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GST reduction rebates are hefty on home sales

Thousands of Ontario homebuyers who have moved into their new houses and condominiums in recent weeks have received a very pleasant surprise, courtesy of the Canadian government.

The surprise comes in the form of a substantial refund of the GST component of the purchase price. It applies to every buyer of a new residence purchased from a builder prior to May 2, 2006 where both possession and title transfer occurred after July 1, 2006.

Most new home and condominium buyers who closed their transactions since Canada Day typically signed purchase agreements with their builders between 2002 and 2005. Judging from my own clients, virtually all of them have long since forgotten that they are entitled to benefit from the 1 per cent reduction of the Goods and Services Tax last year.

For most of us, it's old news that we have been saving 10 cents on a \$10 purchase, or \$1 on a \$100 purchase. But when the GST reduction is applied to a home selling in the six-figure range, the savings can be substantial, and they come in the form of a welcome cheque from Ottawa mailed directly to the homebuyer.

Here's how the reduction affects the typical buyer of a Toronto condominium. Michael and Sonia signed an agreement to buy a downtown condominium back in 2004. They received the keys and deed to their unit earlier this month.

After all the papers had been signed in my office before closing, I asked them if they recalled that Prime Minister Harper had reduced the GST from 7 to 6 per cent last year. They assured me they were aware that the tax had been reduced but didn't think it applied to their house deal.

In fact it did, I assured them, and the smiles on their faces got wider and wider as I went through the numbers with them.

The purchase price of their condominium dwelling, parking and locker was \$259,990. According to the contract, what they were really paying for the condominium was \$248,841.88 to the builder, plus the full 7 per cent GST, minus the GST new home rebate of \$6,270.81, for a net price of \$259,990.

After going over the numbers with Michael and Sonia, I explained to them that they were only required to pay GST at the 6 per cent rate, and the government was waiting to give them a refund.

I pulled out a copy of form GST 193E, which is available on the Canada Revenue Agency website at www.cra-arc.gc.ca. (Click on English, then Forms and Publications, forms listed by form number, G, and finally GST 193.) The name of the form is GST/HST Transitional Rebate Application for Purchasers of New Housing.

The exact URL is www.cra-arc.gc.ca/E/pbg/gf/gst193/gst193-07e.pdf.

The way the rebate process is set up ensures that only the purchasers and not the builder can apply for the money.

In Michael and Sonia's case, the net GST they paid on their new condo unit (after applying the New Housing Rebate) was \$11,148.12. Since this number was calculated at 7 per cent, I filled out the form showing them that they were entitled to a rebate of one-seventh of that number, or \$1,592.58 tax-free.

I told them to mail in the form with a copy of their purchase agreement and closing adjustments.

Needless to say, they were ecstatic. As they left my office, they were planning on how they were going to spend the windfall. I even imagined they might be reconsidering how they would vote in the next federal election.

Another married couple that are clients of mine were even happier than Michael and Sonia. After a two-year wait, they finally closed on their \$671,000 dream house earlier this month.

Since the house was over the \$450,000 eligibility threshold for the GST new housing rebate, their purchase price included GST at the full 7 per cent a total of \$43,897.20. But thanks to the July rate reduction, they were in line for a whopping and totally unexpected tax-free rebate of \$6,271.02, calculated by dividing the GST by seven.

Another couple was not quite as lucky. Their builder had originally scheduled occupancy of their condominium for the week after the Canada Day holiday last summer. Since they were anxious to start moving over the holiday weekend, the builder agreed to their request to give them occupancy on June 29, 2006. Unfortunately for them, on the day they got their keys, GST was still 7 per cent and they became ineligible for the rebate of 1 per cent of the net GST on their new home.

The early move-in date cost them about \$1,300.

If you've received possession and ownership of a new house or condominium since July 1, 2006, but have not yet applied for your transitional GST rebate, it's not too late. For more information on the GST transitional rebate, call Canada Revenue Agency at 1-800-959-8287.

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