



Harmonized Sales Tax: Provincial Transitional New Housing Rebate for 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 explains how the provincial transitional new housing rebate would apply to purchasers and builders of newly constructed or substantially renovated housing in P.E.I., including builder-landlords who construct or substantially renovate rental housing.

Definitions for GST purposes, e.g., builder, residential complex, residential unit, residential condominium unit 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*, explain 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*.

Provincial transitional new housing rebate

New housing in P.E.I. that is completed in full or in part prior to April 2013 will have the provincial sales tax (PST) embedded in the cost of the housing.

A provincial transitional new housing rebate may be available where the construction or substantial renovation of the new housing is at least 10% complete immediately before April 1, 2013, and

- the sale of the new housing is subject to the HST (including a sale that is considered to be made under the self-supply rules), or
- a builder makes a grandparented sale of a residential condominium unit or condominium complex and the transitional tax adjustment is considered to have been collected by the builder.

In this info sheet, single-unit housing means a single detached house, semi-detached house, rowhouse unit or duplex, which is not a residential condominium unit.

The provincial transitional new housing rebate would be available to the purchaser of the new housing in some circumstances and to the builder of the new housing in other circumstances.



Eligibility for a provincial transitional new housing rebate would not be affected by a claimant's entitlement to a GST/HST new housing rebate or new residential rental property rebate in respect of the GST or the federal part of the HST.

The appendix to this info sheet summarizes when a provincial transitional new housing rebate would be available.

Rebate to purchaser

An individual purchasing new single-unit housing may be entitled to claim a provincial transitional new housing rebate.

The rebate would not be available to a purchaser where:

- the purchaser is not an individual (e.g., a partnership, corporation, etc.);
- an individual purchases the building part of the new housing and leases the underlying land; or
- the new housing is a residential condominium unit, mobile home, floating home or owner-built home.

The following conditions would have to be met in order for a purchaser to claim the provincial transitional new housing rebate:

- the construction or substantial renovation of the new housing must have begun before April 1, 2013 and be at least 10% complete immediately before April 1, 2013;
- the HST at 14% must apply to the purchase;
- possession of the new housing must transfer to the purchaser on or after April 1, 2013 and before April 1, 2017; and
- the new housing must not have been occupied by any individual as a place of residence or lodging after the construction or substantial renovation began and before April 1, 2013.

The provincial transitional new housing rebate may be available even if the individual is not using the new housing as their primary place of residence (e.g., the housing is used to make exempt supplies of long-term accommodations).

A purchaser would be able to assign the provincial transitional new housing rebate to the builder. For further information, refer to the section on "Applying for the rebate: Purchaser".

Example 1

In December 2012, an individual enters into a written agreement of purchase and sale with a builder for a newly constructed semi-detached house situated in P.E.I. Construction begins in January 2013. Ownership and possession of the house transfer to the individual after March 2013 and the HST at 14% applies to the purchase of the house. Construction of the house is at least 10% complete immediately before April 1, 2013. The house has not been occupied by any individual as a place of residence or lodging after the construction of the house began and before April 1, 2013.

The individual would be entitled to claim a provincial transitional new housing rebate. The rebate may be assigned to the builder.

Example 2

In August 2013, an individual enters into a written agreement of purchase and sale and takes possession and ownership of a newly constructed single detached house situated in P.E.I. that a builder had in inventory. Construction of the house was complete immediately before April 1, 2013. HST at 14% applies on the purchase of the house. The house has never been occupied as a place of residence or lodging prior to the transfer of possession.

The individual would be entitled to claim a provincial transitional new housing rebate. The rebate may be assigned to the builder.

Example 3

In October 2012, an individual enters into a written agreement of purchase and sale with a builder for a newly constructed duplex situated in P.E.I. Construction of the duplex begins in January 2013 and is 20% complete immediately before April 1, 2013. The individual takes ownership and possession of the duplex in November 2013 and pays HST at 14% on the purchase. Neither unit in the duplex has been occupied as a place of residence or lodging prior to the transfer of possession and ownership of the duplex to the individual. The individual rents out both units in the duplex on December 1, 2013.

The individual would be entitled to claim the provincial transitional new housing rebate. The rebate may be assigned to the builder.

Rebate to builder

A builder may be entitled to claim the provincial transitional new housing rebate for the following types of new housing:

- single-unit housing where the builder is considered to have made a self-supply of the housing;
- a residential condominium unit (refer to the information in the box below);
- a condominium complex; or
- multi-unit housing (e.g., an apartment building, but not including a duplex) or an addition to multi-unit housing.

A residential unit constructed on a vacant land unit¹ in P.E.I. is not a residential condominium unit for purposes of the GST/HST. As such, a builder that sells such housing would not be entitled to claim the provincial transitional new housing rebate. The purchaser of such housing may be entitled to claim the rebate and may assign the rebate to the builder as discussed earlier in this info sheet. If a builder makes a self-supply of such housing, the builder may be entitled to claim the rebate in those circumstances.

A builder may be entitled to claim a provincial transitional new housing rebate in any of the following circumstances:

- there is a self-supply by the builder of the housing, including an addition to multi-unit housing, and the self-supply occurs on or after April 1, 2013;
- the housing is a residential condominium unit or condominium complex and
 - the builder makes a sale of the unit or complex where the HST at 14% is payable on the sale, or
 - the builder makes a grandparented sale of the unit or complex and the transitional tax adjustment is considered to have been collected by the builder; or
- the builder makes a sale of multi-unit housing where the HST at 14% is payable on the sale.

¹ "Vacant land unit" is defined by paragraph 1(1)(t) of the *Condominium Act* to mean "a unit defined by delineation of its horizontal boundaries without reference to any building, the boundaries of which shall be deemed to extend vertically upward and downward without limit."

For information on grandparented sales of housing, refer to GST/HST Info Sheet GI-146, *Harmonized Sales Tax: Information for Builders of New Housing in Prince Edward Island*. For 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*.

The following conditions would have to be met in order for a builder to be entitled to claim a provincial transitional new housing rebate:

- the builder owns or has possession of the housing immediately before April 2013;
- the builder has not transferred ownership or possession of the housing before April 2013 under an agreement of purchase and sale to a person who is not a builder of the housing;
- a self-supply of the housing or a unit in the housing has not occurred after the construction or substantial renovation began and before April 1, 2013 (and would not have occurred if the exceptions to the self-supply rule for personal use, student residences, communal organizations and remote work sites did not exist);
- the construction or substantial renovation of the housing began before April 1, 2013 and is at least 10% complete immediately before April 1, 2013; and
- in the case of a self-supply of single-unit housing, first possession or use of the new housing as a place of residence after substantial completion of the housing occurs on or after April 1, 2013 and before April 1, 2017.

The provincial transitional new housing rebate would not be available in respect of mobile homes, floating homes and owner-built homes.

Example 4

In March 2013, a builder enters into a written agreement of purchase and sale for a newly constructed residential condominium unit situated in P.E.I. Construction of the condominium complex in which the unit is situated is substantially complete immediately before April 1, 2013. Under the agreement, the builder transfers possession of the unit in April 2013 and ownership of the unit is transferred at a later date. The HST at 14% applies to the sale. Possession or use of the unit had not transferred to

anyone prior to when the builder transferred possession of the unit to the purchaser.

The builder would be entitled to claim the provincial transitional new housing rebate in respect of the condo unit. The purchaser would not be entitled to claim the rebate.

Example 5

Throughout 2010 and 2011, a builder enters into written agreements of purchase and sale for 100 newly constructed residential condominium units situated in P.E.I. Construction of the condominium complex in which the units are situated begins in 2010 and is 70% complete immediately before April 1, 2013. Possession and ownership of each of the 100 units is transferred by the builder to the purchasers in 2014. Possession or use of the units does not transfer to anyone prior to the transfer of possession of the units by the builder to the purchasers. While the sales of the units are grandparented, the builder would have to account for the transitional tax adjustment in respect of each of the units.

The builder would be entitled to claim the provincial transitional new housing rebate in respect of each of the 100 condo units. A purchaser of a condo unit would not be entitled to claim the rebate.

Example 6

Beginning in September 2012, a builder substantially renovates a triplex owned by the builder and situated in P.E.I. The substantial renovation is at least 10% complete immediately before April 1, 2013 and is substantially completed on August 11, 2013. Possession of a unit in the triplex is first provided to an individual on September 1, 2013 under a lease agreement and the individual occupies the unit as a place of residence. The builder would be considered to have paid and collected HST at 14% on the self-supply of the entire complex on September 1, 2013. A self-supply of the complex was not required at any time before September 1, 2013. The HST would be calculated on the fair market value of the triplex at the time of the self-supply.

The builder would be entitled to claim the provincial transitional new housing rebate.

Calculating the provincial transitional new housing rebate

The provincial transitional new housing rebate would be based on the degree of completion of the construction or substantial renovation of the housing immediately before April 1, 2013, and the estimated PST content embedded in the housing. For housing that is 90% or more complete immediately before April 1, 2013, the rebate would be equal to 100% of the estimated PST embedded in the housing. The rebate would decrease based on certain degree of completion thresholds and no rebate would be available where the housing is less than 10% complete immediately before April 1, 2013.

The following table illustrates the various degree of completion thresholds and the rebate percentage that would apply for each of those thresholds. The rebate percentage would be used to determine the amount of the rebate.

| Degree of completion immediately before April 1, 2013 | % of estimated PST to be rebated |
|---|----------------------------------|
| < 10% | 0% |
| ≥ 10% and < 25% | 25% |
| ≥ 25% and < 50% | 50% |
| ≥ 50% and < 75% | 75% |
| ≥ 75% and < 90% | 90% |
| ≥ 90% | 100% |

Where a condominium complex is constructed or substantially renovated, the degree of completion of each residential condominium unit in the complex would be based on the degree of completion of the entire condominium complex. Where a unit is being substantially renovated and the complex in which the unit is situated is not being substantially renovated, the degree of completion would be based only on that unit.

Determining the degree of completion

The method used to determine the degree of completion (expressed as a percentage) must be fair and reasonable. For more information on this determination, refer to GST/HST Info Sheet GI-105,

How to Determine the Percentage of Completion for Purposes of the Provincial Transitional New Housing Rebates and the Transitional Tax Adjustment in Ontario and British-Columbia. The methods described in that info sheet would also apply for P.E.I.

Determining the estimated PST content in the housing

Generally, the estimated PST content in the housing would be calculated by choosing one of the following two methods:

- the consideration method; or
- the floor space method.

These methods may be used regardless of the method used to determine the degree of completion. For example, if the degree of completion is based on the interior floor space method (refer to info sheet GI-105 for information on this method), the estimated PST content may be determined using the consideration method.

Builders of multi-unit housing or condominiums would be limited to using only the floor space method if they were claiming a rebate in respect of such housing before the GST/HST becomes payable on the sale of such housing or is considered to be paid on a self-supply of such housing.

Consideration method

Under this method, the estimated PST content in the new housing would be equal to 4.5% of the total consideration paid for the housing (i.e., the total amount paid to purchase the housing before any HST is applied and before any new housing rebate is taken into account). In the case of a self-supply, the estimated PST content in the new housing would be equal to 4.5% of the fair market value of the housing at the time of the self-supply.

If, at the time a written agreement of purchase and sale for a condominium unit or complex is entered into, the consideration payable for the unit or complex is less than what the fair market value of the unit or complex would be if it were substantially complete at that time, the consideration would be considered to be equal to that fair market value for purposes of calculating the provincial transitional new housing rebate.

Floor space method

This method would be based on the total square meters of interior floor space in the new housing multiplied by \$60.

Interior floor space

Interior floor space includes the main floor(s) of the new housing (i.e., the living areas), but does not include basements, attics and storage rooms unless they are finished by the builder in a manner that is comparable to the living areas. For example, a partially completed basement that has roughed-in plumbing and partially completed walls would not form part of the interior floor space.

In the case of single-unit housing, to be included in the calculation of interior floor space, a finished basement, attic or storage area would have to be completed by the builder that supplies the housing to the purchaser who would be entitled to claim the provincial transitional new housing rebate, or by a previous builder of the housing.

The interior floor space of a condominium complex includes the common areas of the building, such as lobbies, corridors, staircases, elevator shafts, laundry rooms, recreation rooms and similar spaces. The interior floor space of a residential condominium unit includes that part of the common areas that can be attributed to the unit. The interior floor space of multi-unit housing or an addition thereto, also includes such common areas.

The interior floor space includes the width of the housing's enclosing walls that are not adjacent to any other housing and half of the width of those enclosing walls that are adjacent to other housing.

Interior floor space does not include garages, parking areas, crawl spaces, unfinished basements, attics, storage rooms, or any areas set aside for the placement of equipment for heating or cooling of the new housing, or to supply water, gas or electricity to the new housing.

Example 7

In December 2012, an individual enters into a written agreement of purchase and sale with a builder for a newly constructed single detached house situated in P.E.I. Ownership and possession of the house transfer to the individual after March 2013 and the HST at 14% applies to the purchase of the house.

Construction of the house is 70% complete immediately before April 1, 2013. The purchase price of the house, before the HST and any new housing rebate is taken into account, is \$475,000 and the house contains 160 square metres of interior floor space. The house has not been occupied as a place of residence or lodging after the construction of the house began and before April 1, 2013.

Using the table in the section “Calculating the provincial transitional new housing rebate”, the rebate would be equal to 75% of the estimated PST content since the house is 70% complete immediately before April 1, 2013.

The individual may choose either the consideration method or the floor space method to calculate the rebate amount.

Consideration method

$$\$475,000 \times 4.5\% \times 75\%$$

The provincial transitional new housing rebate would be equal to \$16,031.25.

Floor space method

$$160 \text{ square metres} \times \$60 \text{ per square metre} \times 75\%$$

The provincial transitional new housing rebate would be equal to \$7,200.

Applying for the rebate: Purchaser

The provincial transitional new housing rebate application for housing situated in P.E.I., Form RC7000-PE, *Prince Edward Island Provincial Sales Tax (PST) Transitional New Housing Rebate*, will be available on the CRA Web site by April 1, 2013.

A purchaser would not be entitled to claim a provincial transitional new housing rebate before the day that the HST becomes payable on the purchase of the single-unit housing which would be the earlier of the day ownership of the housing is transferred to the purchaser and the day possession of the housing is transferred to the purchaser under the written agreement of purchase and sale.

The purchaser would be required to obtain from the builder a certification of the degree of completion of the new housing immediately before April 1, 2013, by having the builder complete section C of the rebate application.

Purchasers who would be entitled to claim a provincial transitional new housing rebate would have the option of assigning the rebate to the builder or applying directly to the CRA for the rebate. A purchaser would assign the rebate to the builder if the builder pays or credits the amount of the rebate to the purchaser. To assign the rebate to the builder, the purchaser would have to complete section G of the rebate application and submit the completed application to the builder. In this case, the CRA would pay or credit the amount of the rebate to the builder. If a purchaser does not want to assign the rebate amount to the builder, the purchaser would not complete section G. In this case, the purchaser would complete the rest of the rebate application and send the rebate application to the CRA at the address indicated on the rebate application.

Builders: where a rebate is assigned to the builder, the builder would be required to attach a letter of good standing obtained from the province to the rebate application that the builder submits to the CRA. For more information on the letter of good standing, refer to the section on “Applying for the rebate: Builder”.

Applying for the rebate: Builder

Where a builder would be entitled to claim the provincial transitional new housing rebate, the builder would have to complete a rebate application. In the case of a residential condominium unit or condominium complex situated in P.E.I., a builder would have to complete Form RC7001-PE, *Prince Edward Island Provincial Sales Tax (PST) Transitional New Housing Rebate – Residential Condominiums*.

In the case of a self-supply of single-unit housing situated in P.E.I., a builder would have to complete Form RC7000-PE, *Prince Edward Island Provincial Sales Tax (PST) Transitional New Housing Rebate*.

In the case of a self-supply or sale of new multiple unit housing, for example, an apartment building (but not a duplex), a builder would have to complete Form RC7002-PE, *Prince Edward Island Provincial Sales Tax (PST) Transitional New Housing Rebate – Apartment Buildings*.

A non-registrant builder who is a first reseller may be entitled to claim the rebate using Form RC7003-PE, *Prince Edward Island Provincial Sales Tax (PST) Transitional New Housing Rebate for Non-registrant First Resellers*. For more information on first resellers, refer to GST/HST Info Sheet *Harmonized Sales Tax: Information for Non-registrant Builders of Housing in Prince Edward Island* that will soon be published.

These forms will be available on the CRA Web site by April 1, 2013.

In order for the CRA to process a provincial transitional new housing rebate application filed by a builder, including a rebate assigned to the builder by a purchaser, the builder would be required to attach a letter of good standing obtained from the province to the builder's first rebate application filed with the CRA. This letter would be issued to the builder by the province and would remain valid for a period of one year, unless the letter is revoked by the province.

If the housing is owned by more than one builder such that more than one builder would be entitled to claim the provincial transitional new housing rebate, only one builder may claim the rebate but all of the builders would have to sign the rebate application. In addition, a letter of good standing would have to be attached to the rebate application for each builder.

The letter of good standing would be used by the CRA to process subsequent provincial transitional new housing rebate applications filed by the builder provided that the letter remains valid and has not been revoked. The province would notify the CRA and the builder when a letter is revoked. Where the letter is no longer valid, a builder would be required to attach a new letter in respect of any subsequent rebate application filed with the CRA.

The province of P.E.I. would determine the circumstances under which a letter of good standing would be issued for purposes of the provincial transitional new housing rebate. Information on obtaining this letter will be available on the Province's Web site at www.taxandland.pe.ca.

A builder would have to submit the completed rebate application directly to the Summerside Tax Centre at the following address:

Summerside Tax Centre
275 Pope Road
Summerside PE C1N 6A2

Where a builder includes the amount of a provincial transitional new housing rebate in its GST/HST return, the builder would have to file that return using GST/HST NETFILE and mail the rebate application to the Summerside Tax Centre no later than the day the return is filed to minimize any delays in processing the rebate claim.

Time limit for filing a rebate application

As indicated earlier, purchasers of single-unit housing would not be eligible to file a rebate application before the day that the HST becomes payable on the purchase of the housing.

Generally, builders using the floor space method would be able to file a rebate application with the CRA after March 2013. Builders of single-unit housing that would be entitled to claim the rebate could not file a rebate application before the day they would be considered to have paid the HST in respect of a self-supply of the housing.

Claimants using the consideration method would be entitled to file a rebate application with the CRA no earlier than the day the HST becomes payable, or the day the HST is considered to be paid in the case of a self-supply. In the case of a builder who would be required to remit the transitional tax adjustment in respect of a condominium unit or complex, a claimant using the consideration method would be entitled to file a rebate application with the CRA no earlier than the day the federal part of the HST becomes payable on the sale of the housing.

An application for a provincial transitional new housing rebate would generally have to be filed before April 1, 2017. Where a builder is unable to file the rebate application by April 1, 2017 due to extenuating circumstances (such as a delay in completing the sale of the housing), the builder would be able to file a request for an extension of time to file the rebate application. The request must be made in writing and received by the CRA before April 1, 2017.

New requirements for electronic filing

A builder that is a GST/HST registrant would be required to file its GST/HST return electronically for any reporting period that ends on or after April 1, 2013 using GST/HST NETFILE if the builder

is reporting a P.E.I. provincial transitional new housing rebate, including a rebate that is assigned to the builder.

For more information on mandatory electronic filing requirements and other circumstances under which a

builder is required to file an electronic return, refer to GST/HST Info Sheet GI-099, *Builders and Electronic Filing Requirements*, which will be revised in the coming weeks.

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.

Appendix – Summary chart

Newly constructed or substantially renovated housing

| HOUSING TYPE | WOULD A PROVINCIAL TRANSITIONAL NEW HOUSING REBATE AVAILABLE? |
|---|--|
| Residential condominium unit (does not include a vacant land unit) | <p>Yes, a rebate may be available to the builder if:</p> <ul style="list-style-type: none"> • the construction or substantial renovation of the condominium complex in which the unit is situated began before April 1, 2013 and is at least 10% complete immediately before April 1, 2013, or • in the case where a unit is being substantially renovated and the complex in which the unit is situated is not being substantially renovated, the last substantial renovation of the unit began before April 1, 2013 and is at least 10% complete immediately before April 1, 2013, <p>and the builder:</p> <ul style="list-style-type: none"> • makes a sale of the unit that is subject to the HST (possession and ownership transfer on or after April 1, 2013); • must account for the transitional tax adjustment as a result of making a grandparented sale of the unit; or • makes a self-supply of the unit on or after April 1, 2013. |
| Residential condominium complex | <p>Yes, a rebate may be available to the builder if the construction or substantial renovation of the condominium complex began before April 1, 2013 and is at least 10% complete immediately before April 1, 2013 and the builder:</p> <ul style="list-style-type: none"> • makes a sale of the complex that is subject to the HST (possession and ownership transfer on or after April 1, 2013); or • must account for the transitional tax adjustment as a result of making a grandparented sale of the complex. |
| Single-unit housing (detached house, semi-detached house, rowhouse unit and duplex that is not a residential condominium unit) | <p>Yes, if the construction or substantial renovation of the housing began before April 1, 2013 and is at least 10% complete immediately before April 1, 2013, the rebate may be available to:</p> <ul style="list-style-type: none"> • the builder if the builder makes a self-supply of the housing on or after April 1, 2013, or • the purchaser if the purchaser is an individual and the purchase of the housing is subject to the HST (possession and ownership transfer on or after April 1, 2013). |
| Apartment | <p>Yes, a rebate may be available to the builder if the construction or substantial renovation of the apartment building began before April 1, 2013, is at least 10% complete immediately before April 1, 2013 and the builder sells or makes a self-supply of the apartment building on or after April 1, 2013.</p> |
| Mobile or floating home | No |