



The 2008 GST/HST Rate Reduction and Purchases of New Housing

On October 30, 2007, the Government of Canada announced in its Economic Statement that it proposes to reduce the GST rate by one percentage point from 6% to 5%, effective January 1, 2008. To facilitate the transition to the lower rate, the Economic Statement also proposes transitional rules for determining the GST/HST rates applicable to transactions that straddle the January 1, 2008 implementation date.

This info sheet reflects the proposed amendments to the *Excise Tax Act*. Any commentary in this publication should not be taken as a statement by the Canada Revenue Agency (CRA) that these amendments will be enacted in their current form.

Effective January 1, 2008, the rate of the GST and the federal component of the HST are proposed to be reduced from 6% to 5%. The provincial component of the HST will remain at 8%. This means that the rate of the HST will be reduced from 14% to 13%.

This info sheet explains the transitional rules for the GST/HST rate reduction that apply to taxable purchases of new housing in Canada. It also explains when a person may claim a GST/HST transitional rebate on the purchase of a new house and the procedure for obtaining the rebate.

In this document, a “house” includes a single family house, a semi-detached house, a duplex, a townhouse, a residential condominium unit, a mobile or modular home and a floating home. References to a purchase of new housing include a purchase of housing that is substantially renovated.

A purchaser of new housing is required to have evidence in writing of the agreement of purchase and sale in order to claim a GST/HST transitional rebate.

The HST applies only to purchases of new housing made in a participating province (Nova Scotia, New Brunswick or Newfoundland and Labrador) or new housing imported (e.g., a mobile home) into a participating province. The GST applies in the rest of Canada. If you are uncertain as to whether a purchase is made in a participating

province, refer to GST/HST Technical Information Bulletin B-078, *Place of Supply Rules under the HST*.

For information on the GST/HST new housing rebates, including the Nova Scotia rebate, refer to the guide RC4028, *GST/HST New Housing Rebate*.

Information on the application of the GST/HST to purchases of new housing and the 2006 GST/HST rate reduction can be found in GST/HST Info Sheet GI-015, *GST/HST Rate Reduction and Purchases of New Housing*.

Application of GST/HST to purchases of new housing

Special transitional rules apply to purchases of new housing that straddle the January 1, 2008 effective date. If you enter into an agreement for the purchase of new housing after October 30, 2007, the GST/HST applies at 5% or 13% where both ownership and possession are transferred after December 31, 2007. The other rules are explained below.

In addition, a 2008 GST/HST transitional rebate may be available to take into account the 2008 GST/HST rate reduction where an agreement of purchase and sale for new housing was entered into before October 31, 2007. In some circumstances, both the 2006 and the 2008 GST/HST transitional rebate will be available. The transitional rebate is explained later in this info sheet.

La version française du présent document est intitulée *La réduction du taux de la TPS/TVH (2008) et les achats d'habitations neuves*.



The transitional rules and the availability of a GST/HST transitional rebate are also illustrated in the tables included in the attached Appendix.

Agreement of purchase and sale entered into before May 3, 2006

If you entered into an agreement for the purchase of new housing, before May 3, 2006, GST/HST applies at the rate of 7% or 15%. If both ownership and possession are transferred to you after June 30, 2006, you may be entitled to claim a 2006 GST/HST transitional rebate. However, if both ownership and possession are transferred to you after December 31, 2007, you may also be entitled to claim a 2008 GST/HST transitional rebate.

Agreement of purchase and sale entered into after May 2, 2006 and before October 31, 2007

If you entered into an agreement for the purchase of new housing after May 2, 2006, and before October 31, 2007, GST/HST applies at the rate of 6% or 14% if both ownership and possession are transferred after June 30, 2006. You may be entitled to claim a 2008 GST/HST transitional rebate if both ownership and possession are transferred to you after December 31, 2007.

Example — GST/HST applies at 7% or 15%

You entered into an agreement for the purchase of a new house in June 2006. You take possession of the house in June 2006. Ownership of the house is transferred to you in August 2007. Since possession of the house is transferred to you before July 1, 2006, GST/HST applies at the rate of 7% or 15%.

If either ownership or possession is transferred before July 1, 2006, GST/HST applies at the rate of 7% or 15%.

Example — GST/HST applies at 6% or 14%

You entered into an agreement for the purchase of a new house in September 2007. The closing date for the purchase is in January 2008. You make arrangements with the builder to take possession of the house in December 2007, but ownership of the house will not transfer to you until January 2008. Since the agreement was entered into after May 2, 2006, and before October 31, 2007, and both ownership and possession are transferred after June 30, 2006, GST/HST applies at the rate of 6% or 14%. Since possession of the house is transferred to you before January 1, 2008, you are not entitled to a 2008 GST/HST transitional rebate.

Example — GST/HST applies at 6% or 14% and GST/HST transitional rebate (2008)

You entered into an agreement for the purchase of a new house in August 2007. The closing date for the purchase is in January 2008. Ownership of the house transfers to you on the date of closing. You will also take possession of the house on that date. Since the agreement was entered into after May 2, 2006, and before October 31, 2007, and both ownership and possession are transferred after June 30, 2006, GST/HST applies at the rate of 6% or 14%. However, since both ownership and possession are in fact transferred to you after December 31, 2007, you may claim a 2008 GST/HST transitional rebate.

Agreement of purchase and sale entered into after October 30, 2007

If you enter into an agreement for the purchase of new housing after October 30, 2007, the GST/HST rate that applies on the purchase will depend on when ownership and possession are transferred.

- GST/HST applies at 6% or 14% where either ownership or possession is transferred before January 1, 2008.
- GST/HST applies at 5% or 13% where both ownership and possession are transferred after December 31, 2007.

A GST/HST transitional rebate is not available for agreements entered into after October 30, 2007.

Examples — GST/HST applies at 6% or 14%

1. You enter into an agreement for the purchase of a new house in November 2007. The closing date for the purchase is in December 2007. Ownership of the house transfers to you in December 2007. Since ownership of the house is transferred to you before January 1, 2008, GST/HST will apply at the rate of 6% or 14%.
2. You enter into an agreement for the purchase of a new house in November 2007. Possession of the house is transferred to you in December 2007. However, ownership of the house transfers to you in February 2008. Since possession of the house is transferred to you before January 1, 2008, GST/HST will apply at the rate of 6% or 14%.

Example — GST/HST applies at 5% or 13%

You enter into an agreement for the purchase of a new house in November 2007. The closing date for the purchase is in June 2008. Ownership and possession of the house transfer to you in June 2008. Since the agreement was entered into after October 30, 2007, and both ownership and possession are transferred to you after December 31, 2007, GST/HST will apply at the rate of 5% or 13%.

Changes to an agreement of purchase and sale

Generally, changes to an agreement of purchase and sale to provide for upgrades will not have an impact on the transitional rules.

For example, if your agreement provides for standard kitchen cabinets and you ask the builder to upgrade to deluxe cabinets, the amount that the builder charges for the upgrade will be an additional amount payable for the house. You are not considered to have entered into a new agreement as a result of such a change and there would be no impact on the application of the GST/HST.

If the agreement is entered into after May 2, 2006, and before October 31, 2007, and both ownership and possession are transferred after June 30, 2006, GST/HST applies at the rate of 6% or 14% on the total amount payable for the house, including the upgrade. If both ownership and possession are transferred to you after December 31, 2007, you will be entitled to claim a 2008 GST/HST transitional rebate to account for the 2008 GST/HST rate reduction. When determining the amount of the transitional rebate, the total amount paid for the house includes the additional amount paid for the upgrade.

However, where an existing agreement of purchase and sale is modified, varied or otherwise materially altered to such an extent that it is considered to be a new agreement, the application of the transitional rules will be based on the date that the new agreement is entered into, as well as the date that ownership and/or possession are transferred under that new agreement. Reference should be made to GST/HST Policy Statement P-249, *Agreements and Novation*.

If you and a builder renegotiate the terms of an agreement for the purchase of new housing that was entered into before October 31, 2007, and enter into a new agreement after October 30, 2007, the transitional rules will apply based on the new agreement.

For example, if you entered into an agreement to purchase a new house before October 31, 2007, and you and the builder renegotiate the terms of the agreement on December 1, 2007, and enter into a new agreement on that day, the GST/HST will apply at the rate of 5% or 13% if both ownership and possession, under the new agreement, are transferred to you after December 31, 2007. You would not be entitled to claim a 2008 GST/HST transitional rebate in this case.

GST/HST transitional rebate

Any person, including an individual, a non-profit organization or a corporation, who purchases new housing in Canada, may be eligible to claim a GST/HST transitional rebate. If you are entitled to claim a transitional rebate, a builder cannot pay or credit an amount to you for this rebate. You have to send an application for the transitional rebate directly to the CRA and we will pay the rebate amount to you.

Generally, the GST/HST transitional rebate provides a rebate to a purchaser of new housing to account for the reduction in the GST/HST rate. In certain circumstances, where tax was paid at the rate of 6% or 14%, a 2008 GST/HST transitional rebate may be available to a purchaser to account for the 2008 rate reduction. The 2008 transitional rebate is available if you take ownership and possession of your new house after December 31, 2007, you paid GST/HST at the rate of 6% or 14%, and you entered into the agreement of purchase and sale after May 2, 2006, and before October 31, 2007.

Both the 2006 transitional rebate and the 2008 transitional rebate are available if you take ownership and possession of your new house after December 31, 2007, you paid GST/HST at the rate of 7% or 15% and you entered into the agreement of purchase and sale before May 3, 2006.

The GST/HST transitional rebate is not available if you are entitled to claim an input tax credit (ITC) in respect of the purchase of new housing.

The GST/HST transitional rebate is available for most purchases of new housing, regardless of the purchase price. In addition, the transitional rebate is available if the new housing is not your primary place of residence or that of a relation (e.g., a cottage or investment property). The transitional rebate is not conditional on a purchaser's entitlement to claim a GST/HST new housing rebate. However, where a purchaser is entitled to claim another GST/HST rebate, the transitional rebate will take into account that other rebate (e.g., GST/HST new housing rebate or GST/HST new residential rental property rebate)¹.

Example 1

Mr. and Mrs. Green buy a new house from a builder for \$342,672 (purchase price is \$330,000, GST is \$19,800 and the GST/HST new housing rebate is \$7,128). The parties entered into the agreement of purchase and sale on August 30, 2007. Both ownership and possession transfer to Mr. and Mrs. Green on February 1, 2008. Since the house is purchased for use as their primary place of residence, the purchasers will be eligible to claim a GST/HST new housing rebate of \$7,128² provided all of the other conditions for claiming the new housing rebate are met. The purchasers and builder agree to have the builder credit the amount of the GST/HST new housing rebate to the purchasers.

Since the agreement of purchase and sale was entered into after May 2, 2006, and before October 31, 2007, and both ownership and possession are transferred after June 30, 2006, GST on the purchase applies at the rate of 6%.

Since both ownership and possession are in fact transferred after December 31, 2007, the purchasers are entitled to claim a 2008 GST/HST transitional rebate. The amount of the transitional rebate will be adjusted to take into account the GST/HST new housing rebate of \$7,128, which was credited by the builder. In this case, the transitional rebate is calculated using the following formula:

$$A \times \{0.01 - [(B \div A) \div 6]\}$$

where

A = Purchase price paid for the house (\$330,000)

B = Amount of the GST/HST new housing rebate (\$7,128)

¹ The calculation of the amount of the transitional rebate does not take into account the amount of the Nova Scotia rebate.

² The GST/HST new housing rebate is 36% of the GST paid (or the federal part of the HST paid). The maximum rebate available is \$8,750 under 7% GST (15% HST), \$7,560 under 6% GST (14% HST) and \$6,300 under 5% GST (13% HST). The rebate is phased out for houses priced between \$350,000 and \$450,000.

The 2008 GST/HST transitional rebate available to Mr. and Mrs. Green is equal to \$2,112, as follows:

$$\begin{aligned} & \$330,000 \times \{0.01 - [(\$7,128 \div \$330,000) \div 6]\} \\ & = \$330,000 \times \{0.01 - [0.0216 \div 6]\} \\ & = \$330,000 \times \{0.01 - 0.0036\} \\ & = \$2,112 \end{aligned}$$

Example 2

Ms. White buys a new condominium from a builder for \$627,000 (purchase price is \$550,000, HST is \$77,000). The parties entered into the agreement of purchase and sale on October 3, 2007. The closing date for the purchase of the condominium is April 2, 2008. Both ownership and possession transfer to Ms. White on April 2, 2008.

Since the agreement of purchase and sale was entered into after May 2, 2006, and before October 31, 2007, and both ownership and possession are transferred after June 30, 2006, HST on the purchase applies at the rate of 14%.

Since both ownership and possession are in fact transferred after December 31, 2007, Ms. White is entitled to claim a 2008 GST/HST transitional rebate. Because the purchase price of the condominium is more than \$450,000, Ms. White is not entitled to claim a GST/HST new housing rebate. The transitional is calculated using the following formula:

$$A \times 1\%$$

where

A = Purchase price paid for the condominium (\$550,000)

The 2008 GST/HST transitional rebate³ available to Ms. White is equal to \$5,500, as follows:

$$\begin{aligned} & \$550,000 \times 1\% \\ & = \$5,500 \end{aligned}$$

Example 3

Ms. Jackson and a builder enter into an agreement of purchase and sale for a new condominium for \$642,000 (purchase price is \$600,000, GST is \$42,000) on April 3, 2006. The closing date is January 2, 2008. Both ownership and possession transfer to Ms. Jackson on January 2, 2008.

Since the agreement of purchase and sale was entered into before May 3, 2006, GST on the purchase applies at the rate of 7%. However, since both ownership and possession are transferred after December 31, 2007, Ms. Jackson is entitled to claim both the 2006 and the 2008 GST/HST transitional rebate to account for the 2006 and 2008 GST/HST rate reductions. The

³ If Ms. White is entitled to claim the Nova Scotia new housing rebate, the amount of the 2008 GST/HST transitional rebate is in addition to the amount of the Nova Scotia rebate. The amount of the Nova Scotia rebate does not have an impact on the calculation of the transitional rebate.

GST/HST new housing rebate is not available because the purchase price of the condominium is more than \$450,000.

Each transitional rebate entitlement is calculated using the following formula:

$$A \times 1\%$$

where

A = Purchase price paid for the condominium (\$600,000)

The total of the 2006 and the 2008 GST/HST transitional rebate available to Ms. Jackson is equal to \$12,000.

If you purchased new housing where the builder sells the building, or part of the building, and leases the land (or assigns a lease of the land) on which the housing is situated, you may also be eligible to claim a 2008 GST/HST transitional rebate. You would qualify for the rebate if:

- you entered into an agreement for the purchase of the housing and lease of the land after May 2, 2006, and before October 31, 2007;
- possession is given to you after December 31, 2007; and
- the builder had to self-assess GST/HST at 6% or 14%.

In the case of a purchase of a unit in a multiple unit residential complex and lease of land, you would qualify for the rebate if the builder had to self-assess GST/HST at 6% or 14% and possession of a unit in the complex was given to you after December 31, 2007, regardless of when you entered into the agreement.

Application for the GST/HST transitional rebate

To claim a GST/HST transitional rebate for the 2008 GST/HST rate reduction, the 2006 GST/HST rate reduction, or both, you have to complete application Form GST193, *GST/HST Transitional Rebate Application for Purchasers of New Housing*, and file it with the CRA. A copy of the application form will be available on our Web site or may be obtained by calling 1-800-959-2221.

Unlike the GST/HST new housing rebate, which can be paid or credited to a purchaser of new housing by the builder at the time of purchase, a purchaser has to file an application for the GST/HST transitional rebate directly with the

CRA and we will pay the transitional rebate amount to the purchaser. The builder cannot pay or credit this rebate.

If a GST/HST new housing rebate is available for the purchase of new housing, the individual who claimed the GST/HST new housing rebate (i.e., the individual who signed the application) has to claim the GST/HST transitional rebate. For example, if you and your spouse purchased a new house and your spouse claimed the new housing rebate, only your spouse can claim the transitional rebate.

You cannot claim the GST/HST transitional rebate until you meet all of the conditions. For example, you must have paid all of the GST/HST payable on the purchase of the house. You have to file the rebate application with the CRA within two years after the day that ownership of the house is transferred to you. You also have to attach a copy of the purchase and sale agreement, the statement of adjustments and, if applicable, a copy of your GST/HST new housing rebate application.

If the builder paid or credited the amount of your GST/HST new housing rebate, you may ask the builder for a copy of the rebate application if you do not have a copy.

If you are entitled to the GST/HST new residential rental property rebate, attach a copy of your rebate application.

This info sheet explains the most common GST/HST transitional rebates available. Other transitional rebates are available in certain circumstances. For example, a cooperative housing corporation (co-op) that purchases a residential complex may be entitled to claim a transitional rebate. If eligible, the co-op would complete Form GST193, follow the instructions to calculate the transitional rebate amount using the appropriate formula, and file it with the CRA.

In limited circumstances, a builder may be entitled to claim a GST/HST transitional rebate in respect of the land part of the property where the builder sells a house and leases the land. In this case, the builder has to complete Form GST192, *GST/HST*

Transitional Rebate Application for Builders of New Housing on Leased Land, and file it with the CRA.

There are also variations to the formula for calculating the GST/HST transitional rebate for certain purchases such as the purchase of a house by a public service body (PSB) that is entitled to

claim a PSB GST/HST rebate. The amount of the transitional rebate will take into account the amount of the PSB rebate.

For more information on the GST/HST transitional rebate please call 1-800-959-8287.

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its Regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST Rulings Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, [Canada Revenue Agency GST/HST Rulings Centres](#). If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the CRA Web site at www.cra-arc.gc.ca/gsthsttech.

Appendix – Transitional rules

The following tables illustrate the transitional rules for purchases of new housing from a builder.

Purchase and sale agreement entered into before May 3, 2006

Ownership transferred	Possession transferred	Rate of tax	2006 transitional rebate	2008 transitional rebate
Before July 1, 2006	Before July 1, 2006	7%	No	No
Before July 1, 2006	After June 30, 2006	7%	No	No
After June 30, 2006	Before July 1, 2006	7%	No	No
After June 30, 2006 and before January 1, 2008	After June 30, 2006 and before January 1, 2008	7%	Yes	No
After June 30, 2006 and before January 1, 2008	After December 31, 2007	7%	Yes	No
After December 31, 2007	After June 30, 2006 and before January 1, 2008	7%	Yes	No
After December 31, 2007	After December 31, 2007	7%	Yes	Yes

Purchase and sale agreement entered into after May 2, 2006 and before October 31, 2007

Ownership transferred	Possession transferred	Rate of tax	2006 transitional rebate	2008 transitional rebate
Before July 1, 2006	Before July 1, 2006	7%	No	No
Before July 1, 2006	After June 30, 2006	7%	No	No
After June 30, 2006	Before July 1, 2006	7%	No	No
After June 30, 2006 and before January 1, 2008	After June 30, 2006 and before January 1, 2008	6%	No	No
After June 30, 2006 and before January 1, 2008	After December 31, 2007	6%	No	No
After December 31, 2007	After June 30, 2006 and before January 1, 2008	6%	No	No
After December 31, 2007	After December 31, 2007	6%	No	Yes

Purchase and sale agreement entered into after October 30, 2007

Ownership transferred	Possession transferred	Rate of tax	2006 transitional rebate	2008 transitional rebate
Before January 1, 2008	Before January 1, 2008	6%	No	No
Before January 1, 2008	After December 31, 2007	6%	No	No
After December 31, 2007	Before January 1, 2008	6%	No	No
After December 31, 2007	After December 31, 2007	5%	No	No