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BARRISTERS AND SOLICITORS

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**The New World of G.S.T.**

by Michael Mann

The government is following through on a campaign promise and plans to cut Goods and Services Taxes to 6% effective July 1. While it might have been simpler for the government to reduce the rate immediately, Canadian businesses told budget planners that they needed time to implement the tax change and to properly prepare for it. This may not have a significant impact on the sale of every day commodity items or services, but those consumers who are planning on purchasing "big ticket" merchandise may hold off until the tax drop takes effect.

With the announcement of a GST reduction which would not begin until July, the government anticipated how consumers would react in the interim. They were especially concerned that it could detrimentally impact the building community and the sale of new homes. Therefore, the government has enacted "transitional rules" intended to encourage would-be home buyers to continue with their purchases of new homes even prior to the July 1 effective date. Keep in mind that GST does not apply to purchases of "resale" homes; so these transitional rules affect only newly constructed condominium units and houses.

The following is a summary of how the transitional GST rules are to be applied:

If you signed an agreement to buy a home on or before May 2, where closing (i.e. ownership and possession) will not occur until at least July 1, then GST at 7% applies; however, a rebate is available to you directly from the government – not the builder – after the deal closes in order to account for the GST reduction.

If you enter into an agreement to purchase a home after May 2, and you will not get possession and ownership of it until July 1 or later, then the new 6% rate applies.

In all cases, and regardless of when you enter into the agreement, if you take possession of the home OR ownership is transferred into your name prior to July 1, then the 7% rate applies and a transitional rebate is not available

With the cut in GST, the maximum rebate available to new home buyers has been reduced from \$8,750 to \$7,560. If you are entitled to a transitional rebate, you can view the calculation formula shown on the Canada Revenue Agency website ([www.cra.gc.ca](http://www.cra.gc.ca)). You can also go to that website or call 1-800-959-2221 to get the required application form for submission to CRA.

For the average buyer, the applicability of GST to new home purchases can be confusing, to say the least; so be sure to get sound tax and legal advice when planning to enter into an agreement of purchase and sale.

*The foregoing is provided to you for information purposes only. We caution you to obtain legal advice specific to your situation in all circumstances.*

Should you prefer to receive our Bulletins by email, contact Jennifer ([jnye@lbwlawyers.com](mailto:jnye@lbwlawyers.com)).

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