

Real Estate and GST

GST/HST (“GST”) has a number of ways that it touches the real estate industry depending on the type of investing you're doing.

If you provide only exempt goods and services, you cannot register for the GST. This means that you do not charge GST on your supplies of your goods and services, and you do not claim input tax credits (“ITC’s”) which are the amount of GST you paid in support of your business. Long-term residential accommodation (of one month or more) are exempt supplies in GST terminology. If your companies' only source of income is residential real estate, it can't legitimately register for GST and can't legitimately claim input tax credits for the GST it paid.

You will charge GST on the following income sources:

- Commercial rent, i.e., rent to manufacturers, offices, retailers, restaurants etc.n
- Flips of pre-construction condos (unless have reasonable justification for change in plans to reside there)
- Short-term rentals like Airbnb or VRBO, for less than 30 days in a row

You will pay GST on the following real estate expenses:

- Advertising
- Commercial condo fees
- Office expenses
- Professional fees
- Property management fees
- Real Estate Commissions
- Repairs & maintenance

- Travel expenses – just make sure that you only claim GST only on domestic travel as GST is not charged outside of Canada
- Utilities (except for water bills)
- Fuel & oil
- Lease costs
- Maintenance & repair

You will **not** pay GST on the following real estate expenses

- CCA (depreciation)
- Insurance
- Interest & bank charges
- Loan broker and other financing fees
- Mortgage/Line of Credit interest
- Property taxes
- Residential condo fees
- Salaries, wages, and benefits if you have employees
- Licence & registration
- Toll fees

Note: don't claim GST/HST unless your receipt shows you paid it! For first-time suppliers to whom you pay significant amounts, you should confirm they're properly registered for HST, per CRA. You can do so here:

<https://www.canada.ca/en/revenue-agency/services/e-services/e-services-businesses/confirming-a-gst-hst-account-number.html>.

You pay GST on the purchase of a new or substantially renovated home. CRA Bulletin B-092 states that a substantial renovation, refers to a renovation where at least 90% of the interior of a building (excluding the foundation, external walls, internal supporting walls, roof, floors and staircases) has been removed or replaced.

Fix and Flippers - if you register for GST, you will be able to claim all the GST you paid on the renovations materials and services as Input Tax Credits (ITC's) which are deducted dollar-for-dollar from any GST you have collected. You will get a refund if your ITCs are more than the GST you owe for the period filed.

How Government Affects the Canadian Real Estate Industry

Government affects real estate in a number of ways.

Rent control - British Columbia, Manitoba, Ontario, Prince Edward Island, Quebec and the Yukon all have rent control in place for residential tenants. At the time of writing Nova Scotia has a temporary rent control policy set to expire at the end of 2025. All of these policies limit the amount of increase in rent from year to year while the tenant remains in the unit.

When a tenant moves out, the landlord is then able to raise the rent to market rates for the new tenant. Once that new tenant moves in, again the rent increases will be limited to a fairly small percentage, somewhere in the range of 0.5-3% per year depending on inflation and other factors. This assumes that no extraordinary repairs or renovations had to be made; if they did have to be made, the landlord can apply to have an exemption to this cap and charge a greater increase than would normally be allowed to charge.

All provinces have a form of land transfer tax, other than Alberta, Newfoundland and Saskatchewan. These transfer taxes are payable by the purchaser when they acquire real estate in any of those provinces.

GST/HST is charged on all new and substantially renovated homes. Some provinces such as Ontario and Nova Scotia have a rebate where you can get a portion of that GST/HST rebated to you based on the value of your home.

Capital gains taxes are applied when residential property or other capital property which is held for the long term is sold for a gain; this gain is 50% taxable. Income from houses which are flipped or built for sale are considered fully taxable business income.

The government also sets mortgage lending rules including through the Canada Mortgage and Housing Corporation back at (CMHC) which includes the minimum payment and mortgage insurance standards.

At the time of writing, all foreign buyers are banned from purchasing real estate in Canada for at least another year.

The government sets the land use and zoning regulations which categorize land as agricultural, residential, commercial, or mixed-use etc.

The government sets required disclosures that sellers have to make to potential buyers.

Various government programs exist such as the first-time homebuyers' incentives including the homebuyers plan ("HBP") which allows a borrower to borrow up to \$35,000 from their RSP to purchase a new home and gives a 15-year timeframe to pay that loan back.

A new such program is the FHSA - a first home savings account which is a registered plan which allows you, if you are a first-time home buyer, to save to buy or build a qualifying first home tax-free (up to certain limits).

Only the government also is able to designate certain properties heritage properties, which controls the types of changes can be made to the property which vary widely from mildly restrictive such as having to preserve a historical sign to maximally restrictive in that a building can be maintained only; it cannot be changed in any way inside or out.

The Bank of Canada sets the prime interest rate which all lenders use to make their own interest decisions which affects the demand and cost of real estate.

The government also offers certain incentives for builders such as the current reduction in HST for multi-unit housing built for rental purposes.