

British Columbia's Harmonized Sales Tax

New Housing Rebate

and

**Discussion of Ontario's Transitional
Rules for Residential Real Property**

Presenters




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- General HST Information
- BC's New Housing Rebate
- Overview and Discussion of Ontario's Transitional Rules for Residential Real Property



On July 23rd, 2009, the Government of British Columbia announced its plans to harmonize the provincial sales tax with the federal goods and services tax.

Effective July 1, 2010, the PST will be eliminated and a 7% provincial rate will be added to the GST for a 12% harmonized sales tax (HST).

Why the HST?

“The Harmonized Sales tax is the single biggest thing that government can do to improve B.C.’s economy, ensuring more competitive businesses, increased investment and better jobs.”

Minister of Finance - September Budget Update, 2009

- The HST will remove about \$2 billion in costs from job supporting sectors such as forestry, mining, oil and gas, construction, manufacturing, agriculture and transportation, allowing them to support local jobs.
- The HST will reduce costs for B.C.'s small, medium and large businesses by eliminating the PST on a number of business costs.

General HST Information

- The HST will generally apply in the same manner as the GST (same taxable supplies, exempt supplies and zero-rated supplies).
 - Exceptions to this are where there will be a point of sale rebate:
 - **Federally administered** – motor fuels, books, children’s sized clothing and footwear, children’s car seats and booster seats, diapers and feminine hygiene products.
 - **Provincially administered** – residential energy.
 - Input Tax credits will generally be available for HST paid in same manner as they are available for GST
 - Exceptions to this are where ITCs for a limited number of items are temporarily restricted (for businesses with annual taxable sales in excess of \$10 million).

General HST Information

- BC will provide a partial rebate of the provincial portion of the HST to municipalities, registered charities and qualifying non-profit organizations.
- The rebates of the provincial portion of the HST will, on average, ensure these entities will not pay anymore provincial HST after harmonization than they currently pay in PST.
- Rebate to municipalities = 75% of the provincial portion of the HST
- Rebate to registered charities and qualifying non-profits = 57% of the provincial portion of the HST

Current PST

- New housing is not directly subject to PST (i.e., purchasers do not pay PST on the purchase price).
- Builders have to pay PST on most construction materials that are used to build a home. This PST is part of the cost of building the home and is included (or “embedded”) in the total selling price of the home.
- It is estimated that the embedded PST in new homes in BC – on average – is equal to at least 2 % of the price (i.e., equivalent to a PST rate of about 2 %).

Proposed HST

- Unlike the PST, under the HST there will not be any embedded tax in the cost of new homes because builders, like most other businesses, will recover any HST they pay on their materials through input tax credits.
- However, HST will be applied to the sale of new homes. The provincial portion of the HST will be 7 %.
- Purchasers will be eligible for BC's new housing rebate.
- Implementation of HST will not impact GST rebate on new housing.
- No HST on resale homes – same as GST.

New Housing Rebate

- BC will provide a rebate for new housing to ensure that, on average, purchasers of new homes up to \$400,000 will not pay any more provincial tax due to harmonization than is currently embedded as PST in the price of a new home.
- On new homes up to \$400,000, the rebate will be 71.43% (5/7) of the provincial portion of the HST.
- Purchasers of new homes above \$400,000 will be eligible for a rebate of \$20,000 (i.e., a rebate on the first \$400,000 of value).
- \$400,000 is the median house price of new housing in urban areas in BC in 2008
- The rebate will be available whether the new housing is to be owner occupied or rented.
- Rebates for new housing and new rental housing will be federally administered in the same manner as GST rebates for new housing and new rental housing.

New Housing Rebate Examples

Total Sales Tax Payable on New Homes

Purchase price	Current Embedded PST of 2%	After Harmonization	
\$400,000	\$8,000	BC HST (7%)	\$28,000
		Less new housing rebate	<u>(20,000)</u>
		Net provincial HST	\$8,000
		Less embedded PST	<u>(8,000)</u>
		Net impact on home buyer	\$0
\$800,000	\$16,000	BC HST (7%)	\$56,000
		Less new housing rebate	<u>(20,000)</u>
		Net provincial HST	\$36,000
		Less embedded PST	<u>(16,000)</u>
		Net impact on home buyer	\$20,000



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