

GST REDUCTION TRANSITIONAL RULES NOVEMBER 2007

OVERVIEW

Following the October 30, 2007 Federal Announcement proposing to reduce the GST rate to 5%, we are pleased to provide additional details of the transitional rules and the effect of the new 5% GST rate on new residential real property sales.

The following dates are relevant to the GST transitional rules for sales of real property:

May 2, 2006: Announcement that GST would be reduced from 7% to 6%.

July 1, 2006: Effective date when GST was reduced from 7% to 6%.

October 30, 2007: Announcement that GST will be reduced from 6% to 5%.

January 1, 2008: Effective date when GST will be reduced from 6% to 5%.

GST TRANSITIONAL RULES FOR SALES OF NEW RESIDENTIAL REAL PROPERTY

Implementation of the GST Reduction to 5% for Sales of New Residential Real Property

The following schedule summarizes the GST transitional rules applicable to sales of new residential real property:

Agreement Date	Closing Date (Freehold) Occupancy Date (Condominium)	Builder's Rate of GST to Remit	Transitional Rebate Available to Purchaser
Before May 3, 2006	Before January 1, 2008 ¹	7%	1%
	After December 31, 2007 ²	7%	2%
After May 2, 2006 but before October 31, 2007	Before January 1, 2008 ¹	6%	N/A
	After December 31, 2007 ²	6%	1%
After October 30, 2007	Before January 1, 2008	6%	N/A
	After December 31, 2007 ²	5%	N/A

To receive a Transitional Rebate, that reflects the GST rate reduction to 5% (or 6% if applicable), net of any corresponding New Housing Rebate adjustment, the Purchaser must file a claim with the Canada Revenue Agency ("CRA") by filing Form 193. Unlike the New Housing Rebate, the Transitional Rebate cannot be assigned by the purchaser to the Builder.

¹ Provided the transfer of both ownership and possession take place after June 30, 2006.

² Provided the transfer of both ownership and possession take place after December 31, 2007.

Impact of 5% GST Rate for the Sale of New Residential Real Property – Where the Builder Retains the GST Savings

The table below shows the additional proceeds that a Builder would retain assuming the Builder does not reduce the GST-included price of a new residential real property to reflect the reduction in the GST rate from 6% to 5%. The table applies only to sales of new residential real property entered into after October 30, 2007, where both ownership and occupancy occur after December 31, 2007, such that the proposed 5% GST rate will apply. The calculations assume the Purchaser is eligible for the New Housing Rebate and the Purchaser assigns the New Housing Rebate to the Builder.

Purchase Price Inclusive of GST	Components of Purchase Price	Proposed GST Rate of 5% ³	Current GST Rate of 6%	Additional Proceeds to Builder
\$ 200,000	Purchase Price exclusive of GST Gross GST Rebate Assigned ⁴ GST Included Price ⁵	\$ 193,798 9,690 <u>(3,488)</u> <u>\$ 200,000</u>	\$ 192,604 11,556 <u>(4,160)</u> <u>\$ 200,000</u>	\$ 1,194
\$ 300,000	Purchase Price exclusive of GST Gross GST Rebate Assigned ⁴ GST Included Price ⁵	\$ 290,698 14,535 <u>(5,233)</u> <u>\$ 300,000</u>	\$ 288,906 17,334 <u>(6,240)</u> <u>\$ 300,000</u>	\$ 1,792
\$ 400,000	Purchase Price exclusive of GST Gross GST Rebate Assigned ⁴ GST Included Price ⁵	\$ 384,861 19,243 <u>(4,104)</u> <u>\$ 400,000</u>	\$ 382,194 22,932 <u>(5,126)</u> <u>\$ 400,000</u>	\$ 2,667
\$ 500,000	Purchase Price exclusive of GST Gross GST Rebate Assigned ⁴ GST Included Price ⁵	\$ 476,190 23,810 <u>-</u> <u>\$ 500,000</u>	\$ 471,698 28,302 <u>-</u> <u>\$ 500,000</u>	\$ 4,492

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To discuss the impact of these matters on your business, please contact your advisor at Goldfarb, Shulman, Patel & Co. LLP.

³ Assumes Builder charges same GST included price.

⁴ The Rebate is 36% of the GST paid. The maximum Rebate available is \$ 8,750 under 7% GST, \$ 7,560 under 6% GST and \$ 6,300 under 5% GST. The Rebate is phased out for homes priced between \$ 350,000 and \$ 450,000, whereby no Rebate is available for homes priced at \$ 450,000 and more.

⁵ GST included price (net of Rebate).