The Tax Implications and Rebates Available when Building an Accessory Dwelling Unit (ADU)

Building an ADU whether it is a laneway suite, garden suite or garage conversion is a serious commitment, requiring time and resources. You need to determine the type of building you want to construct. You may need to hire an architect, a contractor, and various trades to make the dream of the ADU become a reality.

Whatever your reason for building an ADU, whether it is to age in place, make sure your elderly parent is close by, allow a child to enter the real estate market, or generate income as a landlord, you need to be aware of the tax implications and the **significant rebates** that are available to you. It could mean thousands of dollars in your pocket.

1) If you are building an ADU for your own use as your primary residence, or as the primary residence of an immediate family member, such as a parent, child, sibling or even an ex-spouse, you should be aware there is a rebate available to you.
It is an HST New Housing Rebate, and under most circumstances it is a rebate of **$16,080.** It can be higher under certain conditions. You can apply for this rebate once construction is complete, and you or a family member has moved in. There is a 2-year limit to apply from the move in date. The rebate will be disallowed if the application is received after the 2 year limitation period. As an example, if **$275,000** has been spent on construction, the rebate would be **$18,900.**

2) Building an ADU and becoming a landlord, thereby generating income from your laneway home, has very different rules and rebates. The homeowner is considered a 'builder' for GST/HST purposes. Once a long-term tenant occupies the ADU, there is a legislative obligation to determine the fair market value of the ADU, and HST is owed to the CRA on the that value. This is called a self assessment or self supply. To offset the amount owing on the Fair Market Value assessment, the homeowner may claim two rebates. **A)** The first is the ability to claim a rebate for all the HST that was paid on construction. This includes all elements of construction including your architect, survey, engineering and labour and materials. **B)** The second rebate is an HST Rental Rebate.
The significance of the amount of the rebate is most easily explained by example. Here is how the math works.
If the Fair Market value of the ADU is determined to be **$275,000** then **13%** of that value, which is **$35,750(A)**, is owed to the CRA. If a total of **$275,000** was spent on construction, there is **$31,637(B)** of HST embedded in the cost of the build. As explained, this amount can be applied as a rebate to offset the amount owing on self assessment.
At a Fair Market Value of $275,000 the rental rebate would be **$21,450(C)**. Therefore, a homeowner would receive a net rebate of ($31,637(B) + $21,450(C) - $35,750(A)) = **$17,337.**

There are similar 2-year time frame limits to apply for these rebates, so care must be taken to file them on time.
The rebates are not considered income, but a refund of sales tax paid. They are **TAX FREE!**

3) There are different considerations when building an ADU for short term rental. This is considered a commercial activity and there are different rules that apply to this situation. Self assessment is not necessary and there are no rebates available, but you can claim the HST paid on construction as Input Tax Credits and receive the total of the HST spent as a refund. On a $275,000 total cost of construction, you would receive a refund of **$31,637**.

This article is for general information purposes only. These are complicated issues that should be handled by a professional and should not be ignored, as there are thousands of dollars at stake.

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