



TO: Osoyoos Cottages Limited Partnership
FROM: Terry G. Barnett
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SUBJECT: The Cottages on Osoyoos Lake
Short-term Rentals by Owners – How does this affect the GST/HST Status of Rent Paid to Osoyoos Cottages Limited Partnership?

Some individuals acquiring vacation homes in “The Cottages on Osoyoos Lake” intend to earn revenue by renting out their cottages occasionally for short-term stays. A question that arises is whether and how rentals by the “owner”¹ affect the rent he or she pays to the Osoyoos Cottages Limited Partnership (the “Partnership”) under the sublease for the cottage. Specifically, if an owner rents the cottage to another person, does this change the way in which the GST/HST applies to the rent paid to the Partnership?

Generally, long-term rentals of homes and vacations residences are exempt from GST/HST. However, there are circumstances where GST/HST may become payable if the owner uses the property for rental purposes for a period of time.

Currently, the combined rate of GST/HST in British Columbia is 12%. Based on the recent provincial referendum it is expected that the rate will drop back to the 5% GST rate by 2013 when the HST will no longer apply in British Columbia.

The following provides an overview of some of the common situations likely to arise for owners and, based on information currently available, explains whether the rent paid by the owner to the Partnership will or will not become subject to GST/HST.

I want to use the cottage for vacations and/or year-round living and will not rent it out.

In this case, the rent you pay or prepay to the Partnership is not subject to GST/HST.

I will rent the cottage month-to-month and I may reside there part-time during the year.

As in the previous example, the rent you pay or prepay to the Partnership is not subject to GST/HST.

I will use the cottage as a vacation home but I will have short-term (one week) rentals and monthly rentals during the year.

As noted, a rental to another person for a period of at least one month does not change the GST/HST exempt status of the rent paid to the Partnership. Occasional week-long rentals likewise should not affect the rent paid to the Partnership.

¹ For convenience I have used the term “owners” to describe individuals acquiring vacation homes from the Partnership. Technically, the individuals should be described as “sublessees”.

However, where in one year you have four or more *consecutive* weeks of short-term rental with no break between the different renters, then the Partnership will charge you GST/HST on the rent you have paid for the year. You will need to advise the Partnership if you are renting the property for four or more weeks consecutively at any time in the year, and you must pay the applicable GST/HST on the rent attributable to that year.

For example, let's assume you paid \$400,000 for your cottage. Over a 99-year period, this equates to \$4,040 per year. The GST/HST that you would have to pay to the Partnership will be $\$4,040 \times 5\% = \202 .

If I have to pay GST/HST, can I get it back?

In very general terms, a person who rents out a vacation home out for less than a month may be required to register for GST/HST purposes and charge GST/HST on the rent, unless the rent is less than \$20 per day. A person who registers for GST/HST purposes and collects GST/HST on rents may in some circumstances recover in whole or in part GST/HST paid on the expenses of the rental operation.

However, persons whose annual business/rental revenue is below a certain dollar threshold can choose not to register in the GST/HST system. These persons do not charge GST/HST on the rentals and do not recover GST/HST paid on their expenses.

Owners should consult a tax professional to determine when they need to register and collect GST/HST on rentals, and whether they can recover GST/HST payable to the Partnership.