

## Helping Homebuyers and the Housing Industry with an Enhanced New Housing Rebate, a New Rental Housing Rebate and Transitional Rules

The 2009 Ontario Budget proposed a comprehensive package of tax changes. Central to this proposed tax package is a single, value-added sales tax, which, subject to legislative approval, would come into effect on July 1, 2010. This bulletin provides details of further proposed measures that would build on the comprehensive tax package and help taxpayers and businesses transition to the single sales tax. The measures proposed today would help Ontarians buying new homes and support a strong housing industry.

### Enhanced New Housing Rebate

The province is proposing an enhancement to the new housing rebate that was announced in the 2009 Ontario Budget<sup>1</sup>.

The new housing rebate would be enhanced so that new homes purchased as primary residences across all price ranges would qualify for a rebate of up to \$24,000, while continuing to ensure that, on average, new homes priced up to \$400,000 would not be subject to additional tax compared to the retail sales tax (RST) currently embedded in the price of new homes.

The effect of the enhanced rebate would be to apply the provincial portion of the single sales tax at a rate of two per cent on the first \$400,000 of the purchase price of a new home and at a rate of eight per cent

on the portion above \$400,000. The rebate would be calculated as 75 per cent of the provincial portion of the single sales tax payable on the purchase of a new home, up to a maximum rebate of \$24,000.

This provincial rebate for new housing would be provided for the same types of new residential properties for which a Goods and Services Tax (GST) new housing rebate is available. Qualifying housing would include substantially renovated housing, co-operative housing, owner-built housing, housing on leased land, mobile homes and modular homes for use as primary places of residence.

Ontario's new housing rebate would be federally administered in a manner similar to the GST rebate for new housing. Individuals would be able to file an application for the rebate directly with the Canada Revenue Agency (CRA) if the builder does not pay or credit the rebate to the purchaser at the time of purchase.

### New Rental Housing Rebate

To support affordable rental housing in Ontario, the province is proposing to provide a rebate for new rental housing, similar to the proposed rebate for new homes.

The proposed rebate would be available for new rental housing, including investment properties to be rented out, for use as primary places of residence. This rebate would apply across all price ranges up to a maximum rebate of \$24,000, while ensuring that, on average, new rental housing priced up to \$400,000 would not be subject to additional tax

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<sup>1</sup> In the 2009 Ontario Budget, a new housing rebate was proposed to ensure that, on average, new homes priced up to \$400,000 would not be subject to additional tax compared to the current RST embedded in the price of new homes. It was announced that the rebate would be 75 per cent of the provincial portion of the single sales tax (or six per cent of the purchase price) for new primary residences priced up to \$400,000, with a proportional rebate for new homes priced between \$400,000 and \$500,000.

compared to the RST currently embedded in the price of new rental housing.

The effect of the rebate would be to apply the provincial portion of the single sales tax at a rate of two per cent on the first \$400,000 of the purchase price of a new rental home and at a rate of eight per cent on the portion above \$400,000.

Landlords who purchase new rental homes would be eligible for the rebate, calculated as 75 per cent of the provincial portion of the single sales tax payable on the purchase of a new rental home, up to a maximum rebate of \$24,000. Landlords who build their own rental homes and who would be subject to the single sales tax under self-supply rules would also be eligible for the rebate. In the case of traditional (non-condominium) apartment buildings, the rebate calculation would be based on each rental unit rather than the entire apartment building.

This rebate for new rental housing would be provided for the same types of new residential rental properties for which a GST rebate is available. Qualifying housing would include substantially renovated rental housing, co-operative rental housing, additions to traditional apartment buildings, long-term residential care facilities, rental mobile homes and rental modular homes for use as primary places of residence. The rebate would also be available for leased land where the land is used for residential purposes.

Ontario's rebate for new rental housing would be federally administered in a manner similar to the GST rebate for new residential rental properties. Landlords would be able to apply for the rebate by filing a rebate application with the CRA.

### Transitional Rules for Residential Real Property

To help homebuyers and builders transition to the proposed single sales tax, transitional rules would be provided for new housing transactions that would straddle July 1, 2010. The proposed transitional rules for new housing would be similar to the transitional rules that applied when the GST was introduced.

These proposed rules, including builder reporting and disclosure requirements, would be administered by the CRA.

### General Application of Tax

#### *New homes*

Generally, builders' sales of newly constructed or substantially renovated homes would be subject to the single sales tax where both ownership and possession of the home are transferred after June 2010<sup>2</sup>. Grandparenting would be provided for certain contracts—see the Grandparenting section below.

The provincial portion of the single sales tax would not apply to builders' sales of newly constructed or substantially renovated homes that are taxable under the GST where, under a written agreement of purchase and sale, ownership or possession of the home is transferred before July 2010.

#### *New rental homes – Builder-landlords*

Builders of newly constructed or substantially renovated single homes or residential condominiums who rent out the new homes or condominiums—or, in the case of new traditional apartment buildings, the first unit in the building—and are required to pay GST on self-supply after June 2010 would be required to pay the provincial portion of the single sales tax on self-supply.

However, builders of newly constructed or substantially renovated single homes or residential condominiums who rent out the new homes or condominiums—or, in the case of new traditional apartment buildings, the first unit in the building—and are required to pay GST on self-supply before July 2010 would not be required to pay the provincial portion of the single sales tax on self-supply.

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<sup>2</sup> After June 2010, the single sales tax would generally be payable on the earlier of the day on which ownership or possession of the property is transferred to the purchaser. However, where the property is a residential unit in a residential condominium building and possession is transferred before the condominium has been registered under the Condominium Act, 1998, tax would become payable when ownership of the unit is transferred, or 60 days following the date of registration of the condominium, whichever is earlier.

### ***New rental homes – Purchaser-landlords***

The provincial portion of the single sales tax would generally apply to builders' sales of newly constructed or substantially renovated rental homes—including single homes, residential condominiums and traditional apartment buildings—that are taxable under the GST where both ownership and possession of the home are transferred after June 2010. In these cases, purchaser-landlords would generally be required to pay the provincial portion of the single sales tax. Grandparenting would be provided for certain contracts—see the Grandparenting section below.

However, the provincial portion of the single sales tax would not apply to builders' sales of newly constructed or substantially renovated rental homes—including single homes, residential condominiums and traditional apartment buildings—that are taxable under the GST where, under a written agreement of purchase and sale, ownership or possession of the home is transferred before July 2010. In these cases, purchaser-landlords would not be required to pay the provincial portion of the single sales tax.

### **Grandparenting**

#### ***Written agreements before announcement of transitional rules***

Generally, sales of newly constructed or substantially renovated homes under written agreements of purchase and sale entered into on or before June 18, 2009 would be grandparented, such that these sales would not be subject to the provincial portion of the single sales tax where both ownership and possession of the homes are transferred after June 2010.

Builders would be able to recover the provincial portion of the single sales tax payable on most purchases through input tax credits, as under the federal GST, with limited exceptions<sup>3</sup>. However,

builders of grandparented homes would generally be required to pay an amount—a transitional tax adjustment—to account for tax that would (on average) have otherwise been embedded in the new homes under the current RST regime. Builders would also be required to meet certain reporting and disclosure requirements for grandparented homes.

The calculation of the transitional tax adjustment is described below.

#### ***Transitional tax adjustment – single homes***

For grandparented sales of newly constructed or substantially renovated single detached homes, semi-detached homes and attached homes, the builder would generally be required to pay a transitional tax adjustment where the home is completed in full or in part after June 2010. The transitional tax adjustment for these homes would be calculated on the total purchase price of the home, as established for GST purposes, based on the extent of construction or substantial renovation completed as of July 1, 2010, as follows:

- 100% of the transitional tax adjustment rate of 2%, where the home is less than 10% completed on July 1, 2010;
- 75% of the transitional tax adjustment rate of 2%, where the home is 10% or more and less than 25% completed on July 1, 2010;
- 50% of the transitional tax adjustment rate of 2%, where the home is 25% or more and less than 50% completed on July 1, 2010;
- 25% of the transitional tax adjustment rate of 2%, where the home is 50% or more and less than 75% completed on July 1, 2010;
- 10% of the transitional tax adjustment rate of 2%, where the home is 75% or more and less than 90% completed on July 1, 2010; or
- 0% where the home is 90% or more completed on July 1, 2010.

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<sup>3</sup> On a temporary basis, large businesses (those with annual taxable – including zero-rated – sales in excess of \$10 million) and financial institutions would be unable to claim input tax credits in respect of the provincial portion of the single sales tax on certain inputs used in their taxable activities. After the first five years of single sales tax implementation, input tax credits on their taxable – including zero-rated – sales would be phased in over a three-year period.

### *Transitional tax adjustment – condominiums*

For grandparented sales of newly constructed or substantially renovated homes that are residential condominiums, the builder would be required to remit a transitional tax adjustment and may also be eligible for an RST transitional housing rebate.

The transitional tax adjustment would be calculated at two per cent of the total purchase price, as established for GST purposes, of the condominium unit or building, as applicable. The transitional rebate would be calculated as described below—see the RST Transitional Housing Rebate section.

Taken together, the transitional tax adjustment and the RST transitional housing rebate would approximate the tax that would have otherwise been embedded in the condominium, on average, under the current RST regime.

### *Other circumstances*

Grandparenting rules would generally apply to sales of newly constructed or substantially renovated homes other than traditional apartment buildings. Therefore, purchases of newly constructed or substantially renovated single homes and condominiums for residential rental would generally be grandparented if the agreement of purchase and sale of the home was entered into on or before June 18, 2009 by the purchaser-landlord of the single home or the condominium.

Transitional rules are also proposed to provide relief in respect of the transitional tax adjustment or the provincial portion of the single sales tax, as applicable, where a grandparented home passes through a chain of resellers before it is occupied by an individual for residential use.

Newly constructed or substantially renovated homes built by owners for their personal use, as well as mobile homes and modular homes, would not be grandparented under these transitional rules for purchases of new housing as the transitional rules would apply differently to these homes. However,

these homes may qualify for the proposed new housing rebate or the new rental housing rebate, as applicable.

Additional information in respect of these and other circumstances, as applicable, will be provided in the coming months.

### **RST Transitional Housing Rebate**

Newly constructed or substantially renovated homes completed in full or in part prior to July 2010 would have RST embedded in the cost of the homes. For new homes that are subject to the provincial portion of the proposed single sales tax after June 2010, an RST transitional housing rebate would be available to provide relief in respect of the RST embedded in the home.

This rebate would be available for non-grandparented single homes, condominiums and traditional apartment buildings, as well as grandparented condominiums for which the transitional tax adjustment would be payable.

### *Transitional rebate – single homes*

For newly constructed or substantially renovated single detached homes, semi-detached homes, attached homes and duplexes, the RST transitional housing rebate would be available to individuals purchasing the home or to builders who first rent the home, as the case may be, after June 2010.

For these new homes, the rebate would be available where the single sales tax would apply. It would not be available for grandparented homes.

Individuals purchasing these new homes would have the option of obtaining the RST transitional housing rebate through the builder or by filing an application directly with the CRA. Where the individual files an application for the rebate directly with the CRA, the individual would be required to obtain from the builder a certification of the percentage of completion of the newly constructed or substantially renovated home as of July 1, 2010.

### **Transitional rebate – condominiums and apartments**

For newly constructed or substantially renovated homes that are residential condominiums or traditional apartment buildings, the RST transitional housing rebate would be available to the builder rather than the purchaser.

For these new homes, the rebate would be available where the transitional tax adjustment or the single sales tax would apply, as applicable. This rebate would also be available for qualifying new additions to traditional apartment buildings.

### **Transitional rebate calculation**

Generally, the rebate would be calculated as a proportion of the estimated embedded RST in the newly constructed or substantially renovated home, based on the degree of completion of the home as of July 1, 2010.

Eligible applicants would be permitted to calculate the estimated embedded RST (“estimated RST content”) by choosing one of the following two methods:

- Estimated RST content calculated at a prescribed amount per square metre of floor space in the home (“floor space method”); or
- Estimated RST content based on the selling price of the home, calculated at two per cent of the total price established for GST purposes (“selling price method”).

The rebate would be calculated based on the extent of construction or substantial renovation completed as of July 1, 2010, as follows:

- 100% of the estimated RST content, where the home is 90% or more completed on July 1, 2010;
- 90% of the estimated RST content, where the home is 75% or more and less than 90% completed on July 1, 2010;
- 75% of the estimated RST content, where the home is 50% or more and less than 75% completed on July 1, 2010;

- 50% of the estimated RST content, where the home is 25% or more and less than 50% completed on July 1, 2010;
- 25% of the estimated RST content, where the home is 10% or more and less than 25% completed on July 1, 2010; or
- 0% of the estimated RST content, where the home is less than 10% completed on July 1, 2010.

Eligibility for the RST transitional housing rebate would not affect the purchaser’s or builder’s ability to claim the new housing rebate or new rental housing rebate, as applicable.

Additional guidelines, including the amount per square metre to be prescribed for the floor space method, will be provided in the coming months.

### **Transitional rebate timeframes**

Where the rebate calculation is based on the floor space method, the applicant would be eligible to file a rebate application anytime on or after July 1, 2010.

Where the rebate calculation is based on the selling price method, the applicant would be eligible to claim the rebate no earlier than the day the single sales tax or the transitional tax adjustment, as the case may be, would be payable.

Generally, the application for the rebate would need to be filed before July 1, 2014.

### **Other circumstances**

Newly constructed or substantially renovated homes built by owners for their personal use, as well as mobile homes and modular homes, would not be eligible for the RST transitional housing rebate as the transitional rules would apply differently to these homes. However, such homes may qualify for the proposed new housing rebate or the new rental housing rebate, as applicable.

Additional information in respect of these and other circumstances, as applicable, will be provided in the coming months.

## Builder Disclosure Requirements for Transitional Housing

If a written agreement of purchase and sale for a newly constructed or substantially renovated home or rental home 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 proposed single sales tax would apply to the sale and, if so, whether the stated price in the agreement includes the applicable provincial portion of the proposed single sales tax, net of the Ontario new housing rebate.

If the transaction would be subject to the provincial portion of the single 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 single sales tax. In such a case, the purchaser would not be required to pay the provincial portion of the single sales tax in addition to the stated price in the agreement.

This proposed transitional measure would help to provide certainty to both builders and purchasers with respect to the application of the proposed single sales tax under written agreements of purchase and sale for new homes entered into during the transitional period.

## Additional Information

The province is working with the federal government to develop additional transitional rules for the proposed single sales tax. More information will be released in the near future to help taxpayers and businesses prepare for the proposed changes.

The proposed single sales tax and related transitional rules would be provided under federal and provincial legislation.

### *For more information please call the Budget hotline:*

Toll-free English & French inquiries: 1 800 337-7222  
Teletypewriter (TTY): 1 800 263-7776

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