



CHBA Technical Brief: Tax Reforms to Support Increased Rental Housing Choice Via “Secondary” or “Accessory” Suites

Definition of “Secondary” or “Accessory” Suites

“Secondary” or “accessory” suites may take the form of accessory apartments, granny flats, in-law suites, coach-house units or garden suites, located either within an existing single-family unit, or adjacent to it. They also include basement apartments.

A secondary suite typically has its own bathroom, kitchen, living and sleeping areas but can share a number of features with the rest of the house or lot. Shared facilities may include a yard, parking area, laundry and storage space, and sometimes a hallway.

Challenge Posed by GST Rules

Under current provisions of the *Excise Tax Act* (Sections 190 and 191), individual home owners who contract to have accessory suites built that are detached from the main dwelling unit, even by a few centimetres, in order to rent them out, are considered to be "builders". They are therefore considered to be "self-supplying" such dwellings. That is, they are deemed to be selling the units to themselves at Fair Market Value as determined by the Canada Revenue Agency. GST is then applied to the units at the “substantially-completed” stage and immediately charged to the home owner.

Although such home owners are considered to be “builders”, they are not eligible to deduct Input Tax Credits arising from the process of construction. Instead, they may be eligible for price-based New Housing Rebates to recover a limited portion of the GST¹. In practice, this is denied to them in the vast majority of cases in larger cities, because the *imputed land value* of the units in question puts them above GST rebate thresholds of \$350,000 to \$450,000. In markets such as Vancouver, the land upon which these units rest can be very valuable, typically multiple times the construction cost of a modest accessory unit itself. As illustrated in the table below, there can be a difference of tens of thousands of dollars in GST applied, depending on specific situations and CRA rules applied.

Type of Unit:	GST Application Rules*	Net Financial Impact
Accessory suite within the existing structure of the main dwelling or attached to it, e.g., an addition sharing a party wall, rented to a non-relative or to a relative	GST applies only to materials, labour and services used in construction	GST of \$12,000 on cost of \$240,000; no GST New Housing Rebate available because unit is not a "new unit"
Detached accessory suite sharing lot with main house, intended for rental to unrelated person or persons	Full value of materials, labour and services, plus deemed market value of land	GST of \$37,000 on value of \$740,000; no GST New Housing Rebate because unit plus land is well over price limits of \$350,000 and \$450,000 = difference of +\$25,000 in favour of building an attached suite
Detached accessory suite sharing lot with main house Intended for rental to a related person or persons	GST applies only to materials, labour and services used in construction	GST of \$12,000 on cost of \$240,000 = +\$25,000 difference in favour of renting to a relative

Note that the land value on which the unit rests could never be realized by the home owner separately from the main dwelling. Severances of such smaller lots are generally prohibited by municipalities, and this is certainly the case in Vancouver.

¹ Based on the value price of a new garden suite at \$350,000 excluding G.S.T., the gross G.S.T. is \$17,500 (5% of \$350,000). The G.S.T. New Housing Rebate available is 36% of \$17,500, which is \$6,300. This amount declines according to a formula and ends completely at a value of \$450,000.

Recommendations

- The government should fix the current tax rules applying to new detached forms of accessory or secondary suites, such as “granny flats”, “garden suites” and “laneway housing”. The current GST rules require home owners to include estimated land value rather than just construction costs for tax calculation purposes, *but only when they intend to rent to non-relatives*.
- All types of detached accessory suites should be charged GST on the same basis as new suites within an existing building envelope, i.e., based on construction costs only.
- Ending this anomalous situation would encourage an important form of infill housing favoured by more and more municipalities. *These innovative infill projects can increase the number of homes in established neighbourhoods and increase affordability and choice for renters.*