



Harmonized Sales Tax: Information on Owner-built Homes, Mobile Homes and Floating Homes 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 individuals who build or substantially renovate, or hire someone else to build or substantially renovate, their own home, or who buy a new mobile or floating home. It explains how the proposed tax changes would apply and the new housing rebate that may be available.

Builders who sell newly constructed or substantially renovated housing in P.E.I. should refer to GST/HST Info Sheet GI-146, *Harmonized Sales Tax: Information for Builders of New Housing in Prince Edward Island*.

Definitions for GST purposes, e.g., builder, mobile home, and substantial renovation, would generally apply under the HST, as would the CRA's current policies on the application of the GST to housing. Guide RC4052, *GST/HST Information for the Home Construction Industry* and GST/HST Info Sheet GI-005, *Sale of a Residence by a Builder Who is an Individual*, discuss 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 GST/HST Technical Information Bulletin B-092, *Substantial Renovations and the GST/HST New Housing Rebate*.

How would the HST apply?

In general, the HST at 14% (5% federal part and 9% provincial part) would apply to purchases, leases, and other acquisitions of property and services made in P.E.I. in the same way that the 5% GST currently applies.

This means that if an individual purchases property, including land, or a service that is normally subject to the GST under the existing rules, the purchase would be subject to the HST, subject to the proposed transitional rules that would apply to transactions that straddle the April 1, 2013 implementation date for the HST.

Most of the property and services purchased to build or substantially renovate a house are currently subject to the GST and would be subject to the HST.

Special rules for the transition from the GST to the HST

Special rules would apply for determining whether the GST at 5% or the HST at 14% would apply to purchases that straddle April 1, 2013.

For example, if goods such as lumber are purchased, and the amount owed to the supplier becomes due or is paid without having become due after January 2013 and before April 2013, the tax would apply based on when delivery and ownership of the goods take place, as follows:

- if the individual takes delivery and ownership before April 2013, the GST at 5% applies, and
- if the individual takes delivery and ownership after March 2013, the HST at 14% would apply, even though the amount the supplier charged for the supply becomes due or is paid without having become due before April 2013.

For more information on the special rules that would apply for determining which tax applies to purchases and other acquisitions of property or services, refer to:

- GST/HST Notice 278, *Harmonized Sales Tax for Prince Edward Island – Questions and Answers on General Transitional Rules for Personal Property and Services*,
- GST/HST Info Sheet GI-135, *Prince Edward Island: Transition to the Harmonized Sales Tax – Services*, and
- GST/HST Info Sheet *Prince Edward Island: Transition to the Harmonized Sales Tax – Goods* (which will soon be published).

GST/HST new housing rebate

An individual who builds or substantially renovates, or hires someone else to build or substantially renovate, their own house may be entitled to claim a GST/HST new housing rebate in respect of the GST or the federal part of the HST paid to construct or substantially renovate the house.

The GST/HST new housing rebate is generally available if the individual builds or substantially renovates housing for use as the primary place of residence of the individual, or a relative, the fair market value of the housing (building and land) upon substantial completion of the housing is less than \$450,000, and all of the other rebate conditions are met.

The GST/HST new housing rebate will continue to be available following the implementation of the HST in P.E.I.

Paying tax at different rates

Following the proposed implementation of the HST, some purchases made to build or substantially renovate a house may be subject to the HST at 14% while other purchases made for that purpose were subject to the GST at 5%.

Further, due to the reductions in the rate of the GST (from 7% to 6%, effective July 1, 2006, and then from 6% to 5%, effective January 1, 2008), purchases made to build or substantially renovate a house may have been subject to the GST at different rates.

For example, an individual may have paid 7% GST on the purchase of land in December 2001, 6% GST when acquiring architectural services in November 2007, and 14% HST for plumbing and electrical services that the individual will receive after March 2013.

In this case, individuals may be entitled to claim a GST/HST new housing rebate in respect of the GST, or federal part of the HST, they paid on these purchases, no matter which rate of the GST/HST applied to the purchases. However, the maximum rebate they are entitled to claim may be adjusted based on the purchases made. The maximum rebate amounts are reflected on the GST/HST new housing rebate application and are explained in the Guide RC4028, *GST/HST New Housing Rebate*.

Example 1

Nathalie purchased land on which she intends to build her house. She hired a builder to construct her new house. The builder began construction in March 2013 and completed construction in September 2013. Upon substantial completion of the work, the fair market value of the house (building and land) is \$340,000.

Throughout the process, Nathalie paid the GST/HST as follows:

Purchases	Tax	Tax paid
Land	5% GST	\$5,000
Remainder of purchases	14% HST	<u>\$26,000</u>
Total tax paid		\$31,000

In this case, the maximum GST/HST new housing rebate that may be available is \$6,300. (This is the maximum rebate amount that applies where all of the GST and federal part of the HST was paid at the rate of 5%.) If, for example, some purchases had been subject to 6% and/or 7% GST, a different maximum may have applied.

If Nathalie meets all of the conditions for claiming the GST/HST new housing rebate, she will be able to claim a total new housing rebate of \$5,142.86, calculated as follows:

GST/HST new housing rebate:

Total federal part of the HST paid
= $\$26,000 \times 5/14$
= \$9,285.71

Total GST and federal part of the HST paid
= $\$5,000 + \$9,285.71$
= \$14,285.71

Total GST/HST new housing rebate
= $\$14,285.71 \times 36\%$
= \$5,142.86

If the fair market value of Nathalie's house upon substantial completion of the work were \$450,000 or more, she would not be entitled to claim a GST/HST new housing rebate in respect of the GST or federal part of the HST.

All forms necessary to claim the existing GST/HST new housing rebate are available on our Web site at www.cra.gc.ca/gsthstpub.

How would the HST apply to mobile or floating homes?

The sale of a new mobile or floating home by a builder or dealer of such homes is currently subject to the GST and would be subject to the HST following the implementation of the HST.

A modular home may be considered to be a mobile home for GST/HST purposes. For more information, refer to GST/HST Policy Statement P-223, *The meaning of "manufacture and assembly of which is completed or substantially completed" in the definition of mobile home.*

The HST would generally apply to purchases of new mobile or floating homes if, under a written agreement of purchase and sale for the home, both ownership and possession of the home are transferred to the purchaser after March 2013. If either ownership or possession is transferred to the purchaser under the written agreement before April 2013, the GST at 5% will apply and the HST would not apply.

If a builder (or vendor) and purchaser sign a 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 builder or purchaser) to the written agreement.

Where the HST would apply, the HST would generally be payable on the earlier of the day on which ownership or possession of the mobile or floating home is transferred to the purchaser.

An individual who purchases a new mobile or floating home may be entitled to claim a GST/HST new housing rebate for the GST, or federal part of the HST, they paid on the purchase of the home.

Where an individual meets all of the conditions for claiming a new housing rebate for the purchase of a mobile or floating home, the individual can choose **one** of the following two options to claim their new housing rebate. Depending on the individual's particular circumstances, one of these options may be more beneficial than the other.

Option 1 – New housing rebate for owner-built house

Under this option, the individual could claim a GST/HST new housing rebate in respect of the GST, or federal part of the HST, paid to purchase the mobile or floating home and to acquire other eligible property and services from the builder or dealer under a separate agreement or from another supplier(s). For example, if the individual paid the GST/HST on the purchase of the land or on improvements to the land or to the mobile or floating home, that tax may be included in the calculation of the GST/HST new housing rebate.

To claim a new housing rebate under Option 1, an individual completes Form GST191, *GST/HST New Housing Rebate Application for Owner-Built Houses*, and Form GST191-WS, *Construction Summary Worksheet*.

Option 2 – New housing rebate for house purchased from a builder

Under this option, the individual who paid the HST on the purchase of a mobile or floating home may be entitled to claim a GST/HST new housing rebate in respect of the GST, or federal part of the HST.

In general, under Option 2, the GST/HST paid to persons other than the builder or dealer of the new mobile or floating home cannot be included in the purchaser's rebate claim. For example, if an individual paid GST/HST on the purchase of land or on other improvements to the land and the purchases were from a person other than the builder or dealer, that tax paid cannot be included in a rebate claim under Option 2. However, if the individual purchased both a mobile home and the land from the builder or dealer under a single written agreement of purchase and sale, the individual may be entitled to claim a new housing rebate for the purchase of both the mobile home and the land.

To claim a new housing rebate under Option 2, an individual completes Form GST190, *GST/HST New Housing Rebate Application for Houses Purchased from a Builder*, and Form RC7190-WS, *GST190 Calculation Worksheet*.

Example 2

Prior to April 2013, Hugh purchased land on which he intends to build his house. He paid the GST on the purchase of the land. In April 2013, Hugh purchased a modular home from a builder for \$300,000. The modular home meets the definition of mobile home for GST/HST purposes. He paid the HST on the purchase of the modular home. Upon substantial completion of the installation of the modular home on the land, the fair market value of the home (building and land) is \$350,000.

Throughout the process, Hugh paid the GST/HST as follows:

Purchases	Tax	Tax paid
Land	5% GST	\$2,500
Modular home	14% HST	\$42,000
Total tax paid		\$44,500

If Hugh meets all of the conditions for claiming the GST/HST new housing rebate, he will be able to claim a total new housing rebate of \$5,400, using **Option 2**, calculated as follows:

GST/HST new housing rebate (for the federal part of the HST):

$$\begin{aligned} \text{Total federal part of the HST paid} \\ &= \$42,000 \times 5/14 \\ &= \$15,000 \end{aligned}$$

$$\begin{aligned} \text{Total GST/HST new housing rebate} \\ &= \$15,000 \times 36\% \\ &= \$5,400 \end{aligned}$$

The calculation of this rebate would be based on the federal part of the HST paid on the purchase of the modular home, which is considered to be a mobile home. The GST paid on the land is not taken into account as Hugh did not purchase the land from the builder under the same written agreement for the purchase of the modular home.

If Hugh meets all of the conditions for claiming the GST/HST new housing rebate, he will be able to claim a total new housing rebate of \$6,300, using **Option 1**, calculated as follows:

GST/HST new housing rebate (for the GST and federal part of the HST):

$$\begin{aligned} \text{Total federal part of the HST paid} \\ &= \$42,000 \times 5/14 \\ &= \$15,000 \end{aligned}$$

$$\begin{aligned} \text{Total GST and federal part of the HST paid} \\ &= \$2,500 + \$15,000 \\ &= \$17,500 \end{aligned}$$

$$\begin{aligned} \text{Total GST/HST new housing rebate} \\ &= \$17,500 \times 36\% \\ &= \$6,300 \end{aligned}$$

In this case, it is more beneficial for Hugh to use **Option 1**.

Refer to Guide RC4028, *GST/HST New Housing Rebate*, for information on the GST/HST new housing rebate for mobile or floating homes.

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/gsthstech.