



Harmonized Sales Tax: Ontario New Residential Rental Property Rebate

The Government of Ontario has introduced a harmonized sales tax (HST) that came into effect on July 1, 2010.

The HST rate in Ontario is 13% of which 5% is the federal part and 8% the provincial part.

This info sheet reflects tax changes included in the *New Harmonized Value-added Tax System Regulations, No. 2*.

This info sheet explains the Ontario new residential rental property rebate that may be available in respect of the provincial part of the HST paid by landlords on qualifying rental properties in Ontario.

For information on when the HST is payable by a landlord on the purchase of new housing, refer to GST/HST Info Sheet GI-077, *Harmonized Sales Tax: Purchasers of New Housing in Ontario*.

GST/HST Info Sheet GI-091, *Harmonized Sales Tax: Information for Landlords of New Rental Housing* explains when the HST is payable by a landlord on a self-supply of new housing or of land that is leased for residential purposes.

Definitions for GST purposes, e.g., builder, residential complex, residential unit, residential condominium unit and substantial renovation generally apply under the HST, as do 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 Memorandum 19.2, *Residential Real Property*, explore 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*.

Eligibility for the Ontario new residential rental property rebate

Landlords who purchase new housing in Ontario for rental purposes and pay the HST on the purchase of the new housing may be entitled to claim the Ontario new residential rental property rebate. Landlords who build their own new housing for rental purposes, or who first supply land alone under an exempt lease for residential use, and who are required to account for the HST at 13% under the self-supply or change-in-use rules may also be entitled to claim this rebate.

The Ontario new residential rental property rebate is available for the same type of new residential rental properties for which a GST/HST new residential rental property rebate is currently available in respect of the GST, or the federal part of the HST, paid by a landlord on the purchase or self-supply of qualifying rental property.

Qualifying rental properties include new rental housing, new additions to traditional apartment buildings, new co-operative rental housing or new long-term residential care facilities. Land that may qualify for the rebate includes a residential lot, a site

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in a residential trailer park or a site in an addition to a residential trailer park.

The rules and conditions for claiming the Ontario new residential rental property rebate generally mirror the rules and conditions for claiming the GST/HST new residential rental property rebate explained in Guide RC4231, *GST/HST New Residential Rental Property Rebate*. However, the Ontario new residential rental property rebate applies to qualifying rental properties across all price ranges and different rebate rates are used. This means that a person may be entitled to claim an Ontario new residential rental property rebate for a qualifying rental property even if the person is not entitled to claim a GST/HST new residential rental property rebate (in respect of the federal part of the HST paid for that property) because the maximum threshold amount for that property is exceeded, e.g., where the fair market value of a qualifying rental unit in an apartment building exceeds \$450,000.

Where a public service body is a landlord and is entitled to claim the Ontario public service body rebate in respect of the provincial part of the HST paid or payable on the purchase or self-supply of its residential rental property, the body would generally claim the Ontario public service body rebate instead of the Ontario new residential rental property rebate since the public service body rebate has the higher rebate rate and is not subject to a maximum rebate amount.

Calculating the rebate for qualifying new rental housing

The Ontario new residential rental property rebate is equal to 75% of the provincial part of the HST paid on the purchase or self-supply of the new housing, up to a maximum rebate of \$24,000 per qualifying rental unit.

Calculating the rebate for leased land

In the case of land leased for residential use, the rebate is equal to 75% of the provincial part of the HST paid on the fair market value of the land under the self-supply rules or 75% of the provincial part of the basic tax content under the change-in-use rules, up to a maximum of \$7,920.

For multiple residential lots or sites in a residential trailer park or an addition to a residential trailer park, the maximum rebate amount of \$7,920 applies to each lot or site.

Example 1

After June 2010, a landlord purchases a newly constructed triplex for \$975,000, not including the HST, and rents out the three units to individuals as their place of residence. The units are identical in floor space, design and fair market value (\$325,000) and the rental arrangement for each unit is for 1 year. Assuming that the landlord meets all of the conditions for claiming the Ontario new residential rental property rebate, the rebate amount for each rental unit is calculated as follows.

The HST paid on the purchase of the triplex is \$126,750, composed of the federal part at 5% (\$48,750) and the provincial part at 8% (\$78,000).

The Ontario new residential rental property rebate amount in respect of the provincial part of the HST paid on the purchase is equal to \$19,500 per rental unit $[(\$78,000 \div 3 \text{ units}) \times 75\%]$.

In addition, a GST/HST new residential rental property rebate is available in respect of the federal part of the HST paid on the purchase of the triplex.

Example 2

Company D builds a 100-unit residential care facility that it operates as a nursing home. The units in the facility are not condominium units, are identical and the entire facility is a residential complex. Substantial completion of the construction of the facility occurs on August 15, 2010. Company D first provides a residential unit to a resident on September 1, 2010, at which time the facility has a fair market value of \$20 million. Under the self-supply rules, Company D reported \$2,600,000 as HST calculated on the fair market value of the entire facility $(\$20,000,000 \times 13\%)$ in its return for the reporting period that includes September 1, 2010. Assuming that Company D meets all of the conditions for claiming the Ontario new residential rental property rebate, the rebate amount for each residential unit is calculated as follows.

The HST paid on the self-supply of the facility (\$2,600,000) is composed of the federal part at 5% (\$1,000,000) and the provincial part at 8% (\$1,600,000).

The Ontario new residential rental property rebate amount in respect of the provincial part of the HST paid on the self-supply is equal to \$12,000 per rental unit $[(\$1,600,000 \div 100 \text{ units}) \times 75\%]$.

A GST/HST new residential rental property rebate is also available in respect of the federal part of the HST paid on the self-supply.

Example 3

Mr. Smith is not a registrant or a builder for GST/HST purposes. He buys a vacant lakeside lot and in September 2010 leases the lot for a 15-year term to Mr. Jones. Mr. Jones will affix a mobile home to the land and occupy it as a place of residence. The lease of the lot is an exempt supply for GST/HST purposes. Mr. Smith is considered to have made a taxable self-supply (sale and repurchase) of the lot when he gives possession of the lot to Mr. Jones. The fair market value of the lot at that time is \$150,000. As the self-supply occurs on or after July 1, 2010, Mr. Smith is considered to have paid and collected HST at 13% on the fair market value of the lot. Mr. Smith must report the HST collected and remit the balance owing using Form GST62, *Goods and Services Tax/Harmonized Sales Tax Return* (non-personalized). His reporting period is September 2010, the calendar month during which the self-supply occurs.

Assuming that Mr. Smith meets all of the conditions for claiming the Ontario new residential rental property rebate, the rebate amount for the lot is calculated as follows.

The HST paid on the self-supply of the lot (\$19,500) is composed of the federal part at 5% (\$7,500) and the provincial part at 8% (\$12,000).

The Ontario new residential rental property rebate amount in respect of the provincial part of the HST paid on the self-supply is equal to \$7,920 ($\$12,000 \times 75\%$, to a maximum of \$7,920).

Applying for the rebate

As with the GST/HST new residential rental property rebate in respect of the GST, or the federal part of the HST, paid on the purchase of qualifying rental properties, a builder who sells qualifying

rental properties cannot pay or credit the Ontario new residential rental property rebate to the purchaser. The purchaser must apply for the rebate directly with the CRA.

A single rebate application for both the Ontario new residential rental property rebate in respect of the provincial part of the HST and the GST/HST new residential rental property rebate in respect of the federal part of the HST is available on the CRA Web site. A person who is entitled to claim the Ontario new residential rental property rebate amount will use Form RC7524-ON, *Ontario Rebate Schedule* to calculate their rebate amount and attach it to Form GST524, *GST/HST New Residential Rental Property Rebate Application*. Form GST524 must be completed even if the person is not entitled to claim a GST/HST new residential rental property rebate in respect of the federal part of the HST because the maximum threshold amount for the qualifying rental property is exceeded.

Where more than one person owns the rental property, the rebate is payable to all of the owners of the property. The CRA will issue one cheque for the rebate amount in respect of both the federal and provincial parts of the HST in the name of all of the owners.

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. 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 Centres. 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 by calling 1-800-567-4692. You may also visit their Web site at 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.