



**Canadian
Federation of
Apartment
Associations**

**Fédération
Canadienne Des
Associations
De Propriétaires
Immobiliers**

HST on the Self-Supply of Multi-residential Buildings

The current application of the HST self-supply rules to multi-residential buildings is contrary to sound housing policy. It is widely acknowledged that Canada would benefit from more purpose-built rental housing construction, but the application of the HST self-supply rules create uncertainty and other disincentives to build rental housing.

The purpose of the HST self-supply rules is to put builders on an equal footing with investors who buy a new (or substantially renovated) residential complex. The intent is to charge HST on the value that is added to the residential complex “by HST exempt inputs such as the value of the employed labour, financing costs and profit.” (GST/HST Memoranda Series 19.2.3, para. 5.)

Currently the GST/HST audit department seeks to charge HST on the fair market value of the building as rented up, or sometimes on the value as if the building were sold as individual condominium units. Those values include the premium paid for condominiums which would be earned through a costly marketing campaign, or at least the value gained through the specialized business of renting up a new rental building. Both additions to the value go well beyond the value of the building itself created by the “employed labour, financing costs and profit” put into the construction of the building.

By its current approach CRA is actually creating an advantage for a person who contracts to buy a new building because in today’s marketplace most agreements to buy new buildings do not include the rental income stream value, and they certainly do not include the condo value. The value which the self-supply policy seeks to tax would be more accurately captured by a building value determined on the basis of “cost plus [profit]”.

Determining building values for the self-supply rules on the basis of “cost plus” would

- **accurately reflect the purpose of the self-supply rules**
- **eliminate the current advantage buyers have over builder-developers, and**
- provide certainty for builders.

In turn, certainty would

- **eliminate a barrier to entry for would-be builders**
- **promote the construction of new purpose-built rental housing.**

An additional reform which would improve the HST self-supply rules would be

- to allow disputed sums to be paid (with interest) after the dispute is resolved.¹
- to ensure that the trigger date for tax can be ascertained in advance rather than depending in part on when 90% of the costs have been incurred (when one cannot tell that date with certainty until the building is 100% complete).

The Canadian Federation of Apartment Associations urges the government to reform the application of the HST self-supply rules in the ways, and for the reasons, set out above.

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¹ That rule applies to disputes about income tax, which is analogous to this category of HST payments. The Income Tax Act used to match the current HST rule under the Excise Act. The current HST rule may be appropriate for most HST when the tax remitter has collected the HST and held the money in trust. However, in the self-supply situation no unpaid HST has been collected; therefore the new income tax rule is more appropriate.

*The Canadian Federation of Apartment Associations represents the owners and managers of close to one million residential rental suites in Canada, through 17 organizations across Canada.
See www.cfaa-fcapi.org or telephone 613-235-0101*