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Enhanced GST rental rebate for purpose-built rental properties

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On September 14, 2023, the Government of Canada announced proposed legislation to enhance the goods and services tax (GST) rental rebate on new purpose-built rental housing (the enhanced GST rental rebate). The government says it hopes the enhanced GST rental rebate will incentivize the construction of rental units to increase supply and provide more affordable homes.

Draft legislation released on September 21, 2023, confirms that the enhanced GST rental rebate will be available for purpose-built rental projects if "construction begins" on or after September 14, 2023, and on or before December 31, 2030. Eligible purpose-built rental projects must complete construction by December 31, 2035, to claim the enhanced GST rental rebate.

Eligibility for the GST rental rebate

The enhanced GST rental rebate will be available for qualifying purpose-built rental projects. In order to qualify, a project must be a multiple-unit residential complex with at least four private apartment units (containing a private kitchen, bathroom and living areas) or at least 10 private rooms or suits, and 90% of the residential units must be designated for long-term rental.

The government's announcement indicates that the conversion of non-residential real estate, such as office buildings, into rental housing will be eligible for the enhanced GST rental rebate, assuming all other conditions are otherwise met. The enhanced GST rental rebate will not be available for substantial renovations of existing rental units, as the government believes that this would not incentivize an increase in supply.

Existing scheme

Generally, builders of multi-unit rental projects are able to claim input tax credits on construction costs as projects are built. The builder is then generally required to self-assess sales tax once the residential complex has achieved substantial completion and at least one individual has moved into a unit in the complex. In Ontario, which is under the harmonized sales tax (HST) regime, the sales tax self-assessed is equal to 13%.

The existing GST rental rebate generally provides a builder (or, in certain circumstances, a purchaser) a rebate of 36% of the 5% GST assessed on the value of the rental unit, for a rebate equivalent to 1.8% of the value of the rental unit. The rebate is currently reduced for any rental units with a fair market value of $350,000 or more, and it is reduced to 0% at a fair market value of $450,000.

The Government of Ontario also currently offers a rebate for new residential rental properties of 75% of the 8% portion of HST, for a rebate equivalent to 6% of the value of the rental unit, up to a maximum of $24,000. Unlike the existing GST rental rebate, Ontario's rental rebate does not phase out.

Changes to the GST rental rebate scheme

The enhanced GST rental rebate will increase the existing GST rental rebate from 36% to 100% of the 5% GST and will remove the phase-out thresholds on qualifying purpose-built rental housing projects. The builder (or, in some cases, the purchaser) of a residential complex with rental units with a fair market value of $500,000 each would, under the new proposal, receive $25,000 in the GST rental rebate for each unit, where it would not have received a GST rebate under the previous scheme. The scheme will only apply to the federal GST (and the 5% federal portion of HST). The Government of Canada has called on provinces to match this rebate for new rental housing.

The Government of Ontario has recently indicated that it plans to work with the federal government to "ensure Ontario's portion of the HST is removed" from purpose-built rental housing as soon as possible.

Rebate scheme uncertainties

There are some uncertainties regarding the eligibility of multi-unit rental projects for the rebate based on the government's announcement. Specifically, while the draft legislation confirms that the rebate is available if "construction begins" after September 14, 2023, it does not discuss how the government will determine when construction will be considered to have begun.

The government backgrounder also states that "the enhanced GST Rental Rebate for purpose-built rental housing will be effective as of [September 14, 2023]". As construction projects generally take a long time to finish, it seems a bit arbitrary and unfair that a project that just started construction on September 13 will receive no enhanced rebate, whereas a construction project starting on September 15 may get the full enhanced GST rental rebate even if it hits substantial completion (and must self-assess) prior to the project that began on September 13. Hopefully the government will consider extending the enhanced GST rental rebate to all projects where substantial completion (and self-assessment) occur after September 14, 2023.