



## Harmonization of the Ontario Retail Sales Tax with the Goods and Services Tax –

### Questions and Answers on Housing Rebates, Transitional Rules for Housing and Other Real Property Situated in Ontario

The 2009 Ontario Budget proposes a single value-added sales tax, which, subject to legislative approval by the Ontario legislature, would come into effect on July 1, 2010, and be administered by the Canada Revenue Agency (CRA).

This publication provides questions and answers that reflect the proposed tax changes as announced in the 2009 Ontario Budget and in the Information Notice No. 2, June 2009, *Helping Homebuyers and the Housing Industry with an Enhanced New Housing Rebate, A New Rental Housing Rebate and Transitional Rules* released by the Government of Ontario on June 18, 2009. Any commentary in this publication should not be taken as a statement by the CRA that these proposed changes will be enacted in their current form. Further information will be published in the coming months as further announcements are made by the Government of Ontario.

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#### General

##### 1. What is the current provincial retail sales tax (RST) treatment for new housing?

Information relating to the application of the RST in Ontario is available online at [www.rev.gov.on.ca](http://www.rev.gov.on.ca). You may also contact the Government of Ontario’s Budget hotline at 1-800-337-7222 for more information on the current application of the RST.

##### 2. What is the proposed treatment for sales of residential housing in Ontario under a harmonized sales tax?

A harmonized sales tax of 13%, composed of a federal part of 5% and a provincial part of 8%, would apply to a builder’s sale of a newly constructed or substantially renovated residential complex, including a multiple unit residential complex (e.g., an apartment building). The sale of housing that has been previously occupied by an individual as a place of residence and that is exempt from GST would also be exempt for purposes of the harmonized sales tax. The definitions in the *Excise Tax Act* that relate to housing (e.g., builder, residential complex, residential unit, residential condominium unit substantial renovation) and the Canada Revenue Agency’s (CRA’s) current policies regarding the application of the GST to housing, would generally apply under the harmonized sales tax.

La version française de la présente publication est intitulée *Harmonisation de la TPS et de la taxe de vente au détail de l’Ontario – Questions et réponses sur les remboursements pour habitations, les règles transitoires pour habitations et les autres immeubles situés en Ontario*.



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**3. I am selling my house and the sale is exempt from GST. If the closing date for the sale of my house is after June 2010, would the sale of the house be exempt under a harmonized sales tax?**

Yes. The sale of your previously occupied house would be exempt and you would not be required to charge or collect the harmonized sales tax.

**4. I am a builder and I am registered for GST purposes. I currently claim input tax credits (ITCs) for the 5% GST that I pay on the lumber I purchase to build new houses. Under a harmonized sales tax of 13%, would I be able to claim ITCs for the harmonized sales tax that I would pay on lumber purchased after June 2010?**

Yes. You would be able to claim an ITC for the 13% harmonized sales tax that you would pay on your purchase of lumber and other construction materials that you use to construct new housing.

### Application of a harmonized sales tax to new housing

**5. When would a harmonized sales tax apply to a sale of a residential complex?**

Generally, the harmonized sales tax would apply to a builder's taxable supply by way of sale of a newly constructed or substantially renovated residential complex where both ownership and possession of the complex are transferred to the purchaser after June 2010. An exception exists if, among other conditions, a written agreement of purchase and sale was entered into on or before June 18, 2009 – see the section below on grandparented houses.

**6. A builder and a purchaser enter into a written agreement of purchase and sale in August 2009 for a newly constructed house. Possession and ownership of the house will transfer to the purchaser on July 14, 2010. Would a harmonized sales tax apply to the sale?**

Yes. Since the written agreement of purchase and sale is entered into after June 18, 2009, and both ownership and possession of the house transfer to the purchaser after June 2010, the harmonized sales tax at 13% would apply to the sale. If construction of the house is at least 10% complete on July 1, 2010, the purchaser would be entitled to claim a rebate – see the section below on RST transitional rebates for new housing. In addition to the GST new housing rebate, the purchaser may also be entitled to claim an Ontario new housing rebate in respect of the provincial portion of the harmonized sales tax – see the section below on new housing rebates.

**7. When would a harmonized sales tax not apply to a sale of a new or substantially renovated residential complex?**

Generally, the harmonized sales tax would not apply to a builder's taxable supply by way of sale of a newly constructed or substantially renovated residential complex where either ownership or possession of the complex is transferred to the purchaser before July 2010, regardless of when the purchase and sale agreement was entered into. In this case, GST at 5% would apply.

The harmonized sales tax would also not apply if the sale of the newly constructed or substantially renovated residential complex is grandparented – see the section below on grandparented houses. In this case, GST at 5% would apply to the sale of the complex.

**8. A builder and a purchaser enter into a written agreement of purchase and sale on July 3, 2009 for a newly constructed house. Possession and ownership of the house will transfer to the purchaser in May 2010. Would a harmonized sales tax apply to the sale?**

No. If ownership or possession (or both) of the house transfers to the purchaser before July 2010, the harmonized sales tax would not apply. However, the GST at 5% would apply to the sale of the house.

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**9. I entered into a written agreement of purchase and sale for a newly constructed house with a builder on June 5, 2009. I take possession and ownership of the house in May 2010. Would a harmonized sales tax apply to the sale?**

No. If ownership or possession (or both) of the house transfers to you before July 2010, the harmonized sales tax would not apply. However, the GST at 5% would apply to the sale of the house.

## Grandparented houses

**10. What is a grandparented sale of a house?**

Where a written agreement of purchase and sale for a newly constructed or substantially renovated detached house, semi-detached house, attached house, residential condominium unit or condominium complex was entered into on or before June 18, 2009, the sale would generally be grandparented if both ownership and possession of the housing transfer to the purchaser after June 2010. In this case, the provincial part of the harmonized sales tax would not be payable on the sale. Only the federal part of the harmonized sales tax would apply, i.e., the sale would be subject to GST at the rate of 5%. In the case of a detached house, semi-detached house or attached house, the purchaser must be an individual in order for the grandparenting rule to apply.

While the grandparented sale of housing is not subject to the harmonized sales tax, the builder would be required to remit a transitional tax adjustment if the construction straddles the July 1, 2010 implementation date. This transitional tax adjustment is intended to approximate the amount of the Ontario retail sales tax that would have been paid in respect of the construction costs incurred after June 2010, unless the construction of the housing is 90% or more complete on July 1, 2010 – see the section below on the transitional tax adjustment for houses and residential condominium units.

**11. Are there any exceptions to the grandparenting rule?**

Yes. For example, newly constructed or substantially renovated houses built by owners for their personal use, as well as duplexes, traditional apartment buildings, mobile homes and modular homes, would not be grandparented under the transitional rules for purchases of new housing as the transitional rules would apply differently to these houses. Additional information in respect of these and other circumstances will be provided in the coming months.

**12. I entered into a written agreement of purchase and sale for a new house with a builder on May 31, 2009. I take possession and ownership of the house in August 2010. Would a harmonized sales tax of 13% apply to the sale?**

Generally, no. The purchase of the house would normally be grandparented since the written agreement of purchase and sale was entered into on or before June 18, 2009 and both possession and ownership of the house are transferred after June 2010. The sale of the house would be subject to GST at the rate of 5%.

**13. I am a builder and I am registered for GST purposes. I am constructing a house whose sale would be grandparented and the construction of this house straddles the July 1, 2010 implementation date for a harmonized sales tax. Would I be able to claim ITCs for the harmonized sales tax that I would pay on lumber and other construction materials purchased after June 30, 2010 that will be used to complete the construction of this grandparented house?**

Yes. Even if the sale of the house would normally be grandparented, you would be entitled to claim ITCs for the 13% harmonized sales tax that you would pay on the lumber and other inputs used in the construction. If the construction of the house is less than 90% complete on July 1, 2010, you would be required to account for a transitional tax adjustment in calculating your net tax remittance – see the section below on transitional tax adjustment for houses and residential condominium units.

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**14. After entering into a written agreement of purchase and sale on or before June 18, 2009 for a newly constructed house, the purchaser requests that additional upgrades be made to the house. Does the harmonized sales tax apply to the additional amount payable for the upgrades?**

Upgrades to a house will generally result in modifications to the existing agreement such that the upgrades form part of the written agreement for the purchase and sale of the house. In such a case, the tax applicable to the purchase of the house will prevail. In this case, since a written agreement of purchase and sale was entered into on or before June 18, 2009, the harmonized sales tax will not apply and only the GST will apply on the total amount payable for the house, including the amount payable for the upgrades.

## New housing rebates

**15. Would a new housing rebate be available for the provincial part of a harmonized sales tax?**

The Ontario new housing rebate would be available in respect of the provincial part of the harmonized sales tax paid on the purchase of a newly constructed or substantially renovated house. Where the house is purchased for use as the primary place of residence of the purchaser or a relation of the purchaser and the remaining conditions for claiming a GST new housing rebate are met\*, the purchaser would be entitled to claim an Ontario new housing rebate of 75% of the provincial part of the harmonized sales tax, up to a maximum rebate amount of \$24,000. The Ontario new housing rebate would be available regardless of the purchase price for the house. (\* Note that the \$450,000 threshold that applies for the GST new housing rebate would not apply to the Ontario new housing rebate).

The Ontario new housing rebate would be available for the same types of residential properties for which a GST new housing rebate is currently available. Qualifying housing would include newly constructed and substantially renovated housing, co-operative housing, owner-built housing, mobile homes, modular homes and housing on leased land.

**16. I entered into a written agreement of purchase and sale for a new house with a builder on May 31, 2009. I take possession and ownership of the house in August 2010. Would I be entitled to claim an Ontario new housing rebate?**

Not if the sale of the house is grandparented (see the section above on grandparented houses), in which case the sale of the house would be subject to GST at the rate of 5%. You may be entitled to claim a GST new housing rebate provided that you meet all of the conditions for claiming this rebate. Refer to guide RC4028, *GST/HST New Housing Rebate* available on the CRA Web site for more information on the new housing rebate in respect of the GST.

**17. I entered into a written agreement of purchase and sale for a new house on July 31, 2009. The house will be my primary place of residence and I meet all the relevant conditions for claiming a GST new housing rebate. I take possession and ownership of the house in August 2010. Would I be entitled to claim an Ontario new housing rebate?**

Yes. The sale of the house would be subject to the harmonized sales tax at 13% and you would be entitled to claim an Ontario new housing rebate in respect of the provincial part of the harmonized sales tax, up to a maximum rebate amount of \$24,000.

**18. If I am entitled to claim an Ontario new housing rebate, would I still be able to claim a new housing rebate for the federal part of a harmonized sales tax?**

Provided that you meet the conditions for claiming the GST new housing rebate, you would be entitled to claim a rebate for the federal part of the harmonized sales tax. For example, if you purchase a new house for \$300,000 to use as your primary place of residence, you paid harmonized sales tax of \$39,000 and you meet all of the other conditions for claiming the rebate, you would be entitled to claim a GST new housing rebate of \$5,400 for the federal part of the harmonized sales tax and an Ontario new housing rebate of \$18,000 for the provincial part of

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the harmonized sales tax. If you purchase a house for \$450,000 or more, you would not be entitled to claim a GST new housing rebate in respect of the federal part of the harmonized sales tax.

**19. How would the Ontario new housing rebate in respect of the provincial part of a harmonized sales tax be calculated?**

The Ontario new housing rebate would be equal to 75% of the provincial part of the harmonized sales tax paid on the purchase of a newly constructed or substantially renovated house, up to a maximum rebate amount of \$24,000. This rebate would essentially reduce the provincial part of the harmonized sales tax to a rate of 2% on the first \$400,000 of the purchase price of the house while the rate of 8% would apply on the portion of the purchase price that is above \$400,000.

**20. Assuming I would be eligible for the Ontario new housing rebate in respect of the provincial part of a harmonized sales tax, what would the rebate amount be where the purchase price of the house, not including the harmonized sales tax and any rebates, is:**

- (a) \$300,000?
- (b) \$400,000?
- (c) \$500,000?

The Ontario new housing rebate would be available in respect of the provincial part of the harmonized sales tax, up to a maximum rebate amount of \$24,000. The rebate would be available for houses in all price ranges provided that all of the conditions for claiming the rebate are met (e.g., a new house purchased in Ontario for use as the primary place of residence of the purchaser or a relation of the purchaser).

(a) \$18,000 – Where the purchase price of the house, not including the harmonized sales tax and any rebates, is \$300,000, the tax payable would be \$39,000, composed of the federal part at 5% (\$15,000) and the provincial part at 8% (\$24,000). The Ontario new housing rebate in respect of the provincial part would be equal to \$18,000 in this case (i.e., 75% of \$24,000). Note that the GST new housing rebate would also be available in respect of the federal part of the harmonized sales tax paid on the purchase of the house. In this case, the GST new housing rebate would be equal to \$5,400 (i.e., 36% of \$15,000).

(b) \$24,000 – Where the purchase price of the house, not including the harmonized sales tax and any rebates, is \$400,000, the tax payable would be \$52,000, composed of the federal part at 5% (\$20,000) and the provincial part at 8% (\$32,000). The Ontario new housing rebate for the provincial part would be equal to \$24,000 in this case (i.e., 75% of \$32,000). Note that the GST new housing rebate would also be available in respect of the federal part of the harmonized sales tax paid on the purchase of the house. In this case, the GST new housing rebate would be equal to \$3,150 (i.e.,  $\$6,300 \times [(\$450,000 - \$400,000) \div \$100,000]$ ).

(c) \$24,000 – Where the purchase price of the house, not including the harmonized sales tax and any rebates, is \$500,000, the tax payable would be \$65,000, composed of the federal part at 5% (\$25,000) and the provincial part at 8% (\$40,000). The Ontario new housing rebate for the provincial part would be equal to \$24,000 in this case (i.e., 75% of \$40,000, to a maximum rebate amount of \$24,000). There is no GST new housing rebate in respect of the federal part of the harmonized sales tax paid on the purchase of a house where the purchase price is \$450,000 or more.

**21. How would I claim the Ontario new housing rebate?**

The Ontario new housing rebate in respect of the provincial part of the harmonized sales tax would be administered by the CRA in a manner similar to the GST new housing rebate. Builders would be able to pay or credit the Ontario new housing rebate to the purchaser of a new house, just as they currently may pay or credit the GST new housing rebate. Individuals would also be able to file an application for the Ontario new housing rebate directly with the CRA if the builder does not pay or credit the rebate to the purchaser at the time of

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purchase. A single rebate application for both the Ontario new housing rebate and GST new housing rebate will be available on the CRA Web site by July 1, 2010.

## Retail sales tax (RST) transitional housing rebates

### **22. Under what circumstances would a purchaser be entitled to claim an RST transitional housing rebate?**

A purchaser of a newly constructed or substantially renovated house (see question 23 for types of houses for which the rebate is available to a purchaser) may be eligible to claim an RST transitional housing rebate where construction of the house straddles the July 1, 2010 implementation date and the harmonized sales tax would be payable on the purchase (i.e., the sale of the house would not be grandparented and both ownership and possession of the house transfer to the purchaser after June 2010). The construction of the house must be at least 10% complete on July 1, 2010 in order to be eligible for this rebate. A purchaser would be able to obtain the rebate from the builder; more details on this will be announced in the coming months. Where the purchaser applies for the rebate directly with the CRA, the purchaser must obtain from the builder a certification of the degree of completion of construction or substantial renovation on July 1, 2010. The rebate application for the RST transitional housing rebate will be available on the CRA Web site by July 1, 2010.

In some cases, builders would be entitled to claim an RST transitional housing rebate (see question 24).

### **23. Which types of housing qualify for the RST transitional housing rebate that would be available to purchasers?**

A purchaser of a newly constructed or substantially renovated single detached house, semi-detached house, attached house (row house) or duplex may be eligible for an RST transitional housing rebate where construction of the housing straddles the July 1, 2010 implementation date and the harmonized sales tax would be payable on the purchase (i.e., the sale of the house would not be grandparented – see section on grandparented houses above). The construction of the house, semi-detached house, attached house (row house) or duplex must be at least 10% complete on July 1, 2010. An RST transitional housing rebate would not be available for mobile homes, modular homes and owner-built homes.

### **24. Under what circumstances would a builder be entitled to claim an RST transitional housing rebate?**

A builder of newly constructed or substantially renovated rental housing such as a single detached house, semi-detached house, attached house (row house), duplex, residential condominium unit, traditional apartment building or an addition to an apartment building may be entitled to claim an RST transitional housing rebate where the construction of the housing straddles the July 1, 2010 implementation date and the harmonized sales tax would apply in respect of a self-supply of the housing (i.e., possession of the housing, or unit in the housing, is given to an individual after June 2010 and after the construction or renovation is substantially completed where the individual is the first to occupy the housing or unit as a place of residence). The construction or substantial renovation of the housing must be at least 10% complete on July 1, 2010 in order to be eligible for this rebate.

If construction or substantial renovation of a condominium complex is at least 10% complete on July 1, 2010, the builder of the complex would also be entitled to claim an RST transitional housing rebate if the builder sells the condominium complex or a residential condominium unit in the complex that was subject to the transitional tax adjustment or the harmonized sales tax – see the section below on the transitional tax adjustment for houses and residential condominium units. In this case, the rebate would be available whether or not the sale of the condominium unit or complex was grandparented.

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**25. How would the RST transitional housing rebate be calculated?**

The RST transitional housing rebate would be based on the degree of completion of the construction or substantial renovation of the housing on July 1, 2010 and the estimated retail sales tax embedded in the housing. With respect to housing that is 90% or more complete on July 1, 2010, there would be a 100% rebate of the estimated retail sales tax embedded in the housing. The rebate would decrease based on degree of completion thresholds. No rebate would be available where the housing is less than 10% complete on July 1, 2010. In the case of a condominium complex, a traditional apartment building or addition to an apartment building, the RST transitional housing rebate is based on the degree of completion of the entire condominium complex, apartment building or addition, as the case may be.

The RST transitional housing rebate would be calculated as follows:

Degree of completion of the housing on July 1, 2010	% of estimated RST that would be rebated
Less than 10%	0%
Equal to or greater than 10% and less than 25%	25%
Equal to or greater than 25% and less than 50%	50%
Equal to or greater than 50% and less than 75%	75%
Equal to or greater than 75% and less than 90%	90%
Equal to or greater than 90%	100%

**26. How would I determine the amount of the estimated RST embedded in the housing?**

The estimated RST embedded in the housing would be calculated by choosing one of the following two methods:

- using a prescribed dollar amount per square metre of floor space in the housing (“floor space method”); or
- using 2% of the total consideration (or in certain situations, 2% of the fair market value) established for GST purposes (“consideration or fair market value method”).

The prescribed dollar amount per square metre of floor space, the determination of the floor space and other guidelines will be announced by the Government of Ontario in the coming months.

**27. A newly constructed single detached house is 90% or more complete on July 1, 2010. The purchase and sale agreement for the house is entered into after June 18, 2009, and both ownership and possession will transfer to the purchaser after June 2010. As a result, the harmonized sales tax would apply to the sale of the house. Would an individual purchasing the house be entitled to claim the RST transitional housing rebate, the Ontario new housing rebate in respect of the provincial part of the harmonized sales tax and the GST new housing rebate in respect of the federal part of the harmonized sales tax?**

Yes, provided that all of the conditions for claiming each rebate are met. For a house with a purchase price of \$350,000 (excluding the harmonized sales tax and any rebates) that will be used as the individual’s primary place of residence, the individual would pay the harmonized sales tax at 13% ( $\$350,000 \times 13\% = \$45,500$ ) and would be entitled to claim an RST transitional housing rebate of \$7,000 (using the consideration or fair market value method,  $\$350,000 \times 2\%$ ), an Ontario new housing rebate of \$21,000 ( $\$350,000 \times 8\% \times 75\%$ ) and a GST new housing rebate of \$6,300 ( $\$350,000 \times 5\% \times 36\%$ ) provided that all of the other conditions for claiming these rebates are met.

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**28.** A newly constructed single detached house is 75% complete on July 1, 2010, and the purchase and sale agreement for the house was entered into on or before June 18, 2009. Ownership and possession of the house will transfer to the purchaser after June 2010. Would the purchaser be entitled to claim the RST transitional housing rebate, the Ontario new housing rebate for the provincial part of the harmonized sales tax and the GST new housing rebate in respect of the federal part of the harmonized sales tax?

If the sale of the house is grandparented (see section on grandparented houses above), the harmonized sales tax would not apply to the sale of the house and the purchaser of the house would not be entitled to claim the RST transitional housing rebate. The sale would be subject to GST at 5%. The purchaser would not be entitled to claim the Ontario new housing rebate since the provincial part of the harmonized sales tax would not be payable by the purchaser. However, the purchaser would be entitled to claim the GST new housing rebate in respect of the GST paid at 5% provided that all of the conditions for claiming this rebate are met.

**29.** I am the builder of a condominium complex that has 150 residential condominium units. Fifty of the units are pre-sold and the purchase and sale agreements for these 50 units were entered into after June 18, 2009. Ownership and possession of the 50 units will transfer after June 2010. The consideration payable for each of these units is \$600,000 (excluding the harmonized sales tax and any rebates). Construction of the condominium complex is 40% complete on July 1, 2010. Based on the consideration or fair market value method, what would be the amount of the RST transitional housing rebate that I would be entitled to claim in respect of each of these 50 units?

The amount of the RST transitional housing rebate for each residential condominium unit would be calculated as follows:

$$\text{Total consideration} \times 2\% \times 50\%$$

where:

2% is the estimated RST based on the consideration or fair market value method;

50% is based on the degree of completion (40%) for the complex on July 1, 2010 (i.e., equal to or greater than 25% and less than 50%, as per table in question 25)

The rebate amount for each residential condominium unit would therefore be \$6,000 ( $\$600,000 \times 2\% \times 50\%$ ).

**30.** I entered into a written agreement of purchase and sale for a newly constructed residential condominium unit with a builder in September 2009. I will occupy the condominium unit as my primary place of residence. I take possession of the unit under that agreement in March 2011 and ownership in May 2011. Would I be eligible for the RST transitional housing rebate?

For residential condominium units, the RST transitional housing rebate is only available to the builder of the condominium complex. Note that you may be eligible for the Ontario new housing rebate in respect of the provincial part of the harmonized sales tax and the GST new housing rebate in respect of the federal part of the harmonized sales tax payable on the sale if the conditions for claiming these rebates are met.

**31.** When would the RST transitional housing rebate be available?

If you are using the floor space method, you would be eligible to file a rebate application with the CRA after June 2010 and before July 1, 2014.

If you are using the consideration or fair market value method, you would be eligible to file a rebate application with the CRA no earlier than the day the harmonized sales tax would be payable or the transitional tax adjustment would be considered to have been collected in respect of the housing and no later than June 30, 2014.

The rebate application for the RST transitional housing rebate will be available on the CRA Web site by July 1, 2010.



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## Transitional tax adjustment for houses and residential condominium units

### 32. What is the transitional tax adjustment?

The transitional tax adjustment would apply to grandparented sales of detached houses, semi-detached houses, attached houses, residential condominium units and condominium complexes. Given that the provincial part of the harmonized sales tax would not apply to grandparented housing, the transitional tax adjustment is intended to approximate the amount of tax that would have been paid in respect of such housing under the RST regime where the construction of the housing straddles the implementation date. The builder is required to include the transitional tax adjustment in the net tax calculation on its GST/HST return.

Transitional rules are also proposed to provide relief in respect of the transitional tax adjustment or the provincial portion of the harmonized sales tax, as applicable, where a grandparented house passes through a chain of resellers before it is occupied by an individual for residential use. Additional information regarding the eligibility criteria for grandparenting and re-supplies will be provided in the coming months.

### 33. What type of housing would be subject to the transitional tax adjustment?

The transitional tax adjustment would apply to grandparented sales of new or substantially renovated houses (other than condominium complexes or residential condominium units), i.e., for which the written agreement of purchase and sale was entered into on or before June 18, 2009, and both ownership and possession are transferred to the purchaser after June 2010 if the housing is less than 90% complete on July 1, 2010.

The transitional tax adjustment would apply to all grandparented sales of new or substantially renovated condominium complexes or residential condominium units (i.e., for which the written agreement of purchase and sale was entered into on or before June 18, 2009, and both ownership and possession are transferred to the purchaser after June 2010).

The builder would be required to account for the transitional tax adjustment in its net tax calculation. As the sale of the newly or substantially renovated housing is grandparented, the provincial part of the harmonized sales tax would not be payable by the purchaser in respect of the purchase of the housing. The GST at 5% would apply to the sale of this grandparented housing.

### 34. How would the transitional tax adjustment be calculated for a house where the sale is grandparented?

The transitional tax adjustment for a grandparented sale of a new or substantially renovated single unit house (other than a residential condominium unit or a condominium complex – see question 40 for the rebate calculation for residential condominiums) would be based on the total consideration payable for the house, as determined for GST purposes, and the degree of completion of the construction or substantial renovation of the house on July 1, 2010. Recognizing that there is a greater element of embedded RST in a house whose construction or substantial renovation is completed to a greater degree on July 1, 2010, the transitional tax adjustment rate decreases as the degree of completion increases.

The following chart provides the different rates of the transitional tax adjustment for various degrees of completion of the construction or substantial renovation of the house on July 1, 2010.

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**Transitional tax adjustment for a house (other than a condominium complex or a residential condominium unit)**

Degree of completion of construction or substantial renovation on July 1, 2010	Transitional tax adjustment rate as a percentage of consideration
Less than 10%	2.0 %
Equal to or greater than 10% and less than 25%	1.5 %
Equal to or greater than 25% and less than 50%	1.0 %
Equal to or greater than 50% and less than 75%	0.5 %
Equal to or greater than 75% and less than 90%	0.2 %
Equal to or greater than 90%	0.0 %

35. I am the builder of a single detached house the sale of which would be grandparented. The consideration payable (excluding GST and any rebates) for the house is \$450,000. On July 1, 2010, the construction of the house is 85% complete. What would be the amount of the transitional tax adjustment I would need to include in my net tax calculation?

Where the construction of the house is 85% complete on July 1, 2010, the transitional tax adjustment to be included in your net tax calculation would be equal to 0.2% of the total consideration payable for the house, i.e., \$900 ( $\$450,000 \times 0.2\%$ ).

36. I am the builder of a single semi-detached house the sale of which would not be grandparented (i.e., the written agreement of purchase and sale was entered into after June 18, 2009). Ownership and possession of the house will transfer to the purchaser in August 2010. Would the transitional tax adjustment apply in this case?

No. The transitional tax adjustment would only apply if the sale of the house is grandparented. In the circumstances described, the harmonized sales tax would be payable on the sale of the house and the transitional tax adjustment would not apply.

37. I am a builder of a single detached house the sale of which would be grandparented, and I am required to account for the transitional tax adjustment. How would I account for this tax?

You would report the transitional tax adjustment in your regular GST/HST return for the reporting period that includes the date you transfer possession of the house to the purchaser under the written agreement of purchase and sale. More information on how the amount of the transitional tax adjustment would be reported in your regular GST/HST return will be provided in the coming months.

38. How would I determine the degree of completion of the construction or substantial renovation of a house on July 1, 2010, for purposes of the transitional tax adjustment?

The method used to determine the percentage of completion must be fair and reasonable. For instance, it may be based on progress billings made before July 1, 2010, as a percentage of the total consideration for the construction or substantial renovation of the house.

In determining the percentage of completion, the cost of land and costs associated with the acquisition and maintenance of the land, including related servicing costs, legal accounting and financing charges, real estate taxes, etc., are not to be included. More information on this determination will follow in the coming months.

39. On May 11, 2009, I entered into a written agreement of purchase and sale with a builder for a newly constructed single detached house. I will occupy the house as my primary place of residence. Would I have to pay the transitional tax adjustment to the CRA?

No. The transitional tax adjustment is an amount that would be considered to have been collected by the builder of the house and therefore would be included in the builder's net tax calculation.

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**40. How would the transitional tax adjustment be calculated for a grandparented sale of a newly constructed or substantially renovated residential condominium unit or condominium complex?**

The transitional tax adjustment for a grandparented sale of a new or substantially renovated residential condominium unit or condominium complex would be equal to 2% of the total consideration payable for the unit or complex, as determined for GST purposes. The builder would be entitled to claim an RST transitional rebate if the construction of the condominium complex is at least 10% complete on July 1, 2010 – see the section above on RST transitional housing rebates.

**41. I am the builder of a condominium complex that has 150 residential condominium units. Sales of 100 residential condominium units in the complex will be grandparented. The total consideration payable (excluding GST and any rebates) for the sale of each of the grandparented units is \$500,000. Construction of the condominium complex is 60% complete on July 1, 2010. What would be the amount of the transitional tax adjustment that I would need to include in my net tax calculation?**

The transitional tax adjustment that would need to be included in your net tax calculation would be equal to 2% of the total consideration for each of these 100 grandparented units, i.e., \$10,000 for each unit ( $\$500,000 \times 2\%$ ). The transitional tax adjustment for a particular unit would need to be included in your net tax calculation for the reporting period during which possession of the particular unit is transferred to the purchaser under the agreement of purchase and sale. As the builder, you would be entitled to claim an RST transitional housing rebate in these circumstances – see the section above on RST transitional housing rebates for new housing. The fact that the construction of the condominium complex is 60% complete on July 1, 2010 does not have any impact on the calculation of the transitional tax adjustment.

**42. I am the builder of a condominium complex. On May 28, 2008, I entered into a written agreement of purchase and sale for the complex with another person who will either sell or rent the units in the complex. Ownership of the condominium complex transfers to the purchaser on June 1, 2012. The consideration (excluding GST and any rebates) for the sale of the condominium complex is \$30 million. What would be the amount of the transitional tax adjustment that I need to include with my net tax calculation? In which reporting period would I need to include the transitional tax adjustment in my net tax?**

The transitional tax adjustment that would need to be included in your net tax calculation would be equal to 2% of the total consideration for the condominium complex, i.e., \$600,000 ( $\$30,000,000 \times 2\%$ ). The transitional tax adjustment for the complex would need to be included in your net tax calculation for the reporting period that includes the earlier of the day ownership of the complex is transferred to the purchaser under the agreement of purchase and sale and the day that is 60 days after the complex is registered as a condominium. As the builder, you would be entitled to claim an RST transitional housing rebate in these circumstances – see the section above on RST transitional housing rebates.

**43. I am the builder of a condominium complex. I have pre-sold a number of condominium units in the complex; however all of the written agreements of purchase and sale were entered into after June 18, 2009. Would I have to account for the transitional tax adjustment?**

No. The transitional tax adjustment would not apply since the sales of the condominium units are not grandparented.

## Application of a harmonized sales tax to new rental housing

**44. How would the proposed harmonized sales tax apply to landlords who construct or substantially renovate their own rental housing?**

Builders of newly constructed or substantially renovated rental housing, including single houses, residential condominium units and traditional apartment buildings, who make a supply by way of lease, licence or similar

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arrangement of the house or condominium unit—or in the case of an apartment building, a unit in the apartment building—are considered to have paid and collected tax under the self-supply rules for rental housing. Where the self-supply occurs after June 2010, the harmonized sales tax at a rate of 13% would apply to the self-supply. The harmonized sales tax would be calculated on the fair market value of the house, condominium unit or apartment building, as the case may be, including the building and the land reasonably necessary for the use of the housing as a place of residence for individuals.

The self-supply generally occurs at the later of the time construction or substantial renovation of the rental housing is substantially complete and the time possession or use of the rental property is given under a lease, licence or similar arrangement to an individual who is the first to occupy it as a place of residence. In the case of an apartment building, the self-supply occurs at the later of the time construction or substantial renovation of the apartment building is substantially complete and the time possession or use of a unit in the building is given to an individual who is the first to occupy a unit in the building as a place of residence.

If a builder is required to pay tax on a self-supply before July 2010, the provincial part of the harmonized sales tax would not apply. However, the GST at 5% will apply. For more information on the self-supply of a rental property, see guide RC4052, *GST/HST Information for the Home Construction Industry* available on the CRA Web site.

**45. I am the builder of a traditional apartment building. Construction of the apartment building is substantially complete in June 2010 and under a lease, possession of a unit in the apartment building is given to an individual on July 1, 2010. The individual is the first to occupy a unit in the building as a place of residence. Would I account for the GST at 5% or the harmonized sales tax at 13% on this self-supply?**

You would be considered to have paid and collected the harmonized sales tax at 13% on the self-supply of the apartment building. As the self-supply occurs at the later of the time construction of the rental property is substantially complete and the time possession of a unit in the property is first given to an individual as a place of residence, the self-supply occurs on July 1, 2010 at which time the harmonized sales tax at 13% would apply. The harmonized sales tax would be calculated on the fair market value of the apartment building (i.e., building and land) at that time.

**46. I am a builder of a duplex. On June 1, 2010, under a lease agreement, I give possession of one of the units in the duplex to an individual who is the first to occupy a unit as a place of residence. Construction of the duplex is substantially complete on June 15, 2010. Under a lease, I give possession of the other unit in the duplex on August 1, 2010, to an individual who occupies it as a place of residence. Would I account for the GST at 5% or the harmonized sales tax at 13% for this self-supply?**

You would be considered to have paid and collected the GST at 5% on a self-supply of the duplex. The self-supply occurs on June 15, 2010 (i.e., the later of the time construction of the rental property is substantially complete and the time possession of a unit is first given to an individual for use as a place of residence). As such, the GST will apply and the harmonized sales tax would not apply to the self-supply.

**47. I am leasing an apartment and I am not required to pay GST on my lease payments. Following the implementation of a harmonized sales tax, would I be required to pay tax on my lease payments?**

No, long-term residential rents are exempt from the GST and would also be exempt under a harmonized sales tax.

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## New residential rental property rebates

### 48. Would a new residential rental property rebate be available for the provincial part of a harmonized sales tax?

The Ontario new residential rental property rebate would be available in respect of the provincial part of the harmonized sales tax so that qualifying newly constructed or substantially renovated rental properties across all price ranges would qualify for a maximum rebate amount of up to \$24,000 per rental unit.

Landlords who purchase new or substantially renovated residential rental properties and pay the harmonized sales tax may be eligible for the Ontario new residential rental property rebate. Landlords who build their own residential rental properties and are required to account for the harmonized sales tax under the self-supply rules may also be entitled to claim the rebate.

The Ontario new residential property rebate would be available for the same type of residential rental properties for which a GST new residential rental property rebate is currently available. Qualifying housing would include newly constructed and substantially renovated rental housing, new additions to traditional apartment buildings, co-operative rental housing and long-term residential care facilities. The rebate would also be available for leased land where the land is used for residential purposes. More information regarding the Ontario new residential rental property rebate in respect of leased land will follow in the coming months.

### 49. How would the Ontario new residential rental property rebate for the provincial part of a harmonized sales tax be calculated?

The Ontario new residential rental property rebate would be equal to 75% of the provincial part of a harmonized sales tax paid on the purchase or self-supply of a newly constructed or substantially renovated rental property, up to a maximum rebate of \$24,000 per qualifying rental unit. This rebate would essentially reduce the provincial part of the harmonized sales tax to a rate of 2% on the first \$400,000 of the purchase price or, in the case of a self-supply, the fair market value, of each qualifying rental unit. The rate of 8% would apply on the portion of the purchase price or fair market value that is above \$400,000.

In the case of traditional (non-condominium) apartment buildings, the rebate calculation would be based on each qualifying residential unit in the apartment building.

### 50. After June 2010, I will purchase a newly constructed triplex for \$900,000 not including the harmonized sales tax or any rebates (the purchase price is equal to the triplex's fair market value) and I will rent out each unit in the triplex to a different individual as a place of residence. The duration of the rental arrangement for each unit will be for 1 year. Assuming I would qualify for the Ontario new residential rental property rebate in respect of the provincial part of a harmonized sales tax, what would be the rebate amount that I would be entitled to claim for each rental unit where each unit is identical in floor space and design (i.e., each unit has the same fair market value)?

The harmonized sales tax payable on the purchase of the triplex would be \$117,000, composed of the federal part at 5% (\$45,000) and the provincial part at 8% (\$72,000).

The Ontario new residential rental property rebate amount for the provincial part would be equal to \$18,000 per rental unit (i.e., 75% of \$24,000, the provincial part of the harmonized sales tax for each unit that has a fair market value of \$300,000). A GST new residential rental property rebate would also be available in respect of the federal part of the harmonized sales tax paid on the purchase of the triplex. In this case, the rebate would be equal to \$5,400 per rental unit (i.e., 36% of \$15,000, the federal part of the harmonized sales tax for each unit that has a fair market value of \$300,000).

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**51. Would all of the conditions for claiming the GST new residential rental property rebate apply for purposes of the Ontario new residential rental property rebate?**

The rules and conditions for claiming the Ontario new residential rental property rebate would mirror the rules and conditions for the GST new residential rental property rebate with the exception of the rebate rate and the phase out provision for units whose fair market value is more than \$350,000. The Ontario new residential rental property rebate would be available across all price/fair market value ranges to a maximum rebate amount of \$24,000 per unit. Reference may be made to guide RC4231, *GST/HST New Residential Rental Property Rebate*, which is available on the CRA Web site.

**52. How would I claim the Ontario new residential rental property rebate?**

The Ontario new residential rental property rebate in respect of the provincial part of the harmonized sales tax would be administered by the CRA in a manner similar to the GST new residential rental property rebate. Landlords would apply for the Ontario new residential rental property rebate by filing a rebate application with the CRA. A single rebate application for both the Ontario new residential rental property rebate and the GST new residential rental property rebate will be available on the CRA Web site by July 1, 2010.

**53. I will purchase a new residential rental property from a builder. Could the builder of the rental property pay or credit the Ontario new residential rental property rebate amount to me?**

No. The Ontario new residential rental property rebate would not be paid or credited by the builder to the purchaser of the property. The purchaser would need to apply for the rebate directly with the CRA. This also applies in respect of the GST new residential rental property rebate that would be available for the federal part of the harmonized sales tax.

### Builder disclosure requirements

**54. What would be the disclosure requirements for builders under the proposed transitional rules for sales of new or substantially renovated housing in Ontario?**

If a written agreement of purchase and sale for a newly constructed or substantially renovated residential complex is entered into after June 18, 2009 and before July 1, 2010, the builder would be required to disclose in the written agreement whether the provincial portion of the harmonized sales tax applies to the sale and, if so, whether the stated price in the agreement includes the provincial portion of the harmonized sales tax and the Ontario new housing rebate.

If the transaction would be subject to the provincial portion of a harmonized sales tax and the builder did not make a disclosure as outlined above, the stated price in the written agreement would be deemed, under the transitional rules, to include the provincial portion of the harmonized sales tax. In such a case, the purchaser would not be required to pay the provincial portion of the harmonized sales tax in addition to the stated price in the agreement.

### Real property other than housing

**55. I am an individual selling vacant land and the sale of the land is exempt from the GST. Following the implementation of the harmonized sales tax, would I be required to charge and collect the harmonized sales tax if the sale takes place in August 2010.**

No. Where the sale of vacant land by an individual meets the conditions for exemption under the GST, the sale would also be exempt under the harmonized sales tax.

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**56. When I purchase a house, I incur additional costs such as legal fees, home inspection fees and real estate agent commission fees. Currently, I am required to pay GST of 5% in respect of these fees. Would these fees be subject to tax at 13% under the harmonized sales tax?**

Yes. Under the harmonized sales tax, you would be required to pay tax at 13% for taxable goods and services that you acquire in relation to the purchase of your house where these goods and services are currently subject to the GST at 5%. The harmonized sales tax would generally apply to these goods and services even if the sale of the house is grandfathered or exempt from the tax (e.g., the house was previously occupied by an individual as a place of residence). It is expected that the Government of Ontario will announce in the coming months transitional rules for the implementation of the harmonized sales tax where the provision of goods and services straddle the July 1, 2010 implementation date.

**57. Could a construction business that is registered for GST/HST purposes recover the harmonized sales tax it pays on business expenses?**

Yes. Registered businesses could claim ITCs to recover the harmonized sales tax at 13% that would be paid or payable on most purchases and operating expenses for use in their commercial activities, in the same manner that they currently do for GST. Businesses would claim ITCs on their regular GST returns, but would not claim any ITCs for any retail sales tax paid or owing. For example, a contractor who is registered for GST/HST purposes and engaged in the business of providing home renovation services would claim ITCs for the harmonized sales tax paid or payable:

- on a lease of commercial real property for use as an office and for storage of equipment and materials;
- on building materials;
- to plumbing and electrical subcontractors;
- on inspection services, and
- on legal and accounting services.

In some cases, registered business may be required to recapture the provincial part of certain amounts claimed as ITCs. Further information on ITC restrictions will be provided in the coming months.

### **Enquiries by telephone**

Questions relating to this notice or technical enquiries on the GST/HST: 1-800-959-8287

General enquiries on the GST/HST: 1-800-959-5525 (Business Enquiries)

If you are located in Quebec: 1-800-567-4692 (Revenu Québec)

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