



How to Determine the Percentage of Completion for Purposes of the Provincial Transitional New Housing Rebates and the Transitional Tax Adjustment in Ontario and British Columbia

The Government of Ontario and the Government of British Columbia have each introduced a harmonized sales tax (HST) that came into effect on July 1, 2010.

The HST rate in Ontario is 13% of which 5% is the federal part and 8% the provincial part.

The HST rate in British Columbia is 12% of which 5% is the federal part and 7% the provincial part.

This info sheet reflects tax changes included in the *New Harmonized Value-added Tax System Regulations No.2*.

This info sheet outlines the methods that are considered to be fair and reasonable by the Canada Revenue Agency (CRA) for purposes of determining the percentage of completion of the construction or substantial renovation of a residential complex situated in Ontario or British Columbia (B.C.) as of July 1, 2010. This percentage of completion must be determined to calculate the provincial transitional new housing rebate and the transitional tax adjustment and must be done in a fair and reasonable manner.

Definitions for GST purposes, e.g., builder, condominium complex, mobile home, residential complex, residential unit, residential condominium unit, single unit residential complex and substantial renovation, generally apply under the HST, as do the CRA's current policies on the application of the GST to housing. *Guide RC4052, GST/HST Information for the Home Construction Industry* and GST/HST Info Sheet GI-005, *Sale of a Residence by a Builder Who is an Individual* explore many of these important terms and concepts. Others are explained in GST/HST Memorandum 19.2, *Residential Real Property* or related policy statements.

Substantial renovation

Housing that has been substantially renovated is generally given the same treatment under the GST/HST as newly constructed housing. Extensive modifications must be made to the housing in order to meet the definition of a "substantial renovation" for GST/HST purposes. For a full explanation of the factors to consider in deciding if a substantial renovation has taken place, refer to GST/HST Technical Information Bulletin B-092, *Substantial Renovations and the GST/HST New Housing Rebate*.

Provincial transitional new housing rebate

Generally, a provincial transitional new housing rebate is available in respect of a newly constructed or substantially renovated residential complex, or an addition to a multiple unit residential complex where the construction or substantial renovation of the complex, or addition, is at least 10% complete as of July 1, 2010, and

- the sale of the complex is subject to the HST at 13% in Ontario or 12% in B.C.;
- the builder of the complex, or addition, is considered to have made a self-supply of the complex, or addition, on or after July 1, 2010; or
- the builder is considered to have collected the transitional tax adjustment in respect of the complex.

Generally, the intent of the provincial transitional new housing rebate is to ensure that a newly constructed or substantially renovated residential complex is not subject to both the HST (or the transitional tax adjustment in the case of a residential

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condominium unit or condominium complex) and the retail sales tax (RST) in Ontario or the provincial sales tax (PST) in B.C., by rebating an amount that is generally equal to the estimated RST or PST content of the complex, or addition. The provincial transitional new housing rebate is not available for mobile homes, floating homes and owner-built homes. It is also not available in situations where only the building part of a complex is sold to a person while the land in respect of the complex is leased to the person.

For purposes of the provincial transitional new housing rebate, the percentage of completion of a residential condominium unit situated in a condominium complex is the percentage of completion of the condominium complex as of July 1, 2010, unless the condominium unit is substantially renovated without substantially renovating the condominium complex in which the unit is situated. In this case, the percentage of completion is based on the substantial renovation of the unit only.

Refer to GST/HST Info Sheet GI-096, *Harmonized Sales Tax: Provincial Transitional New Housing Rebates for Housing in Ontario and British Columbia*, for a detailed explanation of the provincial transitional new housing rebate.

This info sheet does not explain the consideration method or the floor space method that is used to determine the amount of a provincial transitional new housing rebate. This info sheet only addresses the determination of the percentage of completion of a newly constructed or substantially renovated residential complex as of July 1, 2010. The determination of the percentage of completion may be based on floor space methods or other methods that are explained later in this info sheet. However, once the percentage of completion is determined, refer to Info Sheet GI-096, *Harmonized Sales Tax: Provincial Transitional New Housing Rebates for Housing in Ontario and British Columbia*, for information on the methods used to calculate the provincial transitional new housing rebate.

Transitional tax adjustment

The transitional tax adjustment is an amount a builder is considered to have collected in respect of a newly constructed or substantially renovated residential complex that is a single unit residential complex, a residential condominium unit or a condominium complex where the sale of the complex is grandparented. For more information on

grandparented housing refer to GST/HST Info Sheet GI-083, *Harmonized Sales Tax: Information for Builders of New Housing in Ontario*, or GST/HST Info Sheet GI-084, *Harmonized Sales Tax: Information for Builders of New Housing in British Columbia*.

In respect of a single unit residential complex, the builder must account for the transitional tax adjustment where the construction or substantial renovation of the complex is less than substantially complete as of July 1, 2010. The amount of the transitional tax adjustment is based on the percentage of completion of the complex as of July 1, 2010.

In respect of a residential complex that is a residential condominium unit or condominium complex, if the sale of the unit or complex is grandparented, the builder must account for the transitional tax adjustment regardless of the degree of completion of the complex as of July 1, 2010.

The transitional tax adjustment is intended to approximate the amount of RST or PST that a builder would otherwise have paid on construction materials acquired after June 2010 had the RST/PST remained in place. Refer to GST/HST Info Sheet GI-095, *Harmonized Sales Tax: Information on the Transitional Tax Adjustment for Builders of Housing in Ontario and British Columbia*, for a detailed explanation of the transitional tax adjustment.

Determining the percentage of completion

The percentage of completion of a newly constructed or substantially renovated complex as of July 1, 2010 can only be determined if the construction or substantial renovation actually began before July 1, 2010. It is a question of fact as to whether the construction or substantial renovation began before July 1, 2010. In the case of a newly constructed residential complex, the construction begins when the excavation of the site within the activity of constructing the complex begins.

This info sheet does not apply if the construction or substantial renovation of the residential complex did not begin before July 1, 2010. If the construction or substantial renovation of the residential complex did not begin before July 1, 2010, a person is not entitled to claim a provincial transitional new housing rebate in respect of the complex. In the case of the transitional tax adjustment, the percentage of completion is 0%, regardless of the fact that the builder may have incurred some costs that would normally factor into the determination of the percentage of completion had the construction or substantial renovation began before July 1, 2010.

The determination of the percentage of completion of the construction or substantial renovation of a residential complex does not take into consideration the cost of the land upon which the complex is situated because land is generally not regarded as being constructed or renovated. Refer to the Appendix for additional information on property and services that are generally included or excluded from the determination of the percentage of completion.

For a condominium project where the housing is located in more than one building, the percentage of completion should generally be determined on a building by building basis.

Where a cost method is being used to determine the percentage of completion, common expenses of a project involving more than one building should be apportioned to the various buildings in proportion to each building's cost, as a percentage of the total cost of all buildings in the project, provided that the common areas to which such common expenses relate are in the residential complex part of the building, i.e., that part reasonably necessary for the use and enjoyment of the building as a place of residence for individuals.

This info sheet does not apply to any part of the land or building that is not part of a residential complex.

The following six methods are generally considered to be fair and reasonable methods that can be used to determine the percentage of completion.

Method 1 – Capital and operating costs

Determine, as of July 1, 2010, the capital and operating costs incurred in the construction or substantial renovation of the residential complex as a proportion of the total expected capital and

operating costs, as of July 1, 2010, to be incurred to construct or renovate the complex.

These costs include all costs necessary to put the complex in a position to fulfil its function as a place of residence, except for the cost of acquiring the land and certain related costs. The costs would include the costs of material and labour, as well as overhead costs reasonably attributable to the construction or renovation of the complex. The Appendix to this info sheet outlines the costs that should be included and those that should not be included in determining the percentage of completion. The determination of these costs should be designed to achieve a reasonable and proper matching of costs with the value added as of July 1, 2010.

Costs of materials that have been purchased as of July 1, 2010 but not yet used in the construction should not be included. Conversely, costs invoiced to the builder after July 1, 2010, but related to work performed or material delivered and used on or before July 1, 2010 should be included in determining the total capital and operating costs as of July 1, 2010.

The total expected capital and operating costs, as of July 1, 2010, to construct or substantially renovate the complex should include any cost savings or cost overruns that are known or expected as of July 1, 2010.

Method 2 – Interior floor space

Determine the percentage of completion based on the interior floor space of the residential complex for which the construction or substantial renovation was completed as of July 1, 2010, as a proportion of the total interior floor space as evidenced in the plans/designs for the complex as of July 1, 2010.

The interior floor space consists of all living areas within the interior of the complex, including common areas such as lobbies, corridors, staircases, elevator shafts, laundry rooms, recreation rooms, indoor swimming pools and similar spaces. Excluded from the interior floor space are storage rooms, attics and basements, unless they are finished by a builder of the complex to a standard comparable to the living areas of the complex. Commercial areas, parking garages, rooms or areas that contain heating

or cooling equipment or equipment for the supply of water, gas or electricity to the complex, and similar areas are also excluded from the interior floor space.

The interior floor space is the aggregate of the building at grade level, plus the area of all other floors above or below grade level, designed and usable as living areas, all measured from the outside faces of the enclosing walls if the walls are not adjacent to any other residential complex or unit. If the enclosing wall is adjacent to another complex or unit (e.g., a condominium unit situated adjacent to another unit in the condominium complex), the interior floor space is measured from the middle of the enclosing wall.

The supporting documentation related to the interior floor space of the complex completed as of July 1, 2010 may include:

- the building contract;
- the drawings/plans for the construction or substantial renovation of the complex;
- engineering and/or architectural reports; and
- bank inspection reports used to support mortgage draws.

Method 3 – Total floor space

Determine the percentage of completion based on the floor space of the residential complex for which the construction or substantial renovation was completed as of July 1, 2010, as a proportion of the total floor space of the complex as evidenced in the plans and designs for the complex as of July 1, 2010.

The total floor space consists of the interior floor space and spaces that are excluded from the interior floor space but that form part of the residential complex.

The supporting documentation related to the floor space of the complex that was completed as of July 1, 2010 may include:

- the building contract;
- the drawings/plans for the construction or substantial renovation of the complex;
- engineering and/or architectural reports; and

- bank inspection reports used to support builder mortgage draws.

Method 4 – Fair market value

Determine the percentage of completion based on a certified appraised fair market value of the building (excluding the land), or part of the building, that was constructed or substantially renovated as of July 1, 2010, as a proportion of the appraised fair market value of the building as if it had been substantially completed as of July 1, 2010.

Method 5 – Progress billings

Determine the percentage of completion based on progress billings made in respect of the construction or substantial renovation of the residential complex, as of July 1, 2010, as a proportion of the expected total consideration payable to construct or renovate the complex as of July 1, 2010.

Where a contractor requires a person to make payments based on the progress of the work as stipulated under the contract for the construction or substantial renovation of the complex, the percentage of completion may be determined based on the progress billings made as of July 1, 2010. However, the progress billings made as of July 1, 2010 should not include any amounts that relate to work that was not yet performed, or property that was not delivered, or delivered and not used, as of July 1, 2010.

The expected total consideration payable to construct or substantially renovate the complex as of July 1, 2010, should include any adjustments to the consideration that are known or expected as of July 1, 2010.

Method 6 – Certified report

Determine the percentage of completion based on a report prepared by an engineer, architect or other professional who is qualified to certify the value or extent of work completed as of July 1, 2010.

Documentation

Documentation used to determine the percentage of completion should be maintained for a period of six years and included with a person's books and records as this determination is subject to audit.

Example

A builder constructs a residential complex and the construction began before July 1, 2010.

The following costs (in millions of dollars) are incurred as of July 1, 2010:

Land	\$2.0
Costs associated with the acquisition and maintenance of the land prior to construction	0.4
Construction materials used and services performed	4.0
Architects' fees, plans and drawings for the complex	1.0
Legal and accounting costs relating to the construction of the complex	<u>0.2</u>
Total costs as of July 1, 2010	\$7.6 M

The total expected cost (in millions of dollars) to construct the residential complex, including the land, as of July 1, 2010 is \$15 million dollars, which consists of the following costs:

Land	\$2.0
Costs associated with the acquisition and maintenance of the land prior to construction	0.4
Construction materials and services	11.0
Architects' fees and plans and drawings for the complex	1.0
Landscaping costs, cost of parking lot, utility connection costs	0.3
Legal and accounting costs relating to the construction of the complex	<u>0.3</u>
Total costs	\$15.0 M

The total expected cost includes an additional \$0.5 million for construction materials as a result of increased costs incurred as of July 1, 2010 and expected additional costs, as of July 1, 2010, for materials required to complete the construction.

As of July 1, 2010, the total floor space of the complex is intended to be 1,900 square metres (m²), of which 1,400 square metres is the interior floor space.

The actual floor space completed as of July 1, 2010 is 1,100 square metres. The actual interior floor space completed as of July 1, 2010 is 800 square metres.

The appraised fair market value of the building (excluding the land) had it been substantially completed as of July 1, 2010 is \$25 million. The appraised fair market value of the building completed as of July 1, 2010 is \$13 million.

The percentage of completion of the residential complex as of July 1, 2010, must be determined in a fair and reasonable manner.

The following determinations of the percentage of completion illustrate some of the methods generally considered to be fair and reasonable:

Method 1 – Capital and operating costs

Total expected capital and operating costs excluding any costs relating to the acquisition of the land and costs associated with the acquisition and maintenance of the land prior to construction as of July 1, 2010 \$12.6 M

Total capital and operating costs excluding any costs relating to the acquisition of the land and costs associated with the acquisition and maintenance of the land prior to construction incurred as of July 1, 2010 \$5.2 M

Percentage of completion ($\$5.2 \text{ M} \div \$12.6 \text{ M} \times 100$) 41.27%

Method 2 – Interior floor space

Interior floor space of the complex as indicated in plans/designs as of July 1, 2010 1,400m²

Interior floor space completed as of July 1, 2010 800m²

Percentage of completion ($800 \div 1,400 \times 100$) 57.14%

Method 3 – Total floor space

Total floor space of the complex 1,900 m²

Total floor space completed as of July 1, 2010 1,100 m²

Percentage of completion ($1,100 \div 1,900 \times 100$) 57.89%

Method 4 – Fair market value

The appraised fair market value had the building been substantially completed as of July 1, 2010 \$25 M

The appraised fair market value of the partly completed building as of July 1, 2010 \$13 M

Percentage of completion ($\$13 \text{ M} \div \$25 \text{ M} \times 100$) 52%

This info sheet does not replace the law found in *the Excise Tax Act* (the Act) and its regulations. It is provided for your reference. As it may not completely address your particular operation, you may wish to refer to the Act or appropriate regulation, or contact any CRA GST/HST rulings office for additional information. A ruling should be requested for certainty in respect of any particular GST/HST matter. Pamphlet RC4405, *GST/HST Rulings – Experts in GST/HST Legislation*, explains how to obtain a ruling and lists the GST/HST rulings offices. If you wish to make a technical enquiry on the GST/HST by telephone, please call 1-800-959-8287.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenu Québec by calling 1-800-567-4692. You may also visit their Web site at www.revenu.gouv.qc.ca to obtain general information.

All technical publications related to GST/HST are available on the CRA Web site at www.cra.gc.ca/gsthstech.

Appendix – Costs to include or exclude in determining percentage of completion

This listing is meant to be illustrative and not exhaustive.

The cost of acquiring the land that forms part of a residential complex should **not** be included in determining the percentage of completion of the construction or substantial renovation of the residential complex.

The following costs may be included in determining the percentage of completion to the extent that the costs are necessary to put the residential complex in a position to fulfill its function as a place of residence:

- costs of plans and drawings that are integral to the construction process;
- costs of builder's permits and development cost charges (i.e., charges that a developer is required to pay for the infrastructure that the new development requires. Generally, these charges limit the amount that existing residents have to pay to subsidize the infrastructure required for new residents);
- cost of representations made to government authorities for the purpose of obtaining land development permits, building permits and licences;
- site investigation costs (amounts paid for investigating the suitability of a site, such as the costs of soil tests, zoning investigations, environmental studies, surveying and financial feasibility studies);
- costs of clearing and levelling the surface of the land (including the demolition of existing structures) upon which the complex will be built;
- blasting and excavation costs necessary to prepare for the construction or renovation of the complex;
- grading, fill, retaining walls, gabion slopes, earth removal, clearing and grubbing;
- architect's and engineering fees related to the construction of the complex;
- construction and inspection fees;
- builder's all-risk insurance;
- legal and accounting fees relating to the construction of the complex;
- clean-up costs;
- construction materials and construction services;
- component parts such as electric wiring, plumbing, sprinkler systems, air conditioning equipment, heating equipment, lighting fixtures, elevators, storm doors and windows, automatic stokers, sump pumps and fire alarm systems;
- footings, foundations and other base support below ground level;
- landscaping costs;
- costs of parking lots, garages, sewers, water mains, exterior lighting, sidewalks, utility connection costs, fences, swimming pools and other recreational facilities on the land to the extent that they form part of the residential complex;
- operating expenses associated with the construction or substantial renovation of a specific residential complex (or if the expense cannot be identified with a specific complex, then those costs that are allocated to the complex in a fair and reasonable manner).

As indicated above, the cost of acquiring the land should be excluded in determining the percentage of completion. Certain costs associated with the land should also be excluded in determining the percentage of completion. Such costs include the costs associated with the acquisition and maintenance of the land prior to construction, such as:

- legal and accounting expenses associated with the land acquisition and maintenance of the land prior to the construction of the complex;
- operating expenses associated with the land (or a reasonable apportionment of operating costs to the land) such as directors' fees, head office expenses (including rent, secretarial salaries, maintenance expenses and business taxes); and
- real estate taxes, including land transfer tax payable on the acquisition of the land.