



TREB: HST Will Not Effect Resale Homes

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As of July 1st, the new Harmonized Sales Tax (HST) will be in effect and Ontario consumers will be hard-pressed to avoid this so called "tax on everything". While that less than flattering nick name for the HST may be pretty close to the truth, it's not completely accurate, especially when it comes to real estate, where the HST applies differently depending on the type of real estate, whether it is re-sale housing, newly constructed housing, or business properties.

Anyone who has ever purchased a home or has considered purchasing a home knows that budgeting for taxes is an important part of determining what they can afford. Whether it is the on-going cost of property taxes, or the upfront cost of land transfer taxes, the cost of taxes on housing can add up.

With that in mind, one of the most important things to know about the HST is that, fortunately, it will not increase the tax burden on the purchase price for homebuyers who purchase re-sale housing. That's because re-sale housing, which was never subject to Provincial Sales Tax (PST) or the federal Goods and Services Tax, will continue to be exempt from both taxes once they are combined under the HST.

The same is not true for newly constructed homes, which will be hit with additional tax under the HST. Newly constructed housing has always been subject to the GST, meaning thousands of dollars of tax for home buyers choosing this option. Now, with the HST, new housing will also be subject to PST, meaning thousands of dollars in added costs for home buyers of new housing.

There is a silver lining for new housing: the provincial government provides a rebate of 75 per cent of the PST on the first \$400,000 of a newly constructed home,

or a maximum of \$24,000. For example, someone purchasing a new home priced at \$500,000 would face \$40,000 in additional tax from the provincial portion of the HST, which would be reduced to \$16,000 with the rebate. Obviously, the rebate softens the blow, but an extra \$16,000 of tax for a newly constructed home is nothing to laugh at.

Fortunately, home buyers choosing to purchase a re-sale home don't have to worry about paying HST on the price of their home. That's money that they can keep in their pocket, or use to keep their mortgage costs down.

There is also encouraging news when it comes to real estate for businesses. Although the costs of purchasing or renting a commercial property are subject to HST, businesses are allowed to claim tax credits to offset these costs. Even better, when purchasing a commercial property, the business can claim the tax credits immediately so that no upfront costs are incurred for the HST, and cash flow is not impacted.

It won't be long before the HST is a reality in Ontario and taxes on a long list of goods and services will increase. Although it would be nice if HST didn't apply to any real estate transactions, luckily, there is some encouraging news, especially for homebuyers of resale housing, who won't see the purchase price of their home increase due to HST, and businesses buying or renting commercial properties, who will be able to offset their HST costs.

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