



Many buyers will reap GST windfall thanks to changes

Consumers now have no incentive to defer their purchase until New Year

November 10, 2007

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As with last year's GST cut to 6 from 7 per cent, the recent cut to 5 from 6 per cent reveals some very strategic thinking on the part of the federal government.

Recognizing that the all-important new home market would be disrupted if buyers went to the sidelines for two months waiting for the lower tax rate, the federal government made the reduction effective immediately on only one product, that being new homes.

If you buy a new home on or after Oct. 31 of this year, it will be subject to GST at the rate of 5 per cent so long as the deal closes on or after Jan. 1, 2008. So, homebuyers have no incentive to defer their purchase decision until the New Year. In fact, Toronto homebuyers have ample incentive to buy before the end of the year to avoid the city's new land transfer tax.

The other very smart move by the federal government also deals with the transition rules. Knowing that most new homes are pre-sold while the GST is remitted on closing, the government made sure that the tax reduction didn't end up in the hands of the home builders by holding the tax rate on pre-sales and rebating the difference directly to the homebuyer.

Specifically, homebuyers who purchased after May 2, 2006 (date of first GST reduction) but on or before Oct. 30, 2007 will be subject to the 6 per cent tax rate but will get a 1 per cent transitional rebate (less GST new housing rebate adjustment) direct from the federal government, so long as ownership and possession are transferred after Jan. 1, 2008.

Better still, homebuyers who purchased on or before May 2, 2006, whether a day before, a month before, a year before – whenever – as long as it was on or before that date, will be subject to the 7 per cent rate but will get a 2 per cent transitional rebate (less GST new housing rebate adjustment) direct from the federal government, so long as ownership and

possession are transferred after Jan. 1, 2008.

This is a windfall for a great many homebuyers, but if you're doing the math and dreaming of how you are going to spend 1 per cent (or 2 per cent as the case may be) of your purchase price, please don't forget that the transitional rebate on homes priced up to \$450,000 is net of the GST rebate.

For example, if you paid \$300,000 and are thinking that you have \$3,000 coming your way, you are actually looking at approximately \$1,900 (\$3,800 if you purchased on or before May 2, 2006).

For homes priced above \$450,000, where there is no GST rebate available, the tax savings is the full 1 per cent, so \$4,500 (\$9,000 if you purchased on or before May 2, 2006) or more depending upon the selling price.

This is the money the federal government didn't want the builders to get, and we're perfectly fine with that and have advised our membership of the government's crystal clear intent.

Unfortunately, if anyone falls between the cracks, it is homebuyers who purchased after May 2, 2006 closing this month or next, because those deals are subject to 6 per cent GST with no transitional rebate. These buyers are no worse off, but they do miss out on the windfall that many other buyers qualify for.

For further information on GST transitional rebates, visit cra-arc.gc.ca.

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