



RATCLIFF & COMPANY

BARRISTERS & SOLICITORS

Suite 500, 221 West Esplanade
North Vancouver, B.C. V7M 3J3

Telephone: (604) 988-5201

Facsimile: (604) 980-9522

GST ON PURCHASE OF RECREATIONAL REAL ESTATE

Goods and Services Tax ("GST") is unfortunately a fact of life in Canada and the happy prospect of purchasing recreational real estate in British Columbia requires consideration of GST.

GST is designed to be paid by the end user of the goods or services that are being purchased. In the case of recreational real estate, the end user is either the purchaser who is buying the property for personal use, or the renter who rents the property from the purchaser on a nightly or short term basis.

A purchaser who buys a vacant lot or a newly constructed home or strata unit (a "Property") for the purposes of personal use is required to pay GST equal to 7% of the purchase price.

A purchaser who buys a recreational Property with the intention of renting it out to nightly or short term renters may be able to defer paying GST by obtaining a GST number prior to completing the purchase. The determining factors are the type of Property and the type of purchaser:

- \$ Partnerships (e.g. a husband and wife as joint owners), companies and trusts can defer GST.
- \$ Single individuals purchasing a used Property can usually defer GST.
- \$ Single individuals purchasing a Property that is fractionally titled (e.g. quarter interest), or that is a hotel type unit that restricts the purchaser's personal use, can defer GST.
- \$ Single individuals purchasing a Property from a builder without restrictions on the purchaser's personal use will usually be required to pay GST. Single individuals may wish to discuss with their accountant/lawyer alternate forms of ownership and their implications.

A single purchaser who has paid GST can apply to CCRA for a refund at the end of the first year of ownership if the Property was available for rental as outlined below.

Once registered for GST the purchaser is entitled to claim credits and obtain refunds for GST that has been paid on property expenses such as legal fees, strata management fees, property management fees, etc.

At the end of the first year of ownership, the purchaser must file a tax return with Canada Customs & Revenue Agency ("CCRA"). If the Property has been available for rent at least 90% of the time (i.e., personal use did not exceed 36.5 days), the GST will continue to be deferred.

If the purchaser's personal use of the Property exceeds 50% in the first year (i.e. it was available for rent less than 182 days in the year), GST will be payable on its then current market value. If personal use was between 10% and 50% the purchaser will be required to pay GST in proportion to that personal use.

Even if GST is deferred at the time of the purchase and is not payable after the first year because of its 90% availability for rent, it may be payable at a later date if there is a change in use. For instance if the Property is used as a rental property for the first three years of ownership and in the fourth year the owner decides that he will stop renting the Property, CCRA will consider this to be a change in use which attracts GST. GST would be payable at the end of the fourth year on the then current market value of the Property. If GST is deferred on the original purchase and is never subsequently paid, upon a resale of the Property the second owner must be registered for GST if the second owner is to defer paying GST.

More detailed information on GST is available on the CCRA web site at www.ccradrc.gc.ca.

We would be pleased to facilitate your registration for GST. Please contact us by phone or email.



Chuck Piercey
Barrister & Solicitor
(604) 988-5201
cpiercey@ratcliff.com

Susan Pearson
Legal Assistant
(604) 988-5201
spearson@ratcliff.com