

Oct. 2009 Ontario REIN™ Presentation



What Real Estate Investors Need to Know About the Harmonized Sales Tax



Agenda

- Overall concept
- Transitional measures
- Miscellaneous points



Overall Concept

- 1 combined VAT – instead of 8% + 5%, 13%
- Simplified economic theory
- Obviously not that simple
- Holdout provinces: PEI, Sask and Man – East didn't fall off the map
- Winners and losers
- 93% of Ontario personal taxpayers
- Not perfect, but, is it better than status quo?



D-Day

- July 1, 2010
- Or, May 1, 2010
- Or, October 14, 2009
- Or, ...



RE Impact

- Ongoing commercial operations
- Ongoing residential operations
- Developers – residential vs. commercial
- Transitional measures on acquisitions/leases
- Substantial renovation – now a bigger time bomb
- Ohhh, and, will this affect sales/resales?



Ongoing Operations

- Commercial – doesn't get any better – you're a winner
- Residential – congratulations, you're helping pay the debt off - well, not really, but, we're subsidizing the general population

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HST Increases

- Utilities, repairs, legal, accounting, property management, realtor fees
- No impact on typical largest expenses such as interest, property taxes, insurance
- Overall increase in costs, roughly 2% on average, not great, but, no need to give up on real estate
- Dube & Associates findings for typical clients
- Can we pass to tenants?



Developers

- Commercial developers, no big deal
- Residential developers, what is the cost of the property?



Transitional Measures

- This is going to be ugly
- There will be major unexpected problems, and there will be insolvencies as a result of subsequent audits



Transitional Measures

- Self-assessment, "non-consumers"
- Generally, if the service/goods provided after June 30, 2010, you pay HST, regardless of when you pay (pre or post July 1, 2010)
- Inventory rebate for contractors
- Many exceptions



Ex. 21 of Oct 14 Information Notice #3

- Commercial mall contract "substantially complete" May 15, 2010 for \$1.5M
- Pmt #1, March 15 for \$500k, 0% re: post June 30
- Pmt #2, May 15 for \$500k, 0% re: post June 30
- Pmt #3, Aug 15 for \$500k, less holdback of \$150k, 70% re: property/services delivered post June 30
- Holdback Sept 15 for \$150k



Ex. 21 con't

- First two payments have no HST
- 70% of next two payments have HST
- But taxes due July 31, due to June 1 substantially complete deadline
- Tax advisors will get "substantial" wrong due to change from "normal" definition
- Understand? Few others well either.

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Information Notice #2, June/09

"Helping Homebuyers and the Housing Industry with an Enhanced New Housing Rebate, a New Rental Housing Rebate and Transitional Rules"



Zero Rated Solution?

- Not convinced we're going to turn back the HST
- Soap box moment – find solutions, stop playing politics
- A tax in transition, not perfectly harmonized, too many exceptions
- What if, instead, residential rent zero rated
- What this means in English
- Petition – let your politicians know



Who are we?

- Real estate and business advisors
- We also invest, address plans from both a technical and practical perspective
- Team approach
- Our clients are located across the country and through most continents now, 2/3 of clients outside our geographic region
- Free initial consultation
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New Homes

- Enhanced rebate – changes are possible
- In theory, no real change for homes retailing less than \$400k (compared to embedded RST)
- \$24,000 maximum rebate for residential (personal or rental) (75% of 8% x \$400,000)
- All sorts of transitional calculations – don't rely on the vendor to know what they're doing – it's your money – and too many developers can't get the "normal" GST rebate correct (or, a pessimist would say they're ripping off uneducated buyers)



Miscellaneous

- Anti-avoidance rules
- Draft legislation doesn't mean finalized



Conclusion

This presentation contains general comments and should NOT be acted upon without the advice of a qualified tax professional. While there may be similarities, every situation is different.

Thank-you...