before April 1, 2013	After June 30, 2006 and before April 1, 2013	7%	Yes	Yes	Yes	No
After June 30, 2006 and before April 1, 2013	After March 31, 2013	7%	Yes	Yes	Yes	No
After March 31, 2013	After June 30, 2006 and before April 1, 2013	7%	Yes	Yes	Yes	No
After March 31, 2013	After March 31, 2013	7%	Yes	Yes	Yes	No

<sup>4</sup> The 2008 transitional rebate is available if all of the conditions for claiming the rebate are met, for example, you file Form GST193, *GST/HST Transitional Rebate Application for Purchasers of New Housing*, by the applicable filing deadline.

<sup>5</sup> See footnote no. 1.

<sup>6</sup> The 2006 transitional rebate is available if all of the conditions for claiming the rebate are met, for example, you file Form GST193, *GST/HST Transitional Rebate Application for Purchasers of New Housing*, by the applicable filing deadline.

<sup>7</sup> See footnote no. 5.

<sup>8</sup> See footnote no. 1.