

**AN INTRODUCTION TO COSTS AND REBATES
AVAILABLE ON HOME PURCHASES IN ONTARIO
By Victoria Crewe-Nelson**

While the costs of purchasing a home in Ontario can seem overwhelming, there are many government programs and rebates to encourage first-time Buyers to take the plunge. These cost-saving measures can potentially save home-Buyers many thousands of dollars thousands and help them put together enough money for that all-important down-payment.

To better understand the money that can be saved, you first have to know the costs of buying property:

Payable to...	Type of cost	Description
Seller	Deposit	The funds held in trust by the Seller's real estate broker between the time the offer is made and the final closing
	Purchase Price	The agreed sale price for the home
	Adjustments	Costs associated with home ownership can require an adjustment to the final sale price as the home Buyer will be given a small reduction (or addition) on the final sale price. If the Seller paid, for example, property taxes until the end of the year, then the Buyer will have to add to the final sale price their share of the taxes paid by the Seller.
City	Land Transfer Tax (if in Toronto)	Homes purchased in the City of Toronto are now subject to a municipal land transfer tax that is payable on the transfer of the property.
	Various municipal searches	Depending on the type of property and whether the Buyer is getting title insurance, the solicitor may have to do searches for realty taxes, water account, zoning opinion, work orders, etc. For each of these searches, there is a charge.
Province	Land Transfer Tax (all of Ontario)	Throughout Ontario the transfer of property is subject to a provincial land transfer tax that is also payable on the transfer of the property. Like the municipal land transfer tax, this has a graduated rate based on the value of the property.
	Registration Costs	To complete your home purchase and place a mortgage on the property, it costs approximately \$70 per registration.
	HST/SST	Historically, no provincial sales tax has been payable on the purchase and sale of real estate. However, with the introduction of the SST (Single Sales Tax – more commonly referred to as the Harmonized Sales Tax or HST) the sale of items that are subject to GST (Goods and Services Tax) will now, for the most part, also be subject to a provincial sales tax. This applies not only to

		the purchase price of some real estate, but also to such things as legal fees and registration costs.
Federal	GST	With few exceptions (the purchase of resale residential properties being the largest one) property transfers are subject to GST.
Other	Property and Writ Searches	A Seller's lawyer will usually arrange to search title to the property and neighbouring properties (to confirm the legitimacy of the Seller's right to sell). Other searches done by the lawyer may include writ searches (making sure that no debts of the Seller or Buyer are going to be registered against the property), and municipal or provincial searches for arrears, building compliance, etc.
	Legal Costs and disbursements	These amounts include legal fees, search costs, correspondence, and other expenses. Generally, your lawyer will also be acting for your lender, so this keeps your costs associated with the mortgage down.
	Title Insurance	To protect your interest in your property, title insurance has a one-time premium that is paid on your purchase and remains active as long as you own the property.
	Property Insurance	Whether purchasing contents insurance for a condominium, or fire insurance to satisfy a lender when purchasing a residential home, most Buyers will have to have insurance in place before the deal closes.
	Mortgage costs	The amount you <i>think</i> you're borrowing may not be the amount provided for closing. Once you are approved for a mortgage, funds will be deducted prior to purchase for insurance (if your mortgage is for substantially the entire value of the purchase), and administrative costs.
	Home inspection	Often a condition of sale, Buyers hire a home inspector to review the physical state of the property prior to purchase so they can assess the potential flaws.
	Miscellaneous	There are many other expenses that can come up in a property purchase that are specific to the location of a house (ex. testing the water or septic tank if the property is not serviced by a municipality), the type of property (ex. paying for a status certificate in a condominium purchase), and the needs of the Buyer (ex. survey).

First Time Home Buyers Relief

HST and the Transitional Housing Rebate

Prior to Canada Day 2010, there has been no provincial sales tax on legal fees, surveyor charges, and real estate commissions. Now, thanks to the Single Sales Tax/Harmonized Tax ("HST") coming in, those costs are all going to go from a 5% tax to a 13% tax.

When purchasing a resale residential home (i.e. one that is not newly built) there is no federal or provincial component of the HST payable. HST may be payable if the property is not going to be your residence (for example, if you are buying the property as an income-producing rental property), so be sure to discuss your intended use of the property when buying the house.

For new-built homes and new condominium units, HST will be applied on July 1, 2010. There is available a **Transitional Housing Rebate** for those homes (not condominiums) that are partially but not fully completed by July 1, 2010. If the rebate is being sought from the Canada Revenue Agency, the Builder has to supply a statement that sets out how much of the building is completed and a rebate will be applied to the provincial portion of the HST in proportion to the amount completed.

The time frame for who will be charged HST in relationship to new-build homes is:

Date of Agreement	Date of Closing or Occupancy	HST/SST Effect
On or before June 18, 2009	Before or after July 1, 2010	No HST will apply for either new homes or new condominiums
After June 18, 2009	Before July 1, 2010	No HST will apply for either new homes or new condominiums
After June 18, 2009	On or after July 1, 2010	<ul style="list-style-type: none"> ▪ For new home Buyers, HST will apply, but the Buyer may be eligible for the Transitional Housing Rebate. ▪ For new condominium units, HST will apply and the Buyer is not eligible for the Transitional Housing Rebate.

HST Rebate

When purchasing a new build house or condominium that is to be used as a principle residence there is a New Housing Rebate that can be submitted by the Buyer. In practice, most Builders will not reflect the rebated portion of the HST in the purchase price and the Buyers in turn will assign their rebate to the Builder when signing the closing documents. If the Builder does not pay or credit the rebate to the Buyer at closing, the Buyer can file an application with the Canada Revenue Agency directly to request the rebate.

When the property being purchased is to be a primary residence, the purchase would qualify for a GST new housing rebate, and the property is newly constructed or substantially renovated, the Buyer can get a 75% rebate on the provincial portion of the HST, up to a maximum rebate of \$24,000 for a new house. This means that on the first \$400,000 of the purchase price the provincial

part of the HST would be 2%, and the rate above \$400,000 would be 8%. The GST rebate (or Federal portion of the HST) is available up to a maximum purchase value of \$450,000. Buyers within the GTA will get the least benefit from the rebates, as new-build houses and condominiums routinely average around or above \$400,000.

Assuming that the purchase is otherwise subject to HST, and that the federal and provincial rebates are available, the adjusted costs after the rebates would be:

Purchase Price (before HST)	Federal HST Payable	Provincial HST Payable	Federal Rebate	Provincial Rebate	Adjusted Cost
\$300,000	\$15,000	\$24,000	(\$5,400)	(\$18,000)	\$315,600
\$400,000	\$20,000	\$32,000	(\$3,150)	(\$24,000)	\$424,850
\$500,000	\$25,000	\$40,000	(\$0)	(\$24,000)	\$541,000

If HST is payable, then it is usually due on the earlier of the day the property is transferred to the Buyer, the Buyer takes possession of the property (i.e. occupancy) or 60 days following the registration of a new condominium building. A similar rebate to the New Housing Rebate is available for investors intending to purchase a residential rental property.

Home Buyers Plan

To help first time home Buyers gather enough money for their down payment, the federal government allows eligible Buyers to withdraw up to \$25,000.00 *tax free* from their RRSPs. The only catch is that the Buyer has to begin repayment 2 years after withdrawing the funds (or face negative tax consequences) and the full amount withdrawn must be repaid within 15 years.

Home Buyers Tax Credit

If you (and your spouse if applicable) have not owned a home for the past four years you may qualify for the Home Buyers Tax Credit. Homes that are bought after January 27, 2009 may give a \$5,000.00 non-refundable tax credit to the Buyer. This amount sounds better than it is: the credit is actually calculated by multiplying the lowest personal income tax rate by \$5,000.00. For 2009 the rate was 15% so the credit was \$750.00. The credit is calculated as part of your income tax returns.

Land Transfer Tax (Municipal and Provincial)

Land Transfer Tax ("LTT") is calculated based on the value of the home, which is usually determined by the purchase price listed in the Agreement of Purchase and Sale.

L.T.T.	VALUE	RATE
TORONTO	On the first \$55,000	.5%

	On the value between \$55,000.01-\$400,000	1%
	On the value over \$400,000.01	2%
ONTARIO	On the first \$55,000	.5%
	On the value between \$55,000.01-\$400,000	1%
	On the value between \$55,000.01-\$400,000	1.5%
	On the value over \$400,000.01	2%

Unless the Agreement of Purchase and Sale was signed prior to December 31, 2007, you are likely responsible for the Municipal Land Transfer Tax for properties situated in Toronto. However, if you are a first-time Buyer of either a new-built or re-sale home there is a rebate available up to a maximum of \$3,725 off the Toronto Land Transfer Tax.

Similarly, first-time home-Buyers can get a refund for all or part of the provincial tax as well. Prior to December 14, 2007 the rule was that the refund only applied to new-built homes. This has been expanded to include all types of residential homes. The application for the refund has to be submitted within 18 months of the transfer, but for most Buyers the refund is claimed at the time of registration for both taxes, making it an easy way to reduce those closing-day costs. To qualify, the Buyer cannot have owned a property anywhere in the world and, as with most of these rebate programs, you must use the property as your principle residence. The maximum amount of the rebate on the provincial tax is \$2,000.

You can see from the example below that if the purchased home is worth \$300,000 this can mean the total land transfer tax payable for a first-time home-Buyer is only \$975 (reduced from \$5,700). For a property worth \$600,000 the proportionate savings are less (\$10,475 from \$16,200), but still significant. Remember to advise your lawyer that you are a first-time Buyer. If he or she doesn't know this, you could be paying too much.

Value of Home	Land Transfer Taxes if residential property in Toronto	After rebate for First-time Home-Buyers
\$300,000	Provincial LTT: \$2,975.00 Municipal LTT: \$2,725.00 TOTAL: \$5,700	Provincial LTT: \$975.00 Municipal LTT: \$0 TOTAL: \$975.00
\$600,000	Provincial LTT: \$8,475.00 Municipal LTT: \$7,725.00 TOTAL: \$16,200.00	Provincial LTT: \$6,475.00 Municipal LTT: \$4,000.00 TOTAL: \$10,475.00

Home Improvement Relief

If you are purchasing a home that needs some TLC, there are some excellent programs that reward you for doing home improvements.

Home Renovation Tax Credit

The Home Renovation Tax Credit was a federal initiative that gave a tax credit for home-improvement related expenses for houses, condos and cottages. Claimed against the income tax returns, if eligible goods were purchased between January 27, 2009 and February 1, 2010 (or for eligible contracting services that were done during that period) a tax credit is available based on the price, less \$1,000 and times 15% (so, for example, on \$10,000 worth of improvements, the tax credit would be $\$10,000 - \$1,000 \times 0.15$ for a total of \$1,350.

Energy Efficiency Rebates and Grants

The Federal, Provincial and some Municipal governments have been offering grants and rebates to home-owners who take steps towards increasing the energy-efficiency of their homes. Besides the obvious benefits of lowering their heating and air conditioning costs, these changes can lead to significant money back from the government. If buying a house that requires work done anyway (such as a new furnace, toilet or windows), it pays to look into these options. An initial assessment is required (for a fee), and the company that arranges for the assessment will usually arrange for the rebate and grant applications with the right authorities.

Other tips:

1. **Title Insurance:** besides providing excellent service for the premium charged (it's a reasonable one-time fee that covers title to your property for the listed coverage areas for the entire time you own the property), many searches (for example, fire department work orders) are usually within the coverage area, so you often won't have to pay those additional search charges.
2. **Mortgage costs:** before signing the papers, talk with your bank or mortgage broker about all of the costs associated with registering the mortgage. You may be able to negotiate some of them, or you will at least have an accurate idea of how much money is being made available on the closing date.
3. **Home inspection:** these can be an excellent device for determining the physical drawbacks of a given property. But be very sure of what the inspector is giving his or her opinion about. If you have a particular concern about mold, ask if they provide an opinion on that (many don't). If it turns out that the inspector was wrong about a material defect, the agreement you sign will often limit their liability to what you paid for the inspection. Go in with your eyes open.
4. **Get advice from the right people:** whether it's your lawyer, your real estate agent, your home inspector or your mortgage broker, talk to the

professionals and get their advice on your proposed purchase. These professionals are there to help guide you and provide advice based on their training and experience. Whether it's advising you on a reasonable price, the dangers associated with title, or the problems you would face arranging for financing for a particular property, early guidance can save you a great deal of time and trouble down the road.

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