

Department of Finance: Specific Transitional Rules for Sales of Real Property

General Transitional Rules

The general transitional rule to determine whether the rate of 6 per cent or the rate of 5 per cent will apply, which will be based upon the time at which the GST in respect of a transaction becomes payable, is outlined below:

- If GST becomes payable, or is paid without having become payable, before January 1, 2008, the rate of 6 per cent will apply.
- If GST becomes payable on or after January 1, 2008, without having been paid before that day, the rate of 5 per cent will apply.
- If GST is paid on or after January 1, 2008, without having become payable before that day, the rate of 5 per cent will apply.

In addition to the application of the general transitional rule described above, certain types of transactions will have specific transitional rules described below.

Sales of Real Property

Under the proposed measures, the following specific transitional rules will apply in respect of sales of real property to determine whether the rate of 6 per cent or the rate of 5 per cent will apply.

Ownership or Possession Transferred before January 1, 2008: Generally, the 6 per cent rate will apply to all of the consideration for a supply by way of sale of real property if ownership of the property, or possession of it under the agreement of purchase and sale, is transferred to the buyer before January 1, 2008.

Ownership and Possession Transferred on or after January 1, 2008: The 5 per cent rate will apply to all of the consideration for a supply by way of sale of real property if both ownership of the property and possession of it under the agreement are transferred to the buyer on or after January 1, 2008. Note the special transitional rule for new residential housing below.

Sales of New Housing under Written Agreements Entered Into on or before October 30, 2007 Where Both Ownership and Possession Transferred on or after January 1, 2008. The Following Rules Apply:

- For sales of houses, apartment buildings and other residential complexes made pursuant to an agreement, evidenced in writing, entered into on or before October 30, 2007 but after May 2, 2006, the 6 per cent rate will apply to all of the consideration.
- For sales of houses, apartment buildings and other residential complexes made pursuant to an agreement, evidenced in writing, entered into on or before May 2, 2006, the 7 per cent rate will apply to all of the consideration.

- In both of these circumstances, the purchaser of the residential complex will be entitled to file a claim directly with the Canada Revenue Agency to be paid a Transitional Rebate that reflects the GST rate reduction to 5 per cent, net of any corresponding rebate adjustment. Unlike the regular GST New Housing Rebates, the builder will not be allowed to pay or credit the Transitional Rebate against tax owing by the purchaser and then claim it as a deduction from net tax.

Application of Transitional Rules to New Housing

Situation	Tax Included Price (\$200,000 house)	Tax Remitted (GST less New Housing Rebate)	Transitional Rebate	Net GST Paid by Buyer
Agreement of purchase and sale was signed after May 2, 2006 and, ownership or possession is transferred before January 1, 2008: GST at 6%	\$207,680	\$7,680 ¹	N/A	\$7,680
Agreement of purchase and sale is signed after October 30, 2007 and ownership and possession are transferred on or after January 1, 2008: GST at 5%	\$206,400	\$6,400 ²	N/A	\$6,400
Agreement of purchase and sale was signed after May 2, 2006 but on or before October 30, 2007 and ownership and possession are transferred on or after January 1, 2008: GST at 6%	\$207,680	\$7,680 ³	(\$1,280) ⁴	\$6,400 ⁵
Agreement of purchase and sale was signed on or before May 2, 2006 and ownership and possession are transferred on or after January 1, 2008: GST at 7%	\$208,960	\$8,960 ⁶	(\$2,560) ⁷	\$6,400 ⁸

¹ \$7,680 = GST at 6 per cent (\$12,000) less GST New Housing Rebate of \$4,320 (36% of \$12,000).

² \$6,400 = GST at 5 per cent (\$10,000) less GST New Housing Rebate of \$3,600 (36% of \$10,000).

³ \$7,680 = GST at 6 per cent (\$12,000) less GST New Housing Rebate of \$4,320 (36% of \$12,000).

⁴ \$1,280 = GST at 1 per cent (\$2,000) less GST New Housing Rebate adjustment of \$720 (36% of \$2,000).

⁵ \$6,400 = GST at 6 per cent (\$12,000) less GST New Housing Rebate of \$4,320 (36% of \$12,000) less Transitional Rebate of \$1,280.

⁶ \$8,960 = GST at 7 per cent (\$14,000) less GST New Housing Rebate of \$5,040 (36% of \$14,000).

⁷ \$2,560 = GST at 2 per cent (\$4,000) less GST New Housing Rebate adjustment of \$1,440 (36% of \$4,000).

⁸ \$6,400 = GST at 7 per cent (\$14,000) less GST New Housing Rebate of \$5,040 (36% of \$14,000) less Transitional Rebate of \$2,560.