

2023 Issue No. 38
25 September 2023

Tax Alert – Canada

Enhanced GST rental rebate legislation for new rental units introduced

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

The much-anticipated Bill C-56, *Affordable Housing and Groceries Act*, which received first reading in the House of Commons on 21 September 2023, includes amendments to the *Excise Tax Act* to implement certain enhancements to the GST new residential rental property rebate (GST rental rebate) first announced by Prime Minister Justin Trudeau on 14 September 2023. If enacted, Bill C-56 would increase the GST rental rebate on new purpose-built rental housing from the current 36% to 100% with no phase-out thresholds and no limits on the amount of the rebate. The existing GST rental rebate has a phase-out for qualifying residential units valued between \$350k and \$450k, with no rebate available for units valued at \$450k or more. The amendments are intended to encourage the construction of more apartment buildings, student housing and senior residences built specifically for long-term rental accommodation.

This enhancement is a temporary measure that will apply to residential units that qualify for the current GST rental rebate where construction of the building or addition begins after 13 September 2023 but before 2031 and is substantially completed before 2036.

Bill C-56 also expands entitlement to the GST rental rebate to public service bodies who previously were not entitled to the rebate if they were eligible for the public service bodies rebate. Public service bodies will now be able to choose the most beneficial of the two rebates. Public service bodies likely to benefit from the proposed measures include certain universities, municipalities, public colleges, charities and non-profit organizations.

Bill C-56 does not contain many details that were part of the Backgrounder released by the Department of Finance on 14 September 2023. These details are expected to be clarified by further legislative changes, including regulations that are referred to in Bill C-56. In particular, the Backgrounder notes the following additional details:

- ▶ Qualifying new residential units are intended to be those that qualify for the existing GST rental rebate and are in a building with at least:
 - ▶ Four private apartment units – that is, a unit with a private kitchen, bathroom and living areas – or at least 10 private rooms or suites, such as a 10-unit residence for students, seniors or people with disabilities; and
 - ▶ 90% of the residential units are designated for long-term rental.
- ▶ The enhanced GST rental rebate will not apply to substantial renovations of existing residential complexes.

The Backgrounder also clarified the following:

- ▶ The conversion of existing non-residential real estate into a residential complex may be eligible for the enhanced GST rental rebate where all the other conditions are met.
- ▶ The existing GST rental rebate will continue to apply to properties that are not eligible for the enhanced GST rental rebate, such as individually owned condominium units, single-unit housing, duplexes, triplexes, housing co-ops and owned houses situated on leased land and sites in residential trailer parks.

Bill C-56 may undergo further changes as it makes its way through the legislative process. Also, regulations will be required to fully implement the enhanced GST rental rebate.

It should be noted that Bill C-56 addresses only the GST and the 5% federal portion of the HST. Other provincial rebates may be available. For example, Ontario currently provides a rebate of 75% of the provincial portion of the HST up to a maximum of \$24,000 per residential unit. If Ontario follows the federal government's lead, we could expect a larger potential rebate of the provincial portion as well.

In addition to the GST rental rebate, Bill C-56 also proposed changes to the *Competition Act* focusing on the grocery sector.

Learn more

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