



Effect of the Goods and Services Tax on the Value of the Consideration under the *Land Transfer Tax Act*

- This bulletin was revised in June 2010 to provide a link to Canada Revenue Agency's website respecting technical information on the Goods and Services Tax (GST) and the Harmonized Sales Tax (HST).
- This bulletin provides information on the effect of the federal GST on the calculation of the value of the consideration for a transfer of land.
- This bulletin provides general information. It is not exhaustive and should not be considered as a substitute for the *Land Transfer Tax Act* and its regulations.

General

GST The GST is a tax administered by the federal government which applies to certain goods and services in accordance with the provisions of the *Excise Tax Act*. At the time of publication, the tax rate for GST is 5 per cent.

Value of the Consideration The value of the consideration, as defined in subsection 1(1) of the *Land Transfer Tax Act*, is the base upon which land transfer tax is calculated.

Transaction subject to GST or to HST The HST will come into effect on July 1, 2010, and will be administered by the Canada Revenue Agency. It is the responsibility of the purchaser to determine if their transaction is subject to GST and/or HST. Pursuant to transitional rules under HST, some residential transactions will be 'grandparented' after June 30, 2010. If a transaction is grandparented, only the GST will apply and not HST.

Information relating to the application of GST and HST is available online at Canada Revenue Agency's website at www.cra-arc.gc.ca/gsthsttech. If your transaction is subject to HST, please see our publication entitled [LTT 1-2010 Effect of the Harmonized Sales Tax on the Value of the Consideration under the *Land Transfer Tax Act*](#).

The Effect of GST on the Value of the Consideration

GST and the Value of the Consideration When GST applies to the purchase of land or an interest in land, the value of the consideration does not include the amount of GST paid on the purchase price. Accordingly, land transfer tax is not exigible on the GST paid.

The Effect of the GST Rebate on the Value of the Consideration

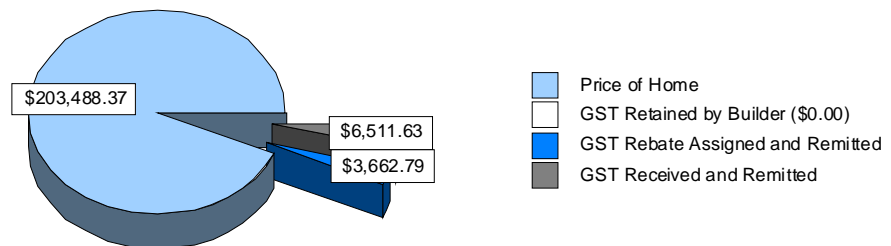
GST Rebate Some purchase agreements between a new home purchaser and a vendor will provide that the purchaser assign any GST rebate to which the purchaser is entitled to the vendor. The amount of the rebate does not usually form part of the value of the consideration, however, in some instances it will.

When the Value of the GST Rebate is Not Taxable

Summary In certain situations, when a purchaser buys a new home, the purchaser qualifies for a rebate of some of the GST. If the purchaser assigns this rebate to the vendor, and pays to the vendor the difference between the 5 per cent GST and the GST rebate, then the value of the GST rebate does not form part of the value of the consideration.

Situations where the Value of the GST Rebate is not taxable In most situations, the purchase agreement provides that the purchase price is inclusive of net GST. Net GST is the 5 per cent GST exigible less any GST rebate to which the purchaser is entitled. The agreement also provides that the purchaser will assign any GST rebate to which the purchaser is entitled to the vendor. The vendor then submits the net GST collected, and the assignment of the GST rebate to the federal government. In this way, the vendor acts as a conduit for the federal government in order to instantaneously provide the purchaser with the rebate that the purchaser would otherwise receive at a later date from the federal government.

Example



This pie chart shows that the purchaser has paid \$203,488.37 for the home, assigned the GST rebate to the vendor and paid that portion of the GST which is the difference between the full 5 per cent GST and the value of the GST rebate ($\$10,174.42 - \$3,662.79 = \$6,511.63$). The vendor remits the GST collected and the assignment of the GST rebate to the federal government. In this situation the vendor retains the price of the home, \$203,488.37, which is the value of the consideration.

The purchase price is listed in the agreement as \$210,000. The agreement sets out that this purchase price includes the price of the house, land and the net GST. The breakdown is as follows:

Sale price of house and land:	\$203,488.37
Net GST:	<u>6,511.63</u>
Purchase price:	\$210,000.00

The break down of the GST is as follows:

Net GST:	\$ 6,511.63
GST Rebate:	<u>3,662.79</u>
5 per cent GST on sale price of house and land:	\$10,174.42

The agreement goes on to provide that the purchaser will assign the purchaser's entitlement to the GST rebate (in the amount of \$3,662.79) to the vendor, and will be credited this amount on the statement of adjustments. What actually happens here is the vendor collects from the

purchaser the net GST (\$6,511.63), and the assignment of the GST rebate form (valued at \$3,662.79). The vendor remits the net GST and the assignment of the GST rebate form to the federal government, for a total value of \$10,174.42. A benefit the vendor receives from the assignment of the GST rebate is that the vendor can keep the advertised sale price competitive with other vendors. In this situation, the GST rebate does not form part of the value of the consideration, and land transfer tax does not apply to it.

Land transfer tax is based on the sale price of the house and land: **\$203,488.37**.

Note that the value of extras and upgrades are to be included in determining the true Value of the Consideration. For more information, please see Tax Bulletin [LTT 1-2006 Determining the Value of the Consideration for Transfers of New Homes](#).

When the Value of the GST Rebate is Taxable

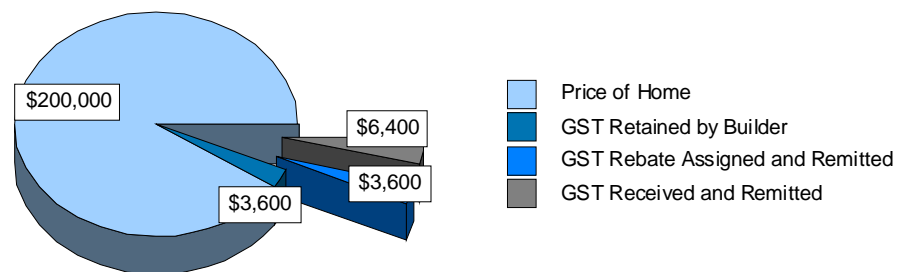
Summary

In certain situations, when a purchaser buys a new home, the purchaser qualifies for a rebate of some of the GST. If the purchaser assigns this rebate to the vendor, and pays to the vendor the full 5 per cent GST, then the value of the GST rebate forms part of the value of the consideration.

Situations where the Value of the GST Rebate is taxable

In some situations, the purchase agreement provides that the purchase price is inclusive of the full 5 per cent GST. The agreement also provides that the purchaser will assign any GST rebate to which the purchaser is entitled to the vendor, and the value of the rebate will be shown on the statement of adjustments as a corresponding offsetting credit to the purchaser and the vendor. The vendor collects the full 5 per cent GST from the purchaser as well as the assignment of the GST rebate. The vendor then submits the net GST and the assignment of the GST rebate form to the federal government, and retains the difference between the 5 per cent GST paid, and the net GST submitted to the federal government. This figure is equal to the value of the GST rebate. In this situation the vendor has benefited by collecting the full 5 per cent GST and only remitting GST net of rebate to the federal government. Consequently the value of the consideration would include the purchase price net of GST **plus an amount equal to the amount of GST rebate** which the vendor received from the purchaser but did not remit.

Example



This pie chart shows that the purchaser has paid \$200,000 for the home, assigned the GST rebate and paid the full GST. The vendor remits to the federal government the assignment of the GST rebate and the difference between the full 5 per cent GST and the value of the GST rebate ($\$10,000 - \$3,600 = \$6,400$). The vendor retains the price of the home plus that portion of the GST not remitted to the federal government (which is equal to the value of the GST rebate) $\$200,000 + \$3,600 = \$203,600$. The value of the consideration is what the vendor retains: the price of the home and the value of the GST rebate: \$203,600.

The purchase price is listed in the agreement as \$210,000. The agreement also sets out that this purchase price includes the price of the house, land and the 5 per cent GST. The

breakdown is as follows:

Sale price of house and land:	\$200,000
5 per cent GST:	<u>10,000</u>
Purchase price:	\$210,000

The breakdown of the GST is as follows:

Net GST:	\$ 6,400
GST Rebate:	<u>3,600</u>
5 per cent GST on sale price of house and land:	\$10,000

The agreement provides that the purchaser will assign the purchaser's entitlement to the GST rebate (in the amount of \$3,600) to the vendor, and will be credited this amount on the statement of adjustments. As well, the vendor will be credited this amount on the statement of adjustments. What actually happens here is the vendor collects from the purchaser the full 5 per cent GST (\$10,000), and the assignment of the GST rebate (valued at \$3,600). The vendor remits \$6,400 and the assignment of the rebate form to the federal government. The vendor retains \$3,600. In this situation, the \$3,600, which is equivalent to the GST rebate, forms part of the value of the consideration as the purchaser has provided a benefit to the vendor in this amount.

Accordingly, land transfer tax is based on the sale price of the house, land and the value of the GST rebate: $\$200,000 + \$3,600 = \mathbf{\$203,600}$.

As noted previously, the value of extras and upgrades are to be included in determining the true Value of the Consideration. For more information, please see Tax Bulletin [LTT 1-2006 Determining the Value of the Consideration for Transfers of New Homes](#).

Formulas if Value of the GST Rebate is Not Taxable

Application The following three formulas apply to situations where the Purchase Price (PP) includes the cost of the land, building, and net GST (5 per cent GST less the new home rebate), and where the purchaser has assigned the GST rebate to the vendor.

In some instances, the rate of GST is 7 per cent (i.e. if the Agreement of Purchase and Sale of a new home was entered into on or before May 2, 2006). In these instances, please see [Appendix A](#) to this bulletin.

In some instances, the rate of GST is 6 per cent (i.e. if the Agreement of Purchase and Sale of a new home was entered into after May 2, 2006 and on or before October 30, 2007). In these instances, please see [Appendix B](#) to this bulletin. [Appendix B](#) also applies if the Agreement of Purchase and Sale was entered into after October 30, 2007, and before January 1, 2008, and ownership or possession of the home is transferred before January 1, 2008.

PP is less than or equal to \$361,200	Value of the Consideration = $\frac{\$PP}{1.032}$
PP is more than \$361,200 and less than or equal to \$472,500	Value of the Consideration = $\frac{\$PP + \$28,350}{1.113}$
PP is more than \$472,500	Value of the Consideration = $\frac{\$PP}{1.05}$

Formulas if Value of the GST Rebate is Taxable

Application The following three formulas apply to situations where the Purchase Price (PP) includes the cost of the land, building, and 5 per cent GST, and where the purchaser has assigned the GST rebate to the vendor.

In some instances, the rate of GST is 7 per cent (i.e. if the Agreement of Purchase and Sale of a new home was entered into on or before May 2, 2006). In these instances, please see [Appendix A](#) to this bulletin.

In some instances, the rate of GST is 6 per cent (i.e. if the Agreement of Purchase and Sale of a new home was entered into after May 2, 2006 and on or before October 30, 2007). In these instances, please see [Appendix B](#) to this bulletin. [Appendix B](#) also applies if the Agreement of Purchase and Sale was entered into after October 30, 2007, and before January 1, 2008, and ownership or possession of the home is transferred before January 1, 2008.

PP is less than or equal to \$367,500	Value of the Consideration = $\frac{\$PP}{1.031434}$
PP is more than \$367,500 and less than or equal to \$472,500	Value of the Consideration = $\frac{\$PP}{1.1205976} + \$28,350$
PP is more than \$472,500	Value of the Consideration = $\frac{\$PP}{1.05}$

Additional Information

If this bulletin does not completely address your particular situation, refer to the Act and related regulations, or contact the:

Ministry of Revenue
Audit, Inspections and Resource Taxes
Branch
Land and Resource Taxes Section
33 King Street West
Oshawa, ON L1H 8H9

Tel.: 1 866 ONT-TAXS (1 866 668-8297)
Fax: 905 436-4511
Teletypewriter (TTY): 1 800 263-7776

This bulletin and various other English and French tax materials published by the Ministry of Revenue may be obtained online at ontario.ca/revenue.

The *Land Transfer Tax Act* and Ontario's other public statutes and regulations may be obtained online at ontario.ca/e-laws.

Cette publication est disponible en français sous le titre « Incidence de la taxe sur les produits et services sur la valeur de la contrepartie en application de la Loi sur les droits de cession immobilière ».

Vous pouvez en obtenir un exemplaire en appelant le 1 866 ONT-TAXS (1 866 668-8297) ou en visitant ontario.ca/revenu.

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APPENDIX A Formulas When GST is 7 Per Cent

Formulas if Value of the GST Rebate is not Taxable

Application	The following four formulas apply to situations where the Purchase Price (PP) includes the cost of the land, building, and net GST (7 per cent GST less the new home rebate), and where the purchaser has assigned the GST rebate to the vendor.
PP is less than or equal to \$362,777.77	Value of the Consideration = $\frac{\$PP}{1.0448}$
PP is more than \$362,777.77 and less than or equal to \$365,750.00	Value of the Consideration = $\frac{\$PP + \$8,750}{1.07}$
PP is more than \$365,750.00 and less than or equal to \$481,500.00	Value of the Consideration = $\frac{\$PP + \$39,375}{1.1575}$
PP is more than \$481,500.00	Value of the Consideration = $\frac{\$PP}{1.07}$

Formulas if Value of the GST Rebate is Taxable

Application	The following four formulas apply to situations where the Purchase Price (PP) includes the cost of the land, building, and 7 per cent GST, and where the purchaser has assigned the GST rebate to the vendor.
PP is less than or equal to \$371,527.76	Value of the Consideration = $\frac{\$PP}{1.0437}$
PP is more than \$371,527.76 and less than or equal to \$374,500.00	Value of the Consideration = $\frac{\$PP}{1.07} + \$8,750$
PP is more than \$374,500.00 and less than or equal to \$481,500.00	Value of the Consideration = $\frac{\$PP}{1.07} + \left(\frac{\$450,000 - \frac{\$PP}{1.07}}{100,000} \right) \times 8,750$
PP is more than \$481,500.00	Value of the Consideration = $\frac{\$PP}{1.07}$

APPENDIX B
Formulas When GST is 6 Per Cent

Formulas if Value of the GST Rebate is not Taxable

Application	The following three formulas apply to situations where the Purchase Price (PP) includes the cost of the land, building, and net GST (6 per cent GST less the new home rebate), and where the purchaser has assigned the GST rebate to the vendor.
PP is less than or equal to \$363,440	Value of the Consideration = $\frac{\$PP}{1.0384}$
PP is more than \$363,440 and less than or equal to \$477,000	Value of the Consideration = $\frac{\$PP + \$34,020}{1.1356}$
PP is more than \$477,000	Value of the Consideration = $\frac{\$PP}{1.06}$

Formulas if Value of the GST Rebate is Taxable

Application	The following three formulas apply to situations where the Purchase Price (PP) includes the cost of the land, building, and 6 per cent GST, and where the purchaser has assigned the GST rebate to the vendor.
PP is less than or equal to \$371,000	Value of the Consideration = $\frac{\$PP}{1.037588}$
PP is more than \$371,000 and less than or equal to \$477,000	Value of the Consideration = $\frac{\$PP}{1.06} + \left(\frac{\$450,000 - \frac{\$PP}{1.06}}{100,000} \right) \times 7,560$
PP is more than \$477,000	Value of the Consideration = $\frac{\$PP}{1.06}$