GST/HST Info Sheet

The GST/HST and the Purchase, Use and Sale of Vacation Properties by Individuals

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This info sheet explains how the GST/HST applies in situations where an individual purchases, uses or sells a vacation property. It does not deal with vacation properties acquired by persons other than individuals.

In this publication, "vacation property" means a residential unit that is purchased by an individual for:

- his or her personal use, (including use by relatives and friends);
- short-term rental use; or
- some combination of these two.

Residential units commonly used as vacation properties include detached houses, semi-detached houses, rowhouse units or townhouses, and condominium units. Vacation properties are generally located in a recreational or resort area (e.g., a ski or golf resort).

"Registrant" means a person who is registered or is required to register for GST/HST purposes.

"Short-term rental" means a rental period of less than one month of continuous occupancy.

While some vacation properties are used for exempt long-term rental purposes, this info sheet only deals with vacation properties used for short-term rentals and for personal use.

Detailed information on how the GST/HST applies to real property not specifically addressed in this publication is available in Chapter 19, *Special Sectors: Real Property*, of the GST/HST Memoranda Series, or by calling the toll-free number 1-800-959-8287. If you are located in Quebec, please contact Revenu Québec at the toll-free number 1-800-567-4692.

The GST/HST and the purchase of a vacation property

Generally, an individual who purchases a vacation property is required to pay the GST/HST on the purchase of the property.

New Vacation Properties

The purchase of a new vacation property (including a substantially renovated property) that is to be used as a place of residence or lodging for individuals is generally taxable where the purchase is made before any individual occupies the property as a place of residence or lodging.

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Previously Occupied Vacation Properties

The purchase of a vacation property that has been occupied as a place of residence or lodging since it was constructed or last substantially renovated is taxable where the vendor has claimed input tax credits (ITCs) for the GST/HST paid or payable on the last acquisition of the property, or in respect of improvements made to the property since its last acquisition.

The purchase of a vacation property is also taxable where the property is not used primarily (more than 50%) as the vendor's place of residence and all or substantially all (90% or more) of the rentals of the property are for periods of less than 60 days (i.e., the property is operated like a hotel-type establishment, for example, it is included in a rental pool). As a result, most purchases of previously occupied vacation properties that were placed in rental pools are taxable.

If the vendor is an individual or a personal trust and is not a registrant, the purchase of a vacation property is taxable where the property is capital property used primarily in a rental-income business carried on by the vendor with a reasonable expectation of profit.

If the vendor is an individual or personal trust that is a registrant, the purchase of a vacation property is taxable if the property was used primarily in making taxable short-term rentals, even though the individual or personal trust may not be engaged in a business carried on with a reasonable expectation of profit.

Information on the meaning of personal trust is available in GST/HST Memorandum 19.5, *Land and Associated Real Property.* Information on whether a rental business is carried on with a reasonable expectation of profit is available in Appendix B to that memorandum.

Unless otherwise noted, the remainder of this info sheet will focus on the taxable purchase of a vacation property where the property is for use in making short-term rentals.

Should individuals register for the GST/HST before purchasing a vacation property?

Generally, an individual may register if he or she intends to purchase a vacation property for the purpose of making taxable short-term rentals.

As a registrant, an individual making short-term rentals of a vacation property is required to charge and collect the GST/HST payable on the rentals if the rent charged is more than $20 per day.

A purchaser of a vacation property is a small supplier if the purchaser's gross rental revenue from making taxable short-term rentals (and any other taxable supplies) does not exceed $30,000 in the last four consecutive calendar quarters, or in any single calendar quarter. In cases where the purchaser is a small supplier, the purchaser may register voluntarily for GST/HST purposes.

Generally, a purchaser who registers prior to purchasing a vacation property is required to pay the GST/HST payable on the purchase of the property directly to the Canada Revenue Agency (CRA) unless the purchaser is an individual who purchases a property that is newly constructed and the vendor is a resident of Canada. In this case, the GST/HST payable on the purchase must be paid to the vendor.

A purchaser who does not register is required to pay the GST/HST payable on the purchase of the vacation property to the vendor unless the vendor is a non-resident. If the vendor is a non-resident, the purchaser must pay the GST/HST directly to the CRA.

If the purchaser is a registrant at the time the vacation property is purchased, an ITC may be available to offset some or all of the GST/HST payable on the purchase of the property. More information on the availability of ITCs is included later in this info sheet.

Example 1

George is purchasing a new condominium unit at a ski resort. The company selling the condos has said that he is required to pay the GST/HST to the vendor on the purchase unless he provides the vendor with his GST/HST registration number before the closing date. In the future, George may place his condo in a rental pool, but for now, he will use the condo solely for his personal use. George is not engaged in any commercial activities.

Can George register for the GST/HST? Is he required to pay the GST/HST to the vendor?

Since George is not engaged in commercial activities (i.e., making taxable short-term rentals of his condo), George cannot register for the GST/HST. George is required to pay the GST/HST to the vendor on the purchase of the new condo.

Example 2

Marvin wants to purchase a condominium unit at a ski resort for his personal use (including use by relatives and friends) during the winter holidays. He plans to place his condo in a rental pool to make taxable short-term rentals when he is not using it for his personal use. Marvin will be placing his condo in a rental pool in an attempt to reduce the annual cost of owning the condo. He expects his personal use will be greater than the use in making taxable short-term rentals. The vendor is currently using the condo solely for making taxable short-term rentals.

Can Marvin register for the GST/HST? Is he required to pay the GST/HST to the vendor?

Marvin can register, but only if he makes taxable short-term rentals of his condo. If Marvin is a small supplier, registration is voluntary.

If Marvin registers before buying the condo, he will not be required to pay the GST/HST to the vendor on the purchase of the condo. Instead, Marvin will be required to report the GST/HST payable on the purchase of the condo on form GST 60, *GST/HST Return for Acquisition of Real Property*. The due date for this return and for payment of the GST/HST is the last day of the month immediately following the month in which the condo was purchased. Marvin cannot report the GST/HST payable on his regular GST/HST return since the property is not for use primarily in the course of his commercial activities (i.e., in making taxable short-term rentals). As a registrant, Marvin will be required to charge and collect the GST/HST payable on the taxable short-term rentals of his condo.

If Marvin does not register before purchasing the condo, he must pay the GST/HST payable on the purchase of the condo to the vendor. Because he is not registered, Marvin would not be required to charge or collect the GST/HST payable on the taxable short-term rentals of his condo.

ITCs for the purchase of a vacation property for use exclusively in making taxable short-term rentals

An individual who is a registrant is required to charge and collect the GST/HST payable on any taxable short-term rentals. As a registrant, the individual is entitled to claim ITCs for the GST/HST paid or payable on property or services acquired or imported for use in his or her commercial activities (i.e., in making taxable short-term rentals). More information on claiming ITCs is available in the guide RC4022, *General Information for GST/HST Registrants*.

If the individual purchasing a vacation property is a registrant, the individual may be entitled to claim an ITC for the GST/HST paid or payable on the purchase of the property.

An individual who is a registrant and who purchases a vacation property for the purpose of making taxable short-term rentals only with no personal use is entitled to claim an ITC for the GST/HST paid or payable on the purchase. If the individual became a registrant immediately before purchasing the property, the individual may claim the ITC in his or her first GST/HST return. If the individual is required to pay the GST/HST payable on the purchase of the property directly to the CRA, the ITC will offset the GST/HST payable.

If, after claiming an ITC, the individual begins to use the vacation property for his or her personal use, the individual may be required to account for the GST/HST in respect of this change in use. More information on the change-in-use rules is found under the heading “Change in use”.

Example 3

Stephanie is not a registrant. She intends to purchase a new condominium unit at a year-round resort and to place the condo in a rental pool for the purpose of making taxable short-term rentals. The vendor is a resident of Canada. Stephanie does not intend to use the condo for her personal use.

Can Stephanie register for the GST/HST and claim an ITC for the GST/HST payable on the purchase of the condo?

Stephanie can register because she intends to use the condo exclusively for making taxable short-term rentals. Even if Stephanie registers before purchasing the condo, she will be required to pay the GST/HST payable on the purchase of the condo to the vendor, since she is purchasing a newly constructed vacation property. As a registrant, Stephanie will be entitled to claim a full ITC for the GST/HST payable on the purchase of the condo since she intends to use it only in commercial activities.

An individual may also claim a full ITC for the GST/HST paid or payable on the purchase of a vacation property where the property is purchased for use exclusively (90% or more) in making taxable short-term rentals with minimal personal use. More information on claiming full ITCs is found under the heading "Determining the extent of use in commercial activities".

ITCs for the purchase of a vacation property for mixed-use purposes

Vacation properties purchased for personal use are often placed in a rental pool for rental purposes when their owners do not use them for personal use.

Generally, the main purpose of a rental pool is to provide short-term, hotel-type accommodation. Under the terms of a typical rental pool agreement, a management company is hired to rent a vacation property on behalf of the property owner and to provide various services common to hotel establishments such as reservations, housekeeping, and front desk services. Owners are generally required to notify the rental pool manager of the times when they intend to use the property themselves.

An individual who purchases a vacation property primarily (more than 50%) for personal use is not eligible to claim an ITC for the GST/HST paid or payable on the purchase of the property, even if there are to be some taxable short-term rentals. If there is a subsequent decrease in personal use, the change-in-use rules may apply and an ITC may become available. More information on this topic is found under the heading "Change in use".

An individual who purchases a vacation property for use 50% or more, but less than 90%, in making taxable short-term rentals, may be entitled to claim an ITC for a portion of the GST/HST paid or payable on the purchase.

Any increase or decrease in personal use, and any corresponding increase or decrease in making taxable short-term rentals may result in additional GST/HST becoming payable or an additional entitlement to an ITC.

Example 4

Sylvie purchased a taxable condominium unit at a ski resort for her personal use during the holidays (e.g., Christmas, spring break, and Easter) and on most weekends throughout the ski season. Sylvie intends to place her condo in a rental pool when she is not using it, generally from Sunday night to Thursday night inclusive to make taxable short-term rentals to help reduce the cost of owning the condo. Before purchasing the condo, she determined that the ski season lasts about 150 days a year and that, during the rest of the year, there are few or no rental opportunities. The occupancy levels in the rental pool from Sunday night to Thursday night (except for holidays) are very low. The rental pool manager confirms that the only times Sylvie can reasonably expect to rent her condo would be on some weekends and holidays during the ski season.

Even though Sylvie is a small supplier, she decided to register for the GST/HST before purchasing the condo.

Can Sylvie claim an ITC for the GST/HST she paid on the purchase of her condo?

Based on the extent of Sylvie's personal use and the fact that there is a reasonable expectation of making few, if any, taxable short-term rentals of her condo, Sylvie's condo is being purchased primarily for personal use. As a result, Sylvie is not entitled to claim an ITC for the GST/HST paid on the purchase of the condo.

As a registrant, Sylvie is required to charge and collect the GST/HST on all taxable short-term rentals of her condo. Where Sylvie's use of the condo for the purpose of making taxable short-term rentals exceeds 10% of the total use of the condo, she will be entitled to claim an ITC, but only with respect to the GST/HST paid or payable on her operating costs (e.g., rental management fees, housekeeping charges and administrative fees) and only to the extent that her condo is for use in commercial activities (i.e., in making taxable short-term rentals).

Determining the extent of use in commercial activities

Where an individual purchases a vacation property for both personal use and for use in commercial activities, the method used to determine the extent of use in commercial activities must be fair and reasonable, and used consistently throughout the year.

A method based on days used personally and days rented is an acceptable method for determining the extent of use in commercial activities. A method that automatically considers all unoccupied days as days for use exclusively in commercial activities would not be a fair and reasonable method.

For example, if, at the time of purchase, Dennis intends to use his vacation property for his personal use for 35 days of the year and to make the property available, through a rental pool, for rent on a taxable short-term basis for the remainder of the year, the property would not automatically be considered to be used all, or substantially all, for commercial activities. If Dennis reasonably expects that the property will be rented on a taxable short-term basis for 15 to 20 days, it would not be reasonable to say that this property is being used all, or substantially all, in commercial activities. In this case, Dennis would not be entitled to claim an ITC for the tax paid or payable on the purchase of the vacation property because it is used primarily for personal use.

All of the relevant factors should be considered when determining the extent of use in commercial activities at the time an ITC is being claimed. Factors that may be relevant include:

- Is the vacation property capable of being rented (e.g., is it suitably equipped for rental purposes)?
- Does the market for short-term taxable rentals extend throughout the year?
- Is it reasonable to expect, at the time the property is acquired, that it will be used for taxable short-term rental and not primarily for the owner's personal use?
- Will the property be available for personal use?
- What impact does personal use have on the potential for rental use?
- To what extent is the property available to rent for consideration and what are the terms of any applicable rental pool contract?
- What is the extent of the owner's personal use (including friends and relatives)?
- How often has the property been rented on a taxable short-term basis in the past?

Example 5

Sally made a taxable purchase of a condominium unit at a ski resort on December 1 in Year 1. The condo is for her personal use and for making taxable short-term rentals. She plans to limit her personal use of the condo to not more than 35 days of the year. The ski season lasts for about 150 days a year. During the rest of the year, there are few or no taxable short-term rental opportunities for the condos at the resort. Historically, the condos in the rental pool were rented for 35 to 40 days per year, given the limited amount of rentals that occur on weekdays. The number of rental days for a particular condo depends on the timing of the owner's personal use.

Sally was told that if she registered for the GST/HST before purchasing the condo, she would not have to pay the GST/HST on its purchase. She became a registrant on November 29 in Year 1.

Sally was required to file her first annual GST/HST return for Year 1, which ended on December 31. On this return, she reported the GST/HST she paid on the purchase of the condo and claimed a full ITC based on her understanding that, in any given year, the condo would be in the rental pool for 330 days (365 – 35 days of personal use).

After the first full year ended (i.e., Year 2), the total number of days that her condo was actually rented on a taxable short-term basis was 40 days, and the number of days that her condo was occupied for personal use was 35 days.

Was Sally entitled to claim a full ITC for the GST/HST paid on the purchase of her condo?

Sally was not entitled to claim a full ITC for the GST/HST paid on the purchase of her condo. There is no indication that Sally had a reasonable expectation to make taxable short-term rentals for every day during the year that she did not use the condo for her personal use. Sally did not consider the fact that the ski season lasted only about 150 days and that there were few or no opportunities for taxable short-term rentals in the off-season. Sally also did not consider the fact that, historically, the condos in the rental pool were rented on a taxable basis for only 35 to 40 days per year, given the limited amount of such rentals that occur on weekdays.

In this case, it would have been reasonable for Sally to expect to rent the condo for 40 days and to have claimed an ITC for the GST/HST paid on the purchase of the condo based on the following extent of use in making taxable short-term rentals:

$$40 \text{ days rental} \div (35 \text{ days personal} + 40 \text{ days rental}) = 53\%.$$

For each reporting period, Sally is required to determine the extent of use in making taxable short-term rentals using a method that is fair and reasonable and applied consistently throughout the year.

Depending on the extent of use for purposes of making taxable short-term rentals in a particular reporting period, there may be a change in use for GST/HST purposes. Any cumulative decrease or increase of use in commercial activities of 10% or more, caused by one or more successive changes in the level of use in commercial activities (i.e., in making taxable short-term rentals) in one reporting period, will trigger a change in use for GST/HST purposes.

For more information on claiming ITCs and mixed-use residential real property, refer to GST/HST Memorandum 19.1, *Real Property and the GST/HST*.

Change in use

A significant (10% or more) change in the extent of use in making taxable short-term rentals or a significant change in the extent of personal use may trigger GST/HST consequences under the change-in-use rules. For example, a significant decrease in the extent of use in commercial activities may require an individual who is a registrant to repay all or a portion of the ITC previously claimed (e.g., at the time of purchase).

Similarly, where an individual was not entitled to claim an ITC for the GST/HST paid or payable on the purchase of a vacation property (i.e., the property was purchased primarily for personal use), the individual may be entitled to claim an ITC under the change-in-use rules if, at a later date, the individual's personal use of the vacation property decreases so that the property is no longer used primarily for personal purposes (i.e., the extent of use in making taxable short-term rentals has increased).

For more information on the application of the change-in-use rules, refer to GST/HST Memoranda 19.4.2, *Commercial Real Property – Deemed Supplies* and 19.2.3, *Residential Real Property – Deemed Supplies* (see paragraphs 77 to 102).

Example 6

Consider the same facts as in Example 5. In Year 3, Sally changed her pattern of personal use and used her condo on all weekends during the ski season. Consequently, the taxable short-term rentals for Year 3 have dropped to 20 days while the number of days of personal use remained at 35 days.

Is there a change in use? Is Sally required to pay an amount on account of the GST/HST in Year 3?

In Year 3, Sally began to use her condo primarily for her personal use. This triggers a change in use for GST/HST purposes, and in Sally's third reporting period, she is required to pay back all of the ITC she was entitled to claim in her first reporting period (i.e., an ITC equal to 53% of the GST/HST paid on the purchase of the condo). As a registrant, Sally is considered to have collected and is required to account for the GST/HST in determining her net tax. The GST/HST deemed collected is equal to the basic tax content of the condo at the time of the change in use, which is essentially the ITC that Sally was previously entitled to claim in respect of the condo. For additional information on the change-in-use rules and basic tax content, refer to the Appendix to GST/HST Memorandum 19.2.3, *Residential Real Property – Deemed Supplies*.

If Sally's taxable short-term rental use (expressed as a percentage of the condo's total use) had increased by 10% or more (e.g., the condo was rented for 60 days in Year 3) instead of dropping to 20 days, Sally would have been entitled to claim an additional ITC for the GST/HST paid on the purchase of the condo.

Subsequent sales

In most cases where an individual has claimed an ITC for the GST/HST paid or payable on the purchase of a vacation property, any subsequent sale of this property by that individual is taxable. Sales of similar vacation properties where the individual had not claimed an ITC may be exempt. Owners of vacation properties should be aware of the consequences of voluntarily registering for the GST/HST and claiming ITCs.

For more information on determining whether the sale of a vacation property is taxable, refer to the information under the heading "The GST/HST and the purchase of a vacation property". This information applies to both sales and purchases of vacation properties.

Example 7

Five years ago, Evelyn made a taxable purchase of a condominium unit at a golf resort. Evelyn used the condo for her personal use not more than 35 days per year. When she was not using it for her personal use, the condo was placed in a rental pool and available for taxable short-term rental. During her five years of ownership, the condo was used consistently in making taxable short-term rentals for a total of 45 days per year.

Evelyn became a registrant and claimed an ITC for the GST/HST she paid on the purchase of her condo. She also claimed ITCs for the GST/HST she paid on the operating costs related to the rental of her condo.

Evelyn plans to sell her condo. The ITCs were claimed based on the extent of use in making taxable short-term rentals as follows:

Days of rental ÷ (days of personal use + days of rental)
= 45 ÷ (35 + 45)
= 56%

Evelyn used the condo as capital property primarily in making taxable short-term rentals.

Is Evelyn required to charge and collect GST/HST on the sale of her condo?

The sale of Evelyn's condo is taxable because, at the time of its sale, Evelyn was a registrant, her condo was included in a rental pool, and in the year before its sale, it was used primarily in making taxable short-term rentals.

Where the sale of a vacation property is taxable, the individual (vendor) may be entitled to claim an additional ITC or rebate. In Example 7, Evelyn was entitled to claim an ITC equal to 56% of the GST/HST paid on the purchase of her condo. Also, as a result of making a taxable sale of her condo, Evelyn may be entitled to claim an additional ITC up to a maximum of 44% of the GST/HST paid at the time of her purchase. For more information on calculating this additional ITC, refer to the Appendix to GST/HST Memorandum 19.2.3, *Calculating the Real Property Credit*.

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 Centre for additional information. These centres are listed in GST/HST Memorandum 1.2, *Canada Revenue Agency GST/HST Rulings Centres*. If you wish to make a technical enquiry on the GST/HST by telephone, please call the toll-free number 1-800-959-8287. A ruling should be requested for certainty in respect of any particular GST/HST matter.

If you are located in Quebec and wish to make a technical enquiry or request a ruling related to the GST/HST, please contact Revenue Québec by calling the toll-free number 1-800-567-4692.

All GST/HST publications are available on the CRA web site at www.cra-arc.gc.ca/tax/technical/gsthst-e.html.

Reference in CRA publications is made to the harmonized sales tax (HST) that applies to property and services provided in Nova Scotia, New Brunswick, and Newfoundland and Labrador (the "participating provinces") at a rate of 14%. The goods and services tax rate is 6%.