

GST/HST rebates: is your housing co-op at risk of losing them?

Introduction

Most housing co-ops are currently claiming GST/HST rebates for GST/HST paid on their expenses. To be eligible for the rebates, housing co-ops must meet certain criteria. For example, a housing co-op must receive or have received government funding, such as ongoing subsidies or capital funding. When government funding is reduced or eliminated, housing co-ops may lose their GST/HST rebates, either in part or in full. With operating and service agreements coming to an end, many co-ops will be affected.

This GST/HST bulletin will help you understand the meaning of government funding. It will also help you determine if and when you might lose your GST/HST rebates.

1. Qualifying non-profit organization (NPO) GST/HST rebates

A housing co-op that is a qualifying non-profit organization is eligible for the NPO GST/HST rebate. According to the Canada Revenue Agency (CRA), to be a qualifying non-profit organization, the percentage of government funding received by the co-op for the fiscal year must be at least 40% of its total revenue at any time within a fiscal year.

The NPO GST/HST rebate rates for qualifying NPOs are:

Federal

- 50% of the GST, or the federal part of the HST paid or payable

Provincial

- 82% of the provincial part of the HST for qualifying NPOs in Ontario
- 50% of the provincial part of the HST for qualifying NPOs in Nova Scotia, New Brunswick, Newfoundland and Labrador
- 35% of the provincial part of the HST for qualifying NPOs in Prince Edward Island.

NPO GST/HST rebates are calculated on the amount of GST/HST paid or payable on eligible purchases and expenses used in the co-ops' activities. Most expenses paid by a housing co-op are eligible, provided that more than 10% of the co-op's units are occupied by households with limited financial resources who qualify for:

- reduced housing charges supported by a government rent supplement or subsidy program, or
- occupancy under an income test (i.e. more than 10% of rent-g geared-to-income (RGI) units.)

Refer to the Appendix for a list of eligible and non-eligible purchases and expenses.

1.1. Government funding as defined by CRA

Government funding refers to an amount of money (including a forgivable loan) that is

- easily measurable
- identified as government funding in the co-op's financial statements, and
- paid by a **grantor** to support or promote the co-op's objectives but not to pay for property or services supplied by the co-op to the grantor.

Grantor means

- the federal government, provincial governments, and municipalities
- a corporation that is controlled by a government or by a municipality where one of its main purposes is to fund charitable or non-profit activities
- a trust, board, commission, or other body that is established by a government, municipality, or corporation described in the previous bullet, where one of its main purposes is to fund charitable or non-profit activities; and/or Indian bands.

A grantor **does not** include federal and provincial Crown corporations, and municipal corporations, all or substantially all of whose activities are commercial activities, the supply of financial services or any combination of the two. Acceptable types of funding include **ongoing subsidies** that make up the difference between a co-op's operating costs and the RGI paid by the members to a co-op, and capital funding.

Government funding **does not** include

- internal subsidies (subsidies generated by the co-op's overall rental income or other income);
- indirect or non-financial forms of assistance
- low interest loans and loan guarantees
- property or services supplied at a subsidized price
- a refund, rebate (including HST rebate), or remission of, or credit for; taxes, duties or fees imposed under any law.

1.2. Total revenue as defined by CRA

Total revenue includes 100% of the following amounts:

- government funding as identified in a co-op's financial statements
- income from investments (interest and dividends)
- non-arm's-length loans (for example, a co-op funds another related co-op through loans with unusually low interest rates). If the loans are later reimbursed, they will be deducted from revenue at that time
- proceeds from the issuance of equity securities
- monetary capital contributions (for example, membership fees).

Total revenue also includes 75% of the following amounts:

- gifts, donations, and proceeds from bingo or other gaming activities;
- all receipts from sponsorships;
- other revenue including:
 - housing charges
 - surcharges
 - rent supplement
 - parking fees
 - laundry revenues
 - rooftop rentals
 - meeting rooms rental, etc.

1.3. Percentage of government funding calculation

There are two ways that co-ops can calculate their percentage of government funding. If the result is **40% or more**, a co-op is a qualifying NPO eligible for the GST/HST rebate.

The two options are:

1. Government funding for the current fiscal year X 100

Total revenue for the current fiscal year (including government funding)

2. Government funding for the two immediately preceding fiscal years X 100

Total revenue for the two immediately preceding fiscal years (including government funding)

If your current fiscal year is your second fiscal year of existence, use the government funding received in your preceding fiscal year for the second calculation instead of the two immediately preceding fiscal years.

2. Municipal public service body (PSB) rebate

The rebate rates for designated municipalities are:

- **100%** of the GST or the federal part of the HST paid or payable **and**;
- **78%** of the provincial part of the HST for designated municipalities resident in Ontario;
- **57.14%** of the provincial part of the HST for designated municipalities resident in Nova Scotia and New Brunswick;
- **25%** of the provincial part of the HST for designated municipalities resident in Newfoundland and Labrador in 2016 or 57.14% effective January 1, 2017.

A housing co-op may request to be granted municipal status. Municipal status was created because municipalities were the first to develop rent-gear-to-income (RGI) housing in Canada (with help from CMHC). Municipal status was later offered to other housing providers with RGI housing. A co-op can be designated as a municipality if it meets **all of the four eligibility** criteria listed below:

1. the organization is a co-operative housing corporation, a charity, a non-profit organization or a public institution



2. the organization supplies long-term residential accommodation within a program that provides housing for low- to moderate-income households
3. more than 10% of the housing units in a housing project are assisted on an RGI basis
4. the organization receives funding from a government or municipality to assist it in supplying the accommodation within a program to provide housing to low- to moderate-income households.

(Please refer to Section 1.1 for the meaning of government funding.)

A co-op designated as a municipality is eligible to claim the municipal PSB rebate as long as it meets all of the criteria listed above. As outlined in criterion 4, the funding received must be linked to the co-op's provision of RGI housing as part of a program that provides housing for low- to moderate-income households. As outlined in Section 1.1, acceptable types of funding include ongoing subsidies that make up the difference between the organization's costs to operate the housing units and the RGI paid by the tenants to the organization, and capital funding.

An example of acceptable capital funding is where a co-op provides RGI housing for twelve years as required by its funding agreement. If the co-op does not meet this condition, it will be required to repay the capital funding to the funding organization.

3. When can the GST/HST rebates be claimed?

For non-registered housing co-ops, GST/HST rebates must be claimed by completing two rebate applications for each fiscal year - one for the first six months of a co-op's fiscal year, and another for the last six months of a co-op's fiscal year. Before 2015, CRA accepted annual rebate filings for non-registered co-ops.

Beginning in 2015, housing co-ops must make claims every six months.

Housing co-ops registered for GST/HST must file their rebate applications along with their GST/HST returns for every reporting period (either monthly, quarterly or annually). Please contact your auditor if you do not know when or if your co-op will be filing for its GST/HST rebate.

4. Impact of government funding reduction or elimination

As noted above, to be eligible for the NPO or municipal PSB rebate, housing co-ops must receive government funding. If the government funding received by a housing co-op decreases to less than 40% of its total revenue (as per the calculation provided in Section 1.3) then the co-op will lose the NPO rebate, but may remain eligible for the municipal rebate. If a co-op ceases to receive government funding altogether, it will lose both GST/HST rebates. A separate analysis is needed to determine eligibility for each GST/HST rebate.

If an ongoing government subsidy ceases, and there is no other government funding received by the housing co-op, the co-op will no longer meet the government funding criterion for both GST/HST rebates. For example, this may occur when an operating agreement expires and no additional RGI funding is secured, or when the funding ceases because the co-op no longer meets the necessary terms and conditions for funding.

Where a co-op receives capital funding, it will cease to meet the government funding criterion for the municipal PSB rebate when the requirement to provide funded RGI housing ceases.

For example, a co-op receives capital funding and is required to provide RGI housing for 15 years. After 15 years, the co-op will no longer meet the criterion to be designated as a municipality. Therefore, the co-op will not be considered to be funded by a government or a municipality, and will lose the municipal PSB rebate.

Conclusion

A review of a co-op's different operating agreements is necessary to determine a co-op's eligibility for GST/HST rebates. Amounts at stake could be significant. Please contact your auditor for more information about your co-op's situation.



Examples

Example 1

Co-op

Revenue		
Housing charges – RGI households	\$	400,000.00
Housing charges – market households	\$	325,000.00
Ongoing government funding – operating and RGI subsidy	\$	550,000.00
Parking and laundry	\$	55,000.00
Total revenue	\$	1,330,000.00
Percentage of government funding		48% ¹
Percentage of RGI units		75%
Total expenses on which HST is paid	\$	525,000.00
HST paid at 13% (included in the \$525,000)	\$	60,398.23
Federal part of HST paid (5%)	\$	23,230.09
Provincial part of HST paid (8%)	\$	37,168.14
NPO federal HST rebate	\$	2,903.76 ²
NPO provincial HST rebate	\$	7,619.47 ³
Municipal rebate - federal	\$	17,422.57 ⁴
Municipal rebate - provincial	\$	21,743.36 ⁵
Total HST rebates	\$	49,689.16

If the ongoing government subsidy ceases, the co-op will lose all of its GST/HST rebates, representing \$49,689.16 in this example for the year.

Example 2

A housing co-op owns and operates a 100-unit apartment building. The co-op subsidizes a limited number of members who cannot afford to pay the full housing charge for their units. The subsidy is generated by the co-op's overall rental income. This internal subsidy is not considered government funding. Therefore, the co-op **does not** qualify for municipal or NPO GST/HST rebates.

1 $550,000 / (550,000 + (75\% \times (400,000 + 325,000 + 55,000)))$

2 $23,230.09$ (federal part of HST paid) \times 25% (non RGI units) \times 50% (rebate rate)

3 $37,168.14$ (provincial part of HST paid) \times 25% (non RGI units) \times 82% (rebate rate)

4 $23,230.09$ (federal part of HST paid) \times 75% (RGI units) \times 100% (rebate rate)

5 $37,168.14$ (provincial part of HST paid) \times 75% (RGI units) \times 78% (rebate rate)



Appendix

Eligible purchases and expenses

The GST/HST paid or payable on the following purchases and expenses may be eligible for the NPO GST/HST rebate:

- general operating expenses, such as rent, utilities and administration expenses
- most allowances and reimbursements paid to employees involved in the housing co-op's activities
- property and services used, consumed or supplied
- capital property.

Non-eligible purchases and expenses

The GST/HST paid or payable on certain purchases and expenses is not eligible for the NPO GST/HST rebate. These purchases and expenses include:

- memberships in a dining, recreational or sporting club
- tobacco products and alcoholic beverages you supply and for which you are not required to collect the GST/HST (except when the alcohol or tobacco is included in the price of a meal)
- property and services acquired to provide long-term residential accommodation (one month or more), unless more than 10% of the accommodation is restricted to seniors, youth, students or individuals with a disability or with limited financial resources who qualify for occupancy or reduced rents under a means or income test

- property and services acquired primarily (more than 50%) for the supply of a parking space made available to residential tenants unless more than 10% of the residential accommodation associated with the parking space is restricted to seniors, youths, students or individuals with a disability or limited financial resources who qualify for occupancy or reduced rents under a means or income test
- property and services acquired primarily for making a supply of real property to another person for use by that person in leasing residential property on an exempt basis (including incidental parking), unless that other person is a public service body and more than 10% of the residential property is restricted to seniors, youths, students or individuals with a disability or limited financial resources who qualify for occupancy or reduced rents under a means or income test;
- property and services acquired to supply to an officer, employee, or member, or to another person related to that person, for personal use unless:
 - supplied for its fair market value in the same year it is acquired and tax is payable in respect of the supply or
 - the good or service is supplied free of charge to the person and it is not a taxable benefit.

