

The New GST Rate

Effective July 1, 2006, the Goods and Services Tax will be reduced from seven per cent to six per cent. Thank goodness!

To qualify to pay the reduced GST on a new home purchase you must have entered into the contract after May 2, 2006. The date the ownership changes to your name must be on or after July 1, 2006.

Suppose you enter into a contract prior to May 2, 2006, and the Seller will allow you to collapse that contract and write a new agreement that has the ownership changing to a July 1st, 2006, or later date. This would allow you to pay the new six per cent rate. Making a new agreement for the sole purpose of paying the lower rate may not be a good idea, according to a bulletin sent to Realtors on May 5, 2006 from the British Columbia Real Estate Association. Doing so may contravene the General Anti-Avoidance Rules (GAAR) in the GST legislation. Best that you seek the advice of a GST expert.

The other important change to GST and housing is that the new housing rebate has been reduced. We are only obligated to pay the “net” GST when purchasing new or substantially renovated homes that are to be our principal residence. We have been entitled to a partial rebate, of thirty-six per cent of the seven per cent. With the new rate of six per cent we are getting a rebate of thirty-six per cent of six per cent. Our maximum purchase price for the rebate remains at \$350,000 and between \$350,000 and \$450,000 the rebate declines on a proportionate basis, all the way down to zero.

The reduction to six per cent still is of significant benefit even though the maximum rebate is reduced by \$1,190. On a \$350,000 house the six per cent rate reduces the GST by \$3,500. Even with the new lower rebate the buyer is still \$2,740 ahead. Not bad at all.

Two websites of interest on this topic are:

GST Reduction: Questions and Answers

www.cra.arc.gc.ca/agency/budget/2006/gstratega-e.html

and: GST Reduction: Impact on Sales of Real Property

www.fin.gc.ca/budget06/bp/bpa3ae.htm

Jane Field works with RE/MAX Vernon. Jane has 30 years experience in the Real Estate business. To suggest topics for future articles or to ask her questions, email her at jane@janefield.com or call 503-3755. Previous articles published in the Morning Star appear on Jane's website - www.janefield.com