

Tax Memo

Application of Ontario's Single Sales Tax to New Homes

Background

An Ontario bulletin confirms information that was in the province's 2009 budget in connection with the proposed single sales tax scheduled to take effect on July 1, 2010. The bulletin, *Helping Homebuyers and the Housing Industry with an Enhanced New Housing Rebate, a New Rental Housing Rebate and Transitional Rules*, released on June 18, 2009, also introduces new information regarding additional rebates, transitional rules and disclosure requirements for builders.

Application of Single Sales Tax to New Homes and Rebates

As outlined in the budget, homes priced up to \$400,000 will effectively be subject to the provincial portion of the single sales tax at a rate of 2%. This is an effort to ensure that new homes priced up to \$400,000 that are purchased after July 1, 2010 will not be subject to tax greater than the retail sales tax (RST) currently embedded in the price of new homes. Any portion above \$400,000 will be subject to the full 8% provincial component of the single sales tax.

To arrive at the 2% provincial portion, a rebate similar to that currently provided for GST purposes, may be available for purchasers and builders for up to 75% of the provincial portion of the single sales tax payable, up to a maximum rebate of \$24,000. The rebate would be administered in a similar manner to the GST rebate for new housing.

The rebate will be available to homes purchased as primary residences across all price ranges, and not restricted to houses priced under \$500,000 as was originally understood from information in the budget. A similar rebate will be available for new rental housing to be used as primary places of residence.

Additional Transitional Rebate

In addition to the new housing rebate that may be available to purchasers and builders, a transitional rebate may also be available. This would, in effect, remove the RST embedded in a home that would be subject to the provincial portion of the single sales tax. The rebate of the RST content may be claimed under a "Floor space method" or a "Selling price method" based on the extent of construction or substantial completion of a new home or condominium as of July 1, 2010.

Transitional Rules

The 8% provincial portion of the single sales tax will not apply to the sale of new homes if:

- newly constructed or substantially renovated homes are sold under written agreements of purchase and sale entered into **on or before June 18, 2009** – referred to as "grandparenting";
- ownership or possession is transferred before **July 1, 2010**, under an agreement of purchase and sale; or
- GST (in the case of new rental housing) was self-assessed before July 2010.

Transitional Tax Adjustments

Builders of new homes and condominiums that are grandparented (i.e., purchase and sale agreement entered into on or before June 18, 2009) must pay a transitional tax if the home or condominium is completed **after June 2010**. The percentage of the 2% transitional tax that will be required to be paid will depend on the level of completion on July 1, 2010.

Failure of the builder to provide the disclosure would result in the stated price in the agreement being deemed to include the provincial portion of the single sales tax (i.e., the builder would be liable to pay for the provincial portion of the tax from the price stated in the agreement).

For further information, please contact the individuals listed below or your local PwC Indirect Tax representative.

Disclosure Requirements

Written purchase and sale agreements entered into after June 18, 2009, and before July 1, 2010, will require a disclosure from the builder of whether the provincial portion of the single sales tax will apply to the sale, and if so, whether the price is inclusive of the provincial portion, net of the new housing rebate.

For More Information

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