



Real Estate Bulletin

RIOPELLE GRIENER PROFESSIONAL CORPORATION

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Partial rebates could be deal savers for clients

The Harmonized Sales Tax (HST) does not take effect until next year but buyers of newly constructed homes and homes that require substantial renovation should be thinking about it right now.

The HST, effective July 1, 2010, combines the 8% provincial retail sales tax (RST) and the 5% federal goods and service tax (GST), creating a 13% rate on almost all purchases and services.

For buyers of new homes with a price tag of \$400,000, that means a whopping \$52,000 in HST alone!

In response to a wave of complaints, Ontario has implemented a 75% rebate, to a maximum of \$24,000, on the provincial component of the HST for *new houses used as primary residences*. For example: \$400,000 x 8% RST = \$32,000 x 75% = rebate of \$24,000. So the net result is \$6,000 of new taxes on a \$400,000 home.

For new homes priced at more than \$400,000, the maximum rebate available is \$24,000.

Some new home buyers may also be able to receive a GST new-housing rebate of 36% of the tax paid on the first \$350,000 of the purchase price.

For homes between \$350,000 - \$400,000 the tax reduces on a sliding scale. For homes

exceeding the \$450,00 threshold, no GST rebate is available.

Buyers may avoid the HST only if under a written agreement of purchase and sale, ownership and possession of the home takes place by June 30, 2010. Buyers and builders need to give careful consideration to what happens if they go beyond the intended possession date of June 30, 2010. Who will be responsible for the tax?

Similarly, for purchaser-landlords of rental properties, the HST will not apply if a written agreement of purchase and sale, ownership and possession of the home takes place before the July 1, 2010 deadline.

It is also important to note in agreements signed with builders after June 18, 2009 and before July 1, 2010 that **do not** disclose whether HST will be applied to the sale, it is to be understood the price of the home **includes** the provincial portion of the HST, therefore, the onus would fall to builders to pay the tax.

Most building contracts currently include the GST in the purchase price and then require the purchaser to assign the rebate to the builder. Will the increased HST be handled in the same way?

To say the HST and rebates are complicated is an understatement.

In the end, however, new-housing rebates could be a deal saver for you and your clients—just as getting hit unexpectedly by the HST could financially break a client and, ultimately, the deal.

Real estate professionals would be wise to arms themselves with the most accurate information available and fully understand the implications of the HST and partial tax rebates so their clients are themselves knowledgeable.

Regards,

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