



## Residential Care Facilities and the GST/HST Election to Adjust Net Tax for the Self-Supply of a Residential Complex

This info sheet explains the new election that can be filed using Form GST119, *GST/HST Election to Adjust Net Tax for the Self-Supply of a Residential Complex*, as it relates to builder-operators of residential care facilities. It includes information on when a builder-operator is eligible to file the election and the effects of making the election.

This new election goes hand in hand with other changes related to the GST/HST new residential rental property (NRRP) rebate. For further information on these changes and the self-supply rules, refer to GST/HST Info Sheet GI-045, *Residential Care Facilities and Proposed Changes in the 2008 Budget*.

### Residential care facilities

For the purposes of this info sheet, a “residential care facility” includes any facility at which an individual intends to reside for an indefinite period and at which the individual receives additional property and services together with a room or suite. Such additional property and services may include meals, housekeeping, laundry, security monitoring, nutritional and nursing care services, scheduled transportation, social, recreational, educational and religious services, personal supervision, personal care, and assistance with the activities of daily living (e.g., bathing, dressing, grooming, eating, ambulating).

Residential care facilities include facilities that are generically described as care homes, personal care homes, congregate housing, assisted living residences, seniors' residences, retirement residences, nursing homes and homes for the aged. However, a residential care facility does not include

a facility, such as a hospital, described in either of paragraphs (a) or (b) of the definition of “health care facility” in section 1 of Part II of Schedule V to the *Excise Tax Act* (the “Act”).

### Self-supply

If you are a builder-operator of a residential care facility, you are generally considered to have made a self-supply if you build or substantially renovate the facility and you give possession or use of a unit in the facility under a lease for its long-term residential use by an individual. In this case, you are considered to have sold the facility to yourself (i.e., you have made a self-supply) and you are required to include the GST/HST you are considered to have paid and collected on this sale in your net tax calculation.

Prior to February 27, 2008, the self-supply rules generally did not apply to facilities, such as nursing homes, that were providing nursing/personal care services and that also included the provision of a residential unit. As a result of legislative amendments, the self-supply rules now apply to these facilities where the self-supply occurs after February 26, 2008.

### Election to adjust net tax for the self-supply of a residential complex

The new self-supply rules also apply to builder-operators that accounted for the GST/HST on a self-supply that occurred before February 27, 2008. A builder-operator that did not account for tax on a self-supply that occurred before February 27, 2008 may choose to self-supply by filing an election to adjust its net tax for any reporting period that ends before February 27, 2010, provided the election is filed with the return by the

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due date of the return for the last reporting period that ends before February 27, 2010. A builder-operator may want to file this election, for example, to claim an NRRP rebate which may not have been available previously, or to make a future sale of the facility exempt from GST/HST. It is important to note that once the election is made, it cannot be revoked.

A builder-operator of a residential care facility, or of an addition to a multiple unit residential care facility, is eligible to file the election to adjust its net tax if the builder-operator meets all of the eligibility criteria listed below.

### Eligibility criteria

You can make the election to adjust your net tax if you are not a co-operative housing corporation and you meet all of the following conditions:

- you are a builder-operator of a residential care facility or of an addition to a multiple unit residential care facility ;
  - if the new self-supply rules had been in effect at all times, you would have made a self-supply before February 27, 2008, (refer to "Date of self-supply", below, for more information);
  - you did not account for GST/HST on a self-supply of the facility or addition in a GST/HST return filed, or required to be filed, before February 27, 2008;
- Note:** If you accounted for the GST/HST on a self-supply and we reversed the transaction when we made an assessment, you have not accounted for the GST/HST and you meet this condition.
- you would have been eligible to claim an NRRP rebate for the building and land if the new rules had applied at all times and if:
    - the condition that you must have reported the tax on your self-supply and remitted all net tax remittable for that reporting period did not apply;
    - the requirement that you file the NRRP rebate application by the applicable deadline did not apply; and
    - the fair market value of a residential unit in the facility was less than \$450,000;

- you did not sell the facility or addition before February 27, 2008;
- you have not made another election to adjust the net tax for the self-supply of this facility or addition; and
- you file this election to adjust the net tax for a reporting period that ends before February 27, 2010, together with the GST/HST return for that reporting period, on or before the due date of that return.

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### Example

Co. A builds a nursing home on land it owns. Substantial completion of the nursing home occurs on January 5, 2008. On February 15, 2008, Co. A gives use of a residential unit in the nursing home to Resident B under a lease, licence or similar arrangement. Resident B is the first individual to occupy a unit in the nursing home as their place of residence. Co. A did not account for GST/HST on a self-supply of the facility. If the new self-supply rules had applied, Co. A would have been entitled to claim an NRRP rebate. Co. A did not make an election to adjust its net tax and has not sold the nursing home.

Co. A is eligible to make the election to adjust its net tax. The election must be made for a reporting period that ends before February 27, 2010, and sent to us together with the GST/HST return for that reporting period on or before the due date of that return.

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### Example

Charity C is the builder of a nursing home on land it owns. Substantial completion of the nursing home occurs on May 16, 2007. On June 4, 2008, Charity C gives use of a residential unit in the nursing home to Resident D under a lease, licence or similar arrangement. Resident D is the first individual to occupy a unit in the nursing home as their place of residence. Charity C did not account for GST/HST on a self-supply of the facility, did not make an election to adjust its net tax, and has not sold the nursing home.

Charity C is not eligible to make the election to adjust its net tax since it is entitled to claim the 50% public service body rebate for charities.

**Note:** A person who is entitled to claim a public service body rebate or a GST/HST new housing rebate is not entitled to claim an NRRP rebate. As a result, a person eligible for a public service body rebate that operates a residential care facility such as a nursing home is not entitled to make an election to adjust its net tax.

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## Date of self-supply

Generally, the day you are considered to have made a self-supply and to have paid GST/HST on the fair market value of the residential care facility or addition is the later of:

- (a) the day you first give possession or use of a unit in the facility or addition under a lease, licence or similar arrangement to an individual as a place of residence; and
- (b) the day the construction or substantial renovation of the facility, or construction of the addition, is substantially completed.

### Example

Co. E builds a nursing home on land it owns. Substantial completion of the nursing home occurs on April 28, 2008. On April 30, 2008, Co. E gives use of a residential unit in the nursing home to Resident F under a lease, licence or similar arrangement. Resident F is the first individual to occupy a unit in the nursing home as their place of residence.

Co. E is considered to have made a self-supply on April 30, 2008. In this case, the new self-supply rules apply and Co. E is required to account for the GST/HST, calculated on the fair market value of the nursing home on April 30, 2008.

## Effect of election

If you are eligible to do so and file this election, you are considered to have:

- made a self-supply of the residential care facility or addition;
- claimed input tax credits (ITCs) for the tax you paid before the date of the self-supply for the construction of the facility or addition and the purchase of the land; and
- claimed and received an NRRP rebate for the facility or addition.

When you make the election you have to calculate the amount by which you will adjust your net tax for the reporting period to which the election applies. The amount of your net tax adjustment will include the GST/HST you are considered to have paid and collected on the self-supply, the ITCs for the GST/HST you paid on your construction costs and to acquire the land upon which you built the facility, and the NRRP rebate amount.

**Note:** You can include the amount of the NRRP rebate even if you previously filed an NRRP rebate application and all or part of the rebate amount claimed in that application was denied.

## Calculating your net tax adjustment

To calculate your net tax adjustment, follow the calculations on Form GST119. Start by calculating the amount of your NRRP rebate by completing Section E for multiple units or Section F for a single unit (including a residential condominium unit or a duplex). Refer to Guide RC4231, *GST/HST New Residential Property Rebate*, for information about the NRRP rebate, or call us at 1-800-959-8287.

**Note:** If you make this election, do not complete Form GST524, *GST/HST New Residential Rental Property Rebate Application*, or Form GST525, *Supplement to the New Residential Rental Property Rebate Application – Co-op Unit or Multiple Units*, to claim the NRRP rebate. The NRRP rebate amount is included in the calculation of your net tax adjustment on Form GST119.

## Completing Section G – net tax adjustment calculation

Once you have calculated the NRRP rebate amount, you can complete Section G of Form GST119 to determine the amount of your net tax adjustment. Start this calculation by completing line A.

### Line A

Enter the GST/HST you are considered to have paid and collected on the self-supply of the facility or addition. The amount of GST/HST is calculated on the fair market value of the facility (i.e., the building and land) at the time of the self-supply (refer to “Date of self-supply”, above). Be sure to use the rate of GST/HST that applied at the time of the self-supply. For example, if the self-supply occurred on April 1, 2007, the GST rate that applied at that time was 6% and the HST rate was 14%.

**Note:** Fair market value is normally based on the value of the building, applicable land, and any other structures that are reasonably necessary for the use and enjoyment of the facility as a place of residence for individuals. Do not include any part of the facility that is not part of the residential complex.

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For example, do not include areas within the facility that are leased to third parties, such as a barber or beauty salon.

Fair market value generally means the highest price that can be obtained in the real estate market between unrelated parties and should be comparable to the values of similar housing in the local real estate market. It does not include any GST/HST that may be payable on the fair market value or provincial land transfer taxes. You may want to obtain a professional appraisal to support your fair market valuation as we may ask for information to support your valuation.

**Line B**

Enter the amount of the NRRP rebate that you calculated in Section E or Section F.

**Line C**

Subtract the amount on line B from the amount on line A.

**Line D**

Enter the total GST/HST you paid on your construction costs and for the purchase of the land before the date of the self-supply for which you would be entitled to claim ITCs. If you are not a GST/HST registrant, enter “0” and refer to “Non-registrants”, below, for more information.

**Lines 1, 2, 3 and E**

Follow the instructions on Form GST119 to complete these lines. These calculations ensure that you do not claim ITCs for amounts for which you have previously received rebates or refunds. For more information on these lines, contact us at 1-800-959-8287.

**Line F**

Subtract the amount on line E from the amount on line D.

**Line G**

Subtract the amount on line F from the amount on line C. This is the amount of your net tax adjustment.

**Registrants**

Enter the amount of your net tax adjustment on your GST/HST return for the reporting period to which the election applies. That reporting period must end before February 27, 2010. If your net tax adjustment is a positive amount, enter it on line 104 of your return. If the net tax adjustment is a negative amount, enter it on line 107. You have to send us Form GST119 together with your GST/HST return for that reporting period on or before the due date of that return.

If you are a registrant you may be entitled to claim an ITC for the GST/HST you are considered to have paid on the self-supply. For example, if you make taxable supplies of meals to guests in the dining room where you also provide meals to residents, you may be entitled to claim an ITC for the GST/HST you are considered to have paid on the self-supply to the extent that it relates to the provision of taxable meals, unless all or substantially all of the use of the dining room is to provide meals to residents.

For purposes of the time limitation period for claiming ITCs, if the tax paid on the self-supply of the residential care facility or addition gives rise to an ITC, it is deemed to be an ITC for the reporting period that includes February 26, 2008. This ITC may be claimed in the normal manner and included on line 106 of your GST/HST return.

**Non-registrants**

If you are a non-registrant, complete Form GST119 to calculate the amount of your net tax adjustment. Enter the amount of your net tax adjustment on line 104 of Form GST62, *Goods and Services Tax/Harmonized Sales Tax Return (Non-personalized)*, for the reporting period to which the election applies, and that ends before February 27, 2010. As a non-registrant, your reporting period is the calendar month. You have to file Form GST62 by the last day of the month following the month that is the reporting period to which the election applies.

As a non-registrant, you cannot claim ITCs for the tax you paid on your costs to construct or substantially renovate the residential care facility or to construct an addition to a multiple unit residential care facility. If you are eligible to make this election,

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and do so, you are considered to have made a self-supply by way of sale of the facility or addition. You may be entitled to claim a rebate under section 257 of the Act for the GST/HST you paid on your costs related to the construction or substantial renovation of the facility or to the construction of the addition, including GST/HST you paid to acquire the land. In effect, this rebate ensures that GST/HST is paid on the facility or addition only once—on its fair market value—as a result of your self-supply of the facility or addition that occurs when the election takes effect.

If you are entitled to claim a rebate for the tax you paid on your costs to construct or substantially renovate the residential care facility or to construct an addition to a multiple unit residential care facility, complete Form GST189, *General Application for Rebate of GST/HST*. You can claim the rebate by including the amount of the rebate on line 111 of the same GST62 return on which you report your net tax adjustment. Send us the GST189 and GST62 together with Form GST 119 by the due date for your GST62 return.

For more information on calculating your rebate entitlement, refer to Guide RC4033, *General Application for GST/HST Rebates*.

### **Subsequent sale**

If a builder-operator makes an election to adjust its net tax in respect of a residential care facility, a subsequent sale of the facility by the builder-operator will generally be exempt. If a builder-operator is entitled to file the election but does not do so, a subsequent sale of the residential care facility may be taxable.

### **Example**

Co. G builds a nursing home on land it owns. Substantial completion of the nursing home occurs on June 5, 2007. On July 15, 2007, Co. G gives use of a residential unit in the nursing home to Resident H under a lease, licence or similar arrangement. Resident H is the first individual to occupy a unit in the nursing home as their place of residence. Co. G did not account for GST/HST on a self-supply of the facility. If the new self-supply rules had applied, Co. G would have been entitled to claim an NRRP rebate. Co. G plans to sell the nursing home.

If Co. G was not required to make a self-supply under the old rules that applied on July 15, 2007 and Co. G did not make an election to adjust its net tax, the sale of the nursing home will be a taxable supply.

If Co. G makes the election, files the election form as required, and accounts for the net tax adjustment, the sale of the nursing home will generally be exempt.

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 Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

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 by calling 1-800-567-4692. You may also visit their Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca) 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).

Reference in CRA publications is made to the harmonized sales tax (HST) that applies to property and services provided in Nova Scotia, New Brunswick, and Newfoundland and Labrador (the “participating provinces”) at a rate of 13%. The goods and services tax (GST) rate is 5%.