



**HST (Harmonized Sales Tax)** is certainly garnishing a few headlines so I thought the time was right to clarify the HST and the implication to the real estate market and mortgages.

**The HST comes into effect in BC on July 1.** The easy way to understand the HST is to think of it as an extension of GST. Any service or product that charges GST will now include the BC PST (Provincial Sales Tax). This will increase the tax on some services by the current 7% PST. Combining the existing GST and PST, the new HST is 12%.

**First off, mortgages and mortgage fees are exempt of the HST!**

#### Real Estate Commissions

The HST applies to real estate commissions. Prior to July 1 you would pay GST on the real estate commissions payable when you sold your home. So, you can add 7% to the cost of real estate agent's fees after July 1. If you entered in to an agreement to sell your house prior to July 1 but it doesn't close until after July 1 you pay the tax on the commissions based on the amount of work the realtor performed prior to July 1. It is a complicated calculation that we will leave up to the lawyers and notaries who complete the sale. If you are in this situation I would suggest you contact your realtor or lawyer to confirm the actual amount of tax payable on the commissions.

The additional cost adds approximately \$1200 to the commissions paid to a realtor for selling a \$500,000 house. **This is approximately ¼ of 1% of the sale price (.25%).**

#### Purchase of Used Property

**There is no GST payable in respect to the purchase of a used home** so used home purchases will remain HST exempt.

There is HST applicable to the purchase of raw land and farms as under the existing GST. Basically, any purchase of a property that would have incurred GST now incurs the full HST.



## Purchase of New Property

This is a little more complicated.

- HST is now applicable to new home sales. On the surface it appears this will increase the cost of a new home by 7%. **This is not the case for most properties.**
- All new home buyers will receive a rebate for HST. This rebate can be assigned to the builder, so home buyers only need to pay the "net" home price (the home price plus the HST minus the rebate).
- If the buyer entered in to the agreement to purchase the new home prior to November 18, 2009 then the GST applies only, not the HST.
- If the home purchase is \$525,000 or less the rebate is calculated as follows: Home price x 7% x 71.43%. This is 71.43% back on the additional 7% paid. **The additional tax compared to the GST is 2% of the purchase price.**
- If the home purchase price is over \$525,000 the rebate is fixed at \$26,250.
- There are transitional tax calculations in certain situations whereby the purchase agreement was entered into prior to July 1 and the closing of the sale is after July 1, especially in the case of condominium purchases. If you are in this situation I would suggest contacting your realtor or conveyancer to calculate the amount of tax payable in your situation.

## Strata Fees

**Strata fees are currently exempt from GST so they will remain exempt from the HST.**

## Residential Rentals

Residential rent payments are exempt from the HST.



## Commercial Rentals

Commercial lease and rental agreements are subject to HST. This will increase rents by an additional 7% but tenants can claim back the HST as they could the GST under the previous tax regulations.

## Market Effect

While we hate to see any additional costs associated with real estate ownership, the net effect of the HST on the real estate market should be minimal. When you calculate the actual amount of tax against the purchase price of the average property in BC the percentage is very low, in most cases under 1% unless on a new property. **Tax advantages to builders should allow for a reduction in building costs** to offset the tax and bring down the purchase price accordingly. Having said this, it will be up to builders to decide if this is prudent or if the market can bear an increase in price at this time.

As the HST has no effect on the sale price of used residential property (not counting raw land) **it should not have any effect on the market whatsoever.** As the majority of Canadians rely on the equity of their personal residence to retire in relative security I fully expect the real estate market to show continued strength and safe gains in value as the years go by, especially in the larger urban markets of BC.

For more information please see the pdf called hst\_notice\_003 on the We Make It Easy tab on [www.meridianpacific.ca](http://www.meridianpacific.ca)