

How GST/HST Works on Multi-Residential Rental Construction?

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For commercial mortgage lenders financing in-progress or newly completed multi-residential rental or retirement projects in Ontario, it is important to understand how GST/HST applies at completion. Unlike projects built for sale, rental projects are subject to the “deemed self-supply” rule under the *Excise Tax Act*. The following provides a brief, general overview only. Specific transactions should always be reviewed with qualified tax advisors.

Construction Phase – Input Tax Credits (ITCs). During construction, the builder pays GST/HST on labour, materials, and services. These amounts are generally recoverable through Input Tax Credits (“ITCs”), provided the builder is registered for GST/HST and engaged in commercial activity. ITCs help manage cash flow during construction and are available because the builder will ultimately be deemed to make a taxable supply at completion.

Completion and Deemed Self-Supply. Upon first occupancy of a residential rental unit, the builder is deemed to have sold and repurchased the building. GST/HST is payable on the fair market value (“FMV”) of the completed property, including both land and building. This is a separate tax event from construction-phase ITCs. The self-supply tax is calculated on FMV, not cost. Any unused ITCs may reduce overall net tax payable in the reporting period, but previously claimed ITCs are not netted against the FMV calculation itself. For example, a completed Ontario project with a FMV of \$20 million $\times$ 13% HST results in \$2.6 million in HST payable at the time of self-supply.

Rebates Available. The builder may claim the New Residential Rental Property Rebate.

Federal Component (GST – 5%):

Under legislation enacted in December 2023 (Bill C-56), eligible new purpose-built rental housing projects may qualify for a 100% rebate of the 5% federal GST component, provided statutory conditions are met (including unit count, long-term rental requirements and construction timelines). This enhanced rebate replaces the prior 36% rebate and phase-out rules for qualifying projects.

Ontario Provincial Component (8% portion of HST):

Ontario continues to provide a rebate equal to 75% of the 8% provincial component of HST, capped at \$24,000 per unit. Ontario has not enacted a 100% provincial rebate.

Rebates are typically claimed after the self-supply tax is remitted.

In summary, While ITCs reduce construction-phase tax costs, the deemed self-supply creates a significant HST remittance obligation at completion. Although rebates provide partial (and in some cases substantial) relief, the remittance timing can create a major cash flow event. Commercial lenders should underwrite their financing with a clear understanding of (i) the projected FMV at completion, (ii) rebate eligibility, and (iii) the borrower’s plan to fund the self-supply liability.

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