



Residential Construction  
Sector Council  
Home Builders Association  
of PEI  
June 26, 2012

# HST Information



Finance, Energy and  
Municipal Affairs  
Wesley J. Sheridan  
Minister



# Presentation

- **Economic Outlook**
- Tax System Comparison
- Residential Construction, GST/PST – Current Status
- Residential Construction, HST – After April 1, 2013
- GST/PST to HST Transition
- HST Additional Information



# Economic Outlook

## ➤ **Strategic Priorities of Government**

“Government will foster and develop private sector growth and increases in employment opportunities for Islanders”

## ➤ **Goal of increasing:**

- Employment to 75,000 and
- GDP to \$6 billion by 2016



# Economic Outlook

- HST will remove competitive disadvantage facing Island business in region.
- Improved economy and investment will create more opportunities for Island business and jobs.
- Increased investment and more jobs will increase demand for housing.

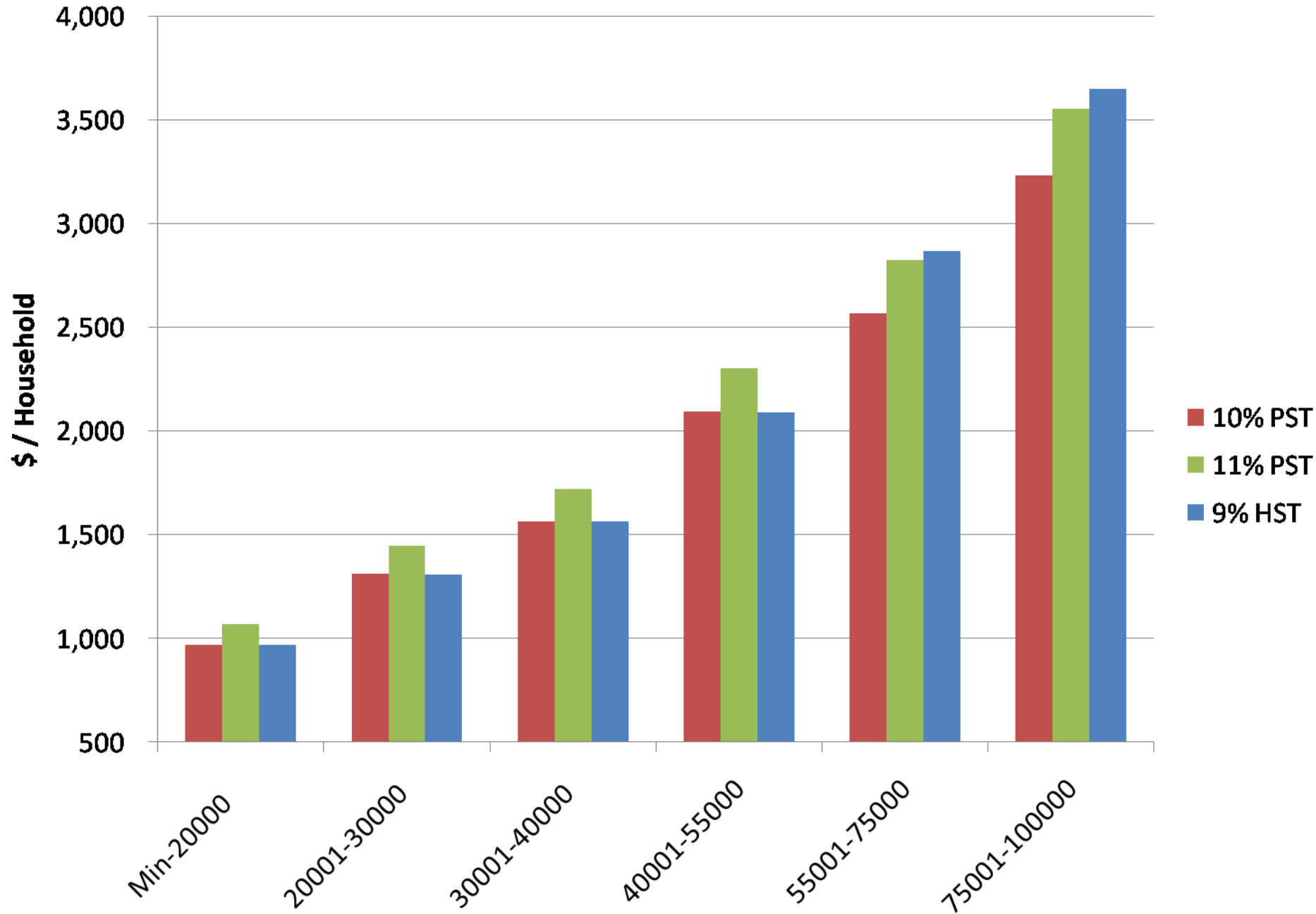


# HST Facts

- Effective April 1<sup>st</sup>, 2013 (\*)
- HST rate - 14%
  - Federal component - 5%
  - Provincial component – 9%
- Point of sale exemptions
  - Heating oil, Children’s clothing, Children’s footwear
- Rebate program for low and modest income households
- Administered by the Canada Revenue Agency
- In general, GST rules will apply to HST

\* Subject to Legislative approval

## Comparison of Sales Taxes: 10%-11% PST and 9% HST





# HST – Right Direction for Both Economy and Society of PEI

*“... today’s announcement will level the playing field for Island business in the region, reduce red tape, result in increased investment in jobs and growth, and end the practice of applying the provincial sales tax on top of the GST.”*

*Budget Speech  
18 April 2012*



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# Tax System Comparison

## Provincial Sales Tax (PST) – A Cascading Tax

- Tourist accommodation operator pays PST on items such as construction materials, repairs and maintenance, computer equipment and systems, accounting fees, office supplies and accommodation supplies used in providing guest accommodations
- Operator embeds the PST paid into the cost of accommodations
- Customer pays GST and PST on cost of accommodations
- Customer pays tax on tax
  - GST and PST on the tax embedded into the cost of accommodations
  - PST on top of GST on cost of accommodations



# Tax System Comparison

## Harmonized Sales Tax (HST) – A Value Added Tax

- Tourist accommodation operator pays HST on items such as construction materials, repairs and maintenance, computer equipment and systems, accounting fees, office supplies and accommodation supplies used in providing guest accommodations
- Operator receives an input tax credit for all HST paid
- Operator does not embed tax into the cost of accommodations
- Customer pays HST on cost of accommodations
- Customer does not pay tax on tax



# Residential Construction GST/PST – Current Status Expenses

## Subject to GST at 5%

- Purchase of building materials used in building contracts
- Most purchases of land
- Subcontracts
- Purchase of most goods and services used by home builders in their operations



# Residential Construction GST/PST – Current Status Expenses

## **Subject to PST at 10.5% (effective rate)**

- Purchase of building materials used in building contracts
- Purchase of goods and services used by home builders in their operations

## **Exempt from PST**

- Purchase of land
- Subcontracts (\*)

(\*) Subcontractor does have PST embedded in cost of contract



# Residential Construction GST/PST – Current Status Expenses

## **Input tax credits for GST (5%) payable on purchases**

- Purchase of building materials used in building contracts
- Purchase of land
- Subcontracts
- Purchase of goods and services used by home builders in their operations

## **PST at 10.5 % (effective rate) Embedded in Contract**

- Purchase of building materials used in building contracts
- Purchase of goods and services used by home builders in their operations



# Residential Construction HST – After April 1, 2013 Expenses

## Subject to HST at 14%

- Purchase of building materials used in building contracts
- Most purchases of land
- Subcontracts
- Purchase of most goods and services used by home builders in their operations



# Residential Construction HST – After April 1, 2013 Expenses

## **Input tax credits for HST (14%) payable on purchases**

- Purchase of building materials used in building contracts
- Purchase of land
- Subcontracts
- Purchase of goods and services used by home builders in their operations



# Residential Construction HST – After April 1, 2013

## Example

Expense Type: Building materials

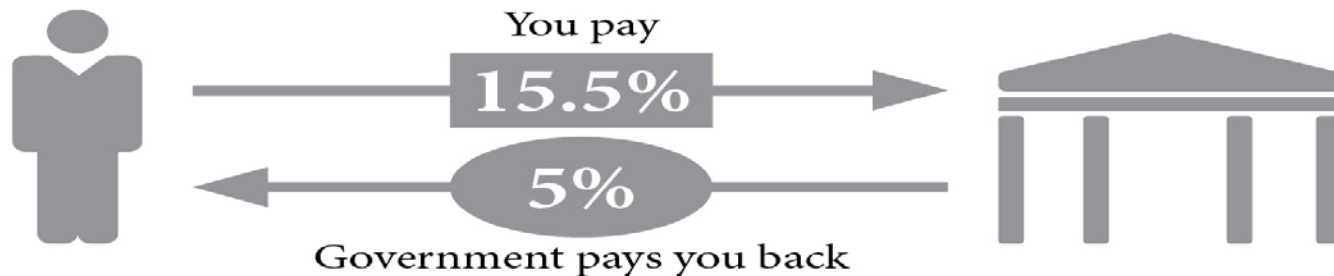
Under GST/PST	
Cost	\$77,500
GST – 5%	3,875
PST – 10%	<u>8,137</u>
	89,512
Input tax credit	<u>3,875</u>
Net Cost	<u>\$ 85,637</u>

Under HST	
Cost	\$77,500
HST – 14%	10,850
PST	<u>0</u>
	\$88,350
Input tax credit	<u>10,850</u>
Net Cost	<u>\$77,500</u>
Savings	<u>\$ 8,137</u>

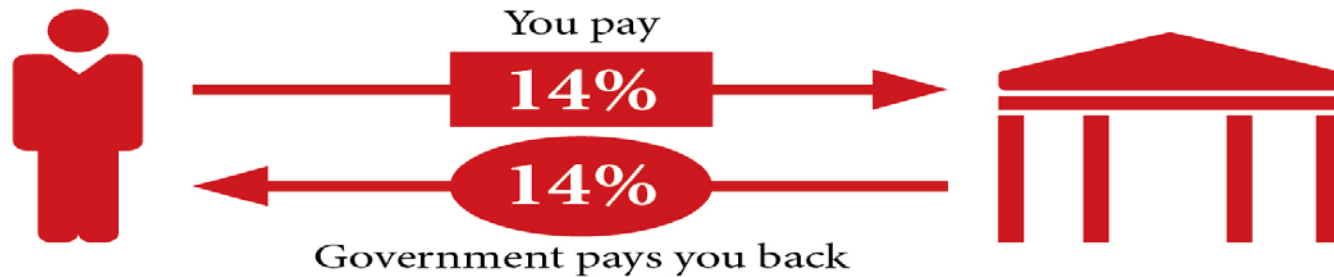


# GST/PST and HST Summary

## Under GST/PST System



## Under HST System





# Benefits of HST

- Homebuilders will experience tax savings under HST
- Tax savings can be used to:
  - Increase bottom line
  - Re-invest in business and enhance economy
  - Reduce prices

Reference:

[The Impact of Sales Tax Reform on Ontario Consumers: A First Look at the Evidence](#) Michael Smart



# Residential Construction GST/PST – Current Status Sales

## Subject to GST at 5% (\*)

- Building contracts

(\*) less federal rebate for qualifying new and substantially renovated housing



# Residential Construction HST – After April 1, 2013 Expenses

## Subject to HST at 14% (\*)

- Building contracts

(\*) less federal rebate for qualifying new and substantially renovated housing



# Residential Construction New Build or Substantially Renovated GST/PST - Current System

	Materials	Labour	Land	Other	Profit	Total
<b>Cost (before tax)</b>	<b>118,589</b>	<b>70,460</b>	<b>39,000</b>	<b>5,883</b>	<b>13,000</b>	<b>246,932</b>
<b>GST</b>	<b>5,929</b>		<b>1,950</b>	<b>294</b>		<b>8,173</b>
	<b>124,518</b>	<b>70,460</b>	<b>40,950</b>	<b>6,177</b>	<b>13,000</b>	<b>255,105</b>
<b>PST</b>	<b>12,451</b>			<b>617</b>		<b>13,068</b>
	<b>136,969</b>	<b>70,460</b>	<b>40,950</b>	<b>6,794</b>	<b>13,000</b>	<b>268,173</b>
<b>Input Tax Credits</b>	<b>-5,929</b>		<b>-1,950</b>	<b>-294</b>		<b>-8,173</b>
<b>Total Cost</b>	<b>131,040</b>	<b>70,460</b>	<b>39,000</b>	<b>6,500</b>	<b>13,000</b>	<b>260,000</b>



# Residential Construction New Build or Substantially Renovated GST/PST - Current System

	Note	Total
<b>Selling Price</b>		<b>\$260,000</b>
<b>GST</b>		<b>13,000</b>
<b>GST Housing Rebate</b>	<b>36% of GST paid</b>	<b><u>- 4,680</u></b>
<b>Total Purchase Price</b>		<b><u>\$268,320</u></b>
<b>Tax Paid by Purchaser</b>	<b>GST + embedded PST</b>	<b><u>\$ 21,388</u></b>



# Residential Construction New Build or Substantially Renovated HST – After April 1, 2013 (Profit \$ Constant)

	Materials	Labour	Land	Other	Profit	Total
<b>Cost (before tax)</b>	<b>118,589</b>	<b>70,460</b>	<b>39,000</b>	<b>5,883</b>	<b>13,000</b>	<b>246,932</b>
<b>HST</b>	<b>16,602</b>		<b>5,460</b>	<b>824</b>		<b>22,886</b>
	<b>135,191</b>	<b>70,460</b>	<b>44,460</b>	<b>6,707</b>	<b>13,000</b>	<b>269,818</b>
<b>PST</b>	<b>0</b>			<b>0</b>		<b>0</b>
	<b>135,191</b>	<b>70,460</b>	<b>44,460</b>	<b>6,707</b>	<b>13,000</b>	<b>269,818</b>
<b>Input Tax Credits</b>	<b>-16,602</b>		<b>-5,460</b>	<b>-824</b>		<b>22,886</b>
<b>Total Cost</b>	<b>118,589</b>	<b>70,460</b>	<b>39,000</b>	<b>5,883</b>	<b>13,000</b>	<b>246,932</b>



# Residential Construction New Build or Substantially Renovated HST – After April 1, 2013 (Profit \$ Constant)

	<b>Total</b>
<b>Selling Price</b>	<b>\$246,932</b>
<b>HST</b>	<b>34,570</b>
<b>Federal HST Housing Rebate</b>	<b><u>-4,445</u></b>
<b>Total Purchase Price</b>	<b><u>\$277,057</u></b>
<b>Percent Increase in Price</b>	<b>3.3%</b>
<b>Tax Paid by Purchaser</b>	<b><u>\$ 30,125</u></b>





# Residential Construction New Build or Substantially Renovated HST – After April 1, 2013 (Profit % Constant)

	Materials	Labour	Land	Other	Profit	Total
<b>Cost before taxes</b>	118,589	70,460	39,000	5,883	12,312	246,244
<b>HST</b>	16,602		5,460	824		22,886
	135,191	70,460	44,460	6,707	12,312	269,130
<b>PST</b>	0			0		0
	135,191	70,460	44,460	6,707	12,312	269,130
<b>Input Tax Credits</b>	-16,602		-5,460	-824		-22,886
<b>Total Cost</b>	118,589	70,460	39,000	5,883	12,312	246,244



# Residential Construction New Build or Substantially Renovated HST – After April 1, 2013 (Profit % Constant)

	Totals
<b>Selling Price</b>	<b>\$246,244</b>
<b>HST</b>	<b>34,474</b>
<b>Federal HST Housing Rebate</b>	<b><u>-4,432</u></b>
<b>Total Purchase Price</b>	<b><u>\$276,286</u></b>
<b>Percent Increase in Price</b>	<b>3.0%</b>
<b>Tax Paid by Purchaser</b>	<b><u>\$ 30,042</u></b>



# Residential Construction Non-Substantial Renovation GST/PST - Current System

	Materials	Labour	Other	Profit	Total
<b>Cost (before tax)</b>	14,932	39,000	1,358	3,000	58,290
<b>GST</b>	747		68		815
	15,679	39,000	1,426	3,000	59,105
<b>PST</b>	1,568		142		1,710
	17,247	39,000	1,568	3,000	60,815
<b>Input Tax Credits</b>	-747		-68		-815
<b>Total Cost</b>	16,500	39,000	1,500	3,000	60,000



# Residential Construction Non-Substantial Renovation GST/PST - Current System

	Note	Total
Contract price		\$ 60,000
GST		<u>3,000</u>
Total Purchase Price		<u>\$ 63,000</u>
Tax Paid by Purchaser	GST + embedded PST	<u>\$ 4,710</u>



# Residential Construction Non-Substantial Renovation HST – After April 1, 2013 (Profit % Constant)

	Materials	Labour	Other	Profit	Total
<b>Cost (before tax)</b>	14,932	39,000	1,358	2,910	58,200
<b>HST</b>	2,090		190		2,280
	17,022	39,000	1,548	2,910	60,480
<b>PST</b>	0		0		0
	17,022	39,000	1,548	2,910	60,480
<b>Input Tax Credits</b>	-2,090		-190		-2,280
<b>Total Cost</b>	14,932	39,000	1,358	2,910	58,200



# Residential Construction Non-Substantial Renovation HST – After April 1, 2013 (Profit % Constant)

	Note	Total
Contract price		\$58,200
HST		<u>8,148</u>
Total Purchase Price		<u>\$66,348</u>
Price Increase		5.3%
Tax Paid by Purchaser	HST	<u>\$ 8,148</u>



# Provincial New Housing Rebate Jurisdictional Comparison

	Maximum Housing Value	Maximum Provincial Rebate	Note
NL	N/A	N/A	No program
NS	\$160,000	\$3,000	Only available to first time home buyers
NB	N/A	N/A	No program
ON	\$400,000	\$24,000	If HST paid on land (maximum \$16,080 if not)
BC	\$850,000	\$42,500	If HST paid on land (maximum \$28,475 if not)



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# GST/PST to HST Transition Rules for Residential Construction\*

## Transition rules

- Prevent double taxation
- Prevent gaps in the application of tax
- Information on transition is based on ON and BC rules: [GST/HST and the Construction industry](#)
- No transition rules final for PEI, however, likely to follow ON and BC rules unless industry sector feedback suggests otherwise
- Feedback required by August 10th

\*Anticipated, based on BC and Ontario Experience



# GST/PST to HST Transition Anticipated Transition Rule Requirements\*

## GST/PST to HST Transition Rule Requirements

- Homes built on speculation
  - completed prior to April 1, 2013; and
  - held in a contractor's inventory at March 31, 2013
- Contract to build home
  - entered into prior to the date transition rules are announced; and
  - possession and ownership occur on or after April 1, 2013 or before that date
- Contract to build home
  - entered into after the date transition rules are announced; and
  - possession and ownership occur on or after April 1, 2013 or before that date

\*Anticipated, based on BC and Ontario Experience



# GST/PST to HST Transition

## Application of HST to Sales

### April 1, 2013\*

## No HST

- Ownership or possession of the home transferred prior to April 1, 2013
- Ownership and possession of the home transferred after April 1, 2013 but contract to build entered into prior to the date transition rules are announced
  - Referred to as “grandparented”

## HST

- Ownership **and** possession transferred on or after April 1, 2013; and
- Contract to build entered into after the date transition rules are announced

\*Anticipated, based on BC and Ontario Experience



# GST/PST to HST Transition Grandparented Housing\*

## Grandparented:

- Ownership and possession of the home transferred after April 1, 2013 but contract to build entered into prior to the date transition rules are announced
- Subject only to GST (5%)
- Applies to new homes and residential condominiums sold to individuals for use as a primary residence
- Does not apply to traditional apartment buildings, duplexes, mobile homes or homes built by the owner

\*Anticipated, based on BC and Ontario Experience



# GST/PST to HST Transition Special Situations\*

## April 1, 2013

- The construction of a new home that is grandparented where the sale is only subject to the 5% federal component of the HST:
  - cost of any materials purchased after March 31, 2013 will be eligible for ITCs for HST payable
  - gap in the application of tax must be addressed through transitional tax adjustment rules.
- New home construction begins before April 1, 2013 and ends after March 31, 2013:
  - 14% HST is due on the sale of the property
  - PST has been paid on some or all of the materials included in the home
  - purchaser pays provincial tax twice (i.e., embedded PST + provincial part of HST)
  - double taxation must be addressed through transitional PST rebate rules

\*Anticipated, based on BC and Ontario Experience



# GST/PST to HST Transition Transitional Tax Adjustment\* (To Avoid Tax Gap)

- Paid by Contractor
- Applies only to grandfathered sales
- Approximates PST on materials purchased after March 2013
  - HST paid and recovered through input tax credits
- New and substantially renovated housing
  - Rate based on percent complete on April 1, 2013
  - Rate decreases as percent completion increases
- Residential condominiums
  - Flat rate based on the price of the condominium as calculated for GST purposes

\*Anticipated, based on BC and Ontario Experience



# GST/PST to HST Transition Transitional PST Rebate\* (To Avoid Double Tax)

- Paid to purchaser in some circumstances and to the builder in other circumstances
- Purchaser of house pays the PST embedded in the cost of materials used in the contract and the 9% provincial component of HST
- Purchaser has up to 4 years to apply (March 31, 2017)
- Applies to purchasers single detached housing, semi-detached housing, duplex, attached (row) house and to builders of residential condominiums
- Does not apply to owner-built new homes, condominium units and mobile homes
- Paid to contractor on newly constructed rental housing including single detached housing, semi-detached housing, duplex, attached (row) house, condominiums units, condominium complex and apartment units

\*Anticipated, based on BC and Ontario Experience



# GST/PST to HST Transition Transitional PST Rebate\*

## Transitional PST rebate will be calculated based on:

- A value per square metre; or
- A percent of the consideration paid or the fair value of the housing

## Transitional PST rebate will be prorated based on:

- The percentage of completion at April 1, 2013

\*Anticipated, based on BC and Ontario Experience





# HST

## Additional Information

- Department of Finance, Energy and Municipal Affairs
  - [hst@gov.pe.ca](mailto:hst@gov.pe.ca) - Email
  - [www.gov.pe.ca/hst](http://www.gov.pe.ca/hst) - Website
- Canada Revenue Agency (CRA)
  - [Canada Revenue Agency Web site -- Site Web de l'Agence du revenu du Canada](http://www.cra-arc.gc.ca)