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The Goods and Services Tax replaced the Federal Sales Tax in 1991. Although the tax is collected at the rate of 7% on the sale prices of goods and services, it doesn't apply to every type of home or every form of real estate service.

New home purchases are subject to GST but may qualify for a GST rebate. Resale homes are sold without GST. Land may be exempt from tax, but REALTORS and other professionals must charge GST on the services they provide. Many of the tax rules include exceptions.

Sound confusing? We hope this brief summary will help answer many of your questions

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Whether you're buying or selling a home, the Goods and Services Tax, or GST, will probably apply to the transaction. However, with GST rebates and exemptions, figuring out its impact on you transactions can be confusing. Real Estate professionals are familiar with this tax and can help you understand how it works.

### Honesty and Integrity

Most real estate professionals in our province are members of the Ontario Real Estate Association (OREA) and only members of OREA can call themselves REALTORS.

When you work with a REALTOR, you can expect not only strict adherence to provincial laws, but also adherence to a Code of Ethics. And that code is very important to you because it assures you will receive the highest level of service, honesty and integrity.

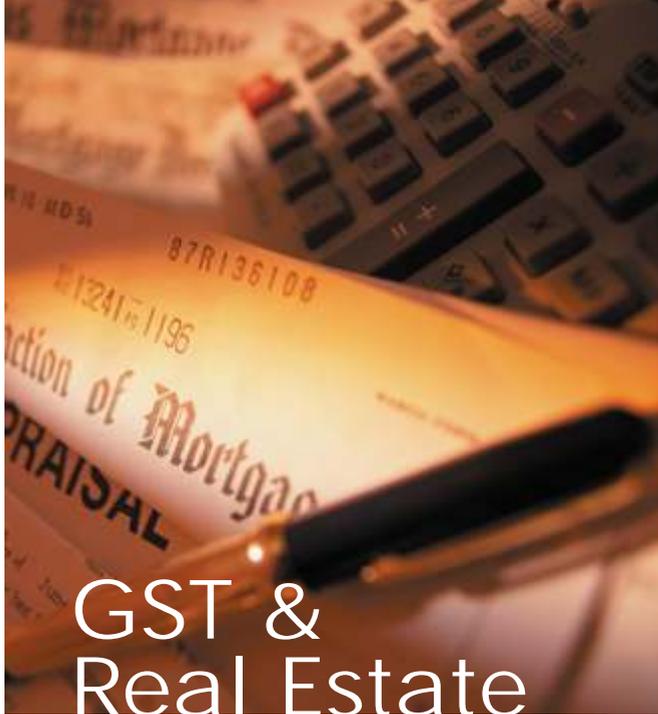
### Highest Professional Standards

Before receiving a real estate license, candidates must successfully complete an extensive course of study developed by OREA on behalf of the Real Estate Council of Ontario. That is only the beginning: in the first two years of practice, licencees are required to successfully complete three additional courses as part of their articling with an experienced broker. In addition, all licencees must continue to attend courses throughout their careers in order to maintain their licence.



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\*REALTOR is a trademark which identifies real estate professionals who are members of the Canadian Real Estate Association and of the National Association of REALTORS (U.S.) and, as such, subscribe to a high standard of professional service and to a strict code of ethics.

A background image showing a close-up of a calculator and some documents. The documents have some text visible, including "87R136108", "1:241-1196", and "ction of Mortgage".

# GST & Real Estate

## GST and Your New Home

When you buy a newly constructed home, condominium or townhome, the entire purchase price including land is taxable. If the property is to be rented to tenants, the full 7% GST is charged on the purchase price. However, if the home is going to be your primary place of residence, it may qualify for a partial GST rebate, depending upon the sale price.

### Homes Under \$350,000

For homes costing \$350,000 or less, you will receive a rebate of 36% of the GST paid, to a maximum of \$8750. That means you pay approximately 4.5% GST (not 7%) on the purchase price.

#### Example #1:

You buy a new home for \$150,000. The 7% GST is \$10,500, less a 36% rebate of \$3780. So you pay \$6,720 in GST.

1.  $\$150,000 \times 7\% = \$10,500$  (GST)
2.  $\$10,500 \times 36\% = \$3,780$  (GST rebate)
3.  $\$10,500 - \$3,780 = \$6,720$  (Actual GST paid on the house)

### Homes Between \$350,000 - \$450,000

The maximum rebate is \$8,750. The rebate for new homes costing between \$350,000 and \$450,000 declines to zero on a proportional basis, using the following formula:

$$\text{Rebate} = \$8,750 \times \frac{(\$450,000 - \text{Home Price})}{\$100,000}$$

#### Example #2:

You buy a new home for \$400,000. Your GST rebate is \$4375, and the total GST owed is \$23,625.

1.  $\$400,000 \times 7\% = \$28,000$  (GST)
2.  $\$8750 \times \frac{(\$450,000 - \$400,000)}{\$100,000} = \$4,375$  (GST rebate)
3.  $\$28,000 - \$4,375 = \$23,625$  (Actual GST paid on the house)

### Homes Over \$450,000

New homes selling for \$450,000 or more do not qualify for a GST rebate.

If you buy a substantially renovated home from a builder who supplies both the land and the house as a single transaction, the same GST rebate conditions described earlier apply. Your REALTOR can explain how the Federal Government defines “substantially renovated.”

## GST and Land

Buyers who purchase land separately may have to pay GST on the sale price depending on the previous use of the land. When you build a new home on your land, then you will pay GST on the construction costs of the house, less any applicable rebate.

The rebate would be the same as for a new home, that is, when the total value of the land and home is \$350,000 or less, the rebate would be 36% of the GST paid on the building and the land to a maximum of \$8750.

When the total value of the land and house exceeds \$350,000 but is less than \$450,000, a proportional formula for calculating the GST rebate applies.

As with other new home purchases, GST rebates are not available for land and buildings valued at \$450,000 or more when you build a house on your lot.

## GST and the Resale Home

You don't have to pay GST on the purchase price of a used residential home. In other words, the purchase is “exempt” from GST.

The Canada Customs and Revenue Agency defines “used residential property” to include a previously occupied house, condominium, apartment, summer cottage, vacation property or non-commercial hobby farm, that has been occupied as a residence before you bought it.

Used property can also mean a recently built house that is substantially complete and has been sold at least once before you buy it. For example, if a new house is purchased and resold before being occupied, the home's resale price will normally be exempt from GST.

An owner-occupied home is considered a residential property when it's used primarily as your residence. So, if you are self-employed and purchase a resale home that includes a room used as an office, the entire home still qualifies for the GST exemption.

However, if your owner-occupied home is not used mainly for residential purposes (eg, a retail store with a small apartment upstairs), only the residential portion is exempt from GST on resale. The non-residential portion of the purchase price is taxable.

If you are planning to purchase a resale home, the seller can make a declaration on the deed stating that the property qualifies as “used” for GST purposes.

As with most taxes, there are exceptions to the GST rules regarding resale housing. For instance, most sales of real property by charities, non-profit organizations and other public service agencies are exempt from GST.

## GST and the Real Estate Transaction

GST applies to most of the services provided in completing the real estate transaction. For example, 7% GST is applied to the commission a REALTOR charges for facilitating a sale. The tax is paid by the person responsible for paying the commission – usually the seller.

REALTOR commissions are taxable even if the total GST owed is reduced by a rebate, or the sale of the property is exempt from GST. For example, if you sell a used home, the sale price is exempt from GST but the REALTOR's commission is still taxable.

GST applies to many other services involved in the real estate transaction, such as fees for appraisals, referrals, surveys and legal assistance. Again, GST is charged on these fees regardless of whether the house you purchase is exempt from the tax.

One exception is that mortgage broker fees are exempt from GST if the fees are charged separately from any taxable real estate commissions. Additionally, mortgages and interest on mortgages are GST exempt.

## GST and Rent

No GST is payable on residential rents. However, if you employ a REALTOR or another professional to find and arrange a tenant for your rental property, GST applies to the fees and commissions they charge for providing this service. GST also applies to the fees charged to the landlord for property management, as well as repair and maintenance services. Monthly fees charged by condominium associations are not subject to GST.

## When is GST payable?

GST is normally due and payable when the real estate transaction is completed. This is usually referred to as the “closing date.” In some cases, GST could be payable on transfer of possession.

- For buyers, GST owed on the purchase price of non-exempt property, as well as fees and commissions for professional services, is paid at closing.
- For sellers, GST owed on fees and commissions for professional services is also paid at closing.

Your REALTOR can answer your questions about the closing date and GST payments. For additional GST information, contact your local Canada Customs and Revenue Agency office.