

## HST rebate threshold raised to \$525,000 on new housing

The provincial government recently announced that the threshold for new homes on which the maximum Harmonized Sales Tax (HST) rebate will apply will be raised from \$400,000 to \$525,000. Buyers of new homes will pay 12% HST (a combination of a 7% provincial sales tax and the 5% federal GST) on top of the purchase price, instead of the 5% GST currently charged on new homes. Legislation, though, for the HST effective date of July 1, 2010 has yet to be completed.

The new housing rebate is designed so that new homes purchased as a primary residence would receive a rebate of 71.43% of the provincial component of the HST, paid up to a maximum of \$26,250, up from \$20,000 under the old threshold. Homes above \$525,000 would receive a flat rebate of \$26,250. For homes priced under \$525,000, the rebate will ensure, on average, that there is no additional tax burden from the HST.

On a \$525,000 new home: 12% is the total tax = \$63,000 or \$588,000 total paid at purchase - a rebate of \$26,250 = \$36,750 tax or final total \$561,750. The final number works out to be a total 7% tax on a \$525,000 home which is a 2% increase in what is now paid – the 5% GST. On a new home purchased for \$750,000: 12% HST = \$90,000 - \$26,250 = \$63,750 or about 8% total tax for a total cost of \$813,750 or about 3% added to the cost of the new home.

The province is also proposing transitional rules for new housing. The provincial portion of the HST will not apply to sales of new homes where ownership or possession is transferred before July 1, 2010. In addition, sales of new homes under written agreements of purchase and sale entered into on or before November 18, 2009, would generally not be subject to the provincial portion of the HST, even if both ownership and possession are transferred on or after July 1, 2010. Also, depending on what GST applied at the time, there will be some transitional rules for the calculation of GST.

The threshold, however, is well below the average price of a new home in many communities around the Lower Mainland. According to the calculation of Jennifer Podmore Russell, senior manager in the financial-advisory practice at the consultants Deloitte, the average price of a new detached house in Metro Vancouver in 2009 is about \$1.02 million. In the Fraser Valley, the average price of a new house is \$598,000. She added that the price of a new condominium in some communities is also above the new threshold, such as in the east side of Vancouver where the average price is now \$557,000. An average new townhouse on the west side of Vancouver is \$763,000. Peter Simpson, CEO of the Greater Vancouver Home Builders' Association, said the industry lobbied government to raise the threshold to \$600,000. And though raising the threshold to \$525,000 was a substantial step, there are a lot more steps to take in this tax-mitigation journey.

In regard to resale homes, they are exempt from the HST. However, even though the purchase price is not directly affected by the new tax, the harmonized tax would apply to many services that are currently exempt from PST. Such services include legal fees, real estate agent commission, renovation services, land survey reports, home inspections, landscaping and house cleaning services. Also affected would be the cost of labour for installations or repairs, additions, renovations, driveways, roads, fences, swimming pools and patios.

Source: Realty Times

**Call me with any questions or if you would like a market evaluation.**



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*My best wishes to you and your family for a joyful holiday season and a very happy 2010.*



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