

First Time Home Buyers' Program

Property Transfer Tax

This bulletin provides specific tax information to help first time home buyers understand how the property transfer tax is exempt to individuals purchasing their first home.

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Overview

This bulletin provides a summary of the FTHB program and its eligibility requirements at the time of transfer of title and during the one-year period following the transfer. The companion guide, *Instructions for Completion of the*

First Time Home Buyers' Property Transfer Tax Return or Application for Refund (**FIN 269 Guide**), provides all the information a purchaser will need to:

- determine their eligibility for the exemption, and
- understand the post-transfer requirements to meet in order to remain eligible for the exemption.

It is important that the purchaser read and understand all requirements of the FTHB program. All conditions must be satisfied to become, and to remain, eligible for the exemption.

This bulletin explains some of the administrative steps to, and provides examples for, completing the *First Time Home Buyer's Property Transfer Tax Return* form (**FIN 269**).

Who Qualifies for the Exemption?

To qualify for the FTHB exemption, the transferee (purchaser) must be **all** of the following:

- a Canadian citizen or a permanent resident as determined by Immigration Canada,
- a person who has resided in British Columbia for 12 consecutive months **immediately prior** to the date of registration of the transfer, or who has filed two income tax returns as a British Columbia resident within the last six years,
- a person who has never, **at any time**, held a registered interest in a principal residence **anywhere in the world** (a principal residence is defined as the usual place where an individual resides), and
- a person who has not previously received an FTHB exemption or refund.

What Property Qualifies for the Exemption?

The FTHB program provides a **full** exemption from property transfer tax only on properties where:

- the improvements on the property become the principal residence (whether or not they are formally classified as residential),
- the land is 0.5 hectares (1.24 acres) or smaller and
- the value of the land plus improvements falls below a set threshold amount.

If the property is located in the Capital Regional District, the Greater Vancouver Regional District or the Fraser Valley Regional District, its fair market value cannot exceed **\$325,000** to be eligible for the full exemption.

If the property is located elsewhere in the province, its fair market value cannot exceed **\$265,000** to be eligible for the full exemption.

The current threshold amounts apply to purchases registered on or after February 16, 2005.

Partial Exemption

Partial exemptions from property transfer tax are available in certain circumstances.

Where part of the improvements on the land are used for purposes other than the purchaser's primary residence, such as where part of the improvement is used for commercial purposes or where there is a separate dwelling or residential improvement on the land, only the portion that is the purchaser's primary residence is eligible for the exemption.

Where the land is larger than 0.5 hectares, only the residential improvement and 0.5 hectares of the land are eligible for the exemption.

For example, a one hectare vacant parcel of land is purchased. Only 0.5 hectares is eligible for the exemption. The fair market value of entire parcel is \$100,000. The partial exemption is calculated as follows:

$$\frac{\text{Fair Market Value}}{\text{Total Area of Parcel}} \times 0.5 \text{ (hectares)}$$

(in hectares)

$$\frac{100,000}{1} \times 0.5 \text{ (hectares)} = \$50,000$$

In that example, \$50,000 of the value of the property would be eligible for the exemption.

Where a property has a fair market value of up to \$25,000 more than the threshold amounts, the property is eligible for a partial exemption.

For example, for a property located in the Greater Vancouver Regional District with a fair market value of \$335,000, the partial exemption is calculated as follows:

Fair market value of property	\$335,000
Tax at 1% of the first \$200,000 and 2% on the remainder	\$ 4,700
Partial exemption calculation:	
$4,700 \times \frac{(325,000 + 25,000 - 335,000)}{25,000}$	- \$ 2,820
Tax Payable	= \$ 1,880

Financing Requirements

Amount of Financing

To be eligible for the exemption, the amount borrowed and registered on title to finance the purchase must be **at least 70% of the fair market value of the property**. This amount may include financing that is assumed by the purchaser provided it is registered on title.

An unsecured loan or a loan registered against a different property cannot be included. Only financing that is applied towards the purchase price of the principal residence can be included in this amount.

Source of Financing

When calculating the amount borrowed to finance the purchase, **do not** include amounts borrowed from “related individuals” or “related persons”. These terms have a specific meaning under the *Property Transfer Tax Act*.

Also, **do not** include amounts borrowed from a trust of which the purchaser or any related person is a beneficiary, or from a privately held corporation of which the purchaser or one or more related persons are shareholders.

Requirements of Financing

The financing obtained must have a term of at least one year and must be registered against the title within seven days of the date the transfer is filed at the Land Title office. If it is for a term less than one year, or the mortgage is a demand mortgage (where there is no term stated on the mortgage document), the tax must be paid when the transfer is registered.

If the term of the mortgage is extended to meet the one year term requirement, the purchaser may then apply for a refund of the tax that was paid. The application for refund must be made within 18 months of the date that the transfer of title was registered.

Re-advanceable Mortgages and Lines of Credit

The FTHB program is not restricted to purchases that have conventional financing, and the requirements discussed above apply regardless of what form the financing takes.

In addition to the other financing requirements of the exemption, where the purchaser has a re-advanceable mortgage or a line of credit, a copy of the applicable loan or agreement (a schedule to the mortgage document) must be attached to the property transfer tax return filed at the Land Title office. Also, the purchaser's Statement of Adjustments, which confirms that the loan or line of credit is applied toward the purchase of the home, must also be attached to the return.

Please note: As with other forms of financing, the loan or agreement must state that the registered mortgage will be in place for at least one year.

When May the Exemption or Refund be Claimed?

The purchaser may claim the exemption by submitting a *First Time Home Buyers' Property Transfer Tax Return* form (**FIN 269**) and other required documents (as outlined in the FTHB instruction guide) when he or she registers the property at the Land Title office.

If the purchaser does not apply for the exemption when the transfer is registered at the Land Title office, and the other conditions for the FTHB program are met, the purchaser may apply for a refund.

A refund is also available where a purchaser is not a permanent resident of Canada at the time of registration, but obtains permanent resident status within 12 months of the date the transfer was filed at the Land Title office.

An application for refund of the tax paid must be made within 18 months of the date the transfer was filed at the Land Title office.

Requirements that Must be Met During the First Year the Property is Owned

Occupancy Requirement

The purchaser must occupy the residence as his or her principal residence within 92 days of the transfer being registered at the Land Title office. To be eligible for the full exemption, the purchaser must then continue to use the residence as his or her principal residence for at least one year after the date the transfer was registered.

A purchaser who ceases to maintain the residence as his or her principal residence prior to the first anniversary of the registration date may be eligible for a pro-rated exemption based on the date the purchaser moved off the property.

Exceptions

If the purchaser dies prior to the first anniversary of the registration date, the occupancy requirement is no longer imposed and the exemption continues to apply. The exemption also continues to apply if the property is transferred in accordance with a court order or separation agreement under the *Family Relations Act*.

Construction Requirement

If the property purchased is vacant land, and the purchaser wants to claim the first time home buyers' exemption, a principal residence must be built on that land within one year after the transfer is registered, and the purchaser must then reside on the property for the remainder of that year to receive the full exemption.

To be eligible for the full exemption, the fair market value of the land plus the cost to build the home cannot exceed the maximum allowable fair market value for the area in which the property is located.

A partial exemption is available where the total value of the land plus the cost of the improvement exceeds the maximum allowable fair market value by up to \$25,000.

Mortgage Paydown Requirements

There are requirements with respect to how much the financing may be reduced during the first year the purchaser owns the property. If a mortgage is paid down by more than the allowable limits within the first year, the purchaser may be eligible for a pro-rated exemption based on the number of days the purchaser maintained the allowable indebtedness.

These restrictions apply to all types of financing, including re-advanceable mortgages and lines of credit.

All payments made against the principal amount of the mortgage (both regular and lump-sum payments) are used to determine how much the mortgage has been reduced.

Sometimes the type of financing used, such as a re-advanceable mortgage or a line of credit, enables the purchaser to borrow money in addition to the money borrowed to finance the home.

When calculating how much the mortgage has been reduced, only the amounts borrowed to finance the home are considered.

At the end of the first year after the exemption is claimed, the ministry sends the home owner a letter as part of a routine follow-up procedure. This letter asks the home owner to provide a complete history of the mortgage account to the Property Transfer Tax office. The account history should cover the one year period after the transfer was registered at the Land Title office. All purchasers who claim the FTHB exemption are asked to provide this information, regardless of the type of financing used.

Exception

If a mortgage is reduced beyond the allowable paydown limit as a result of the proceeds from a life or critical illness insurance policy, the mortgage paydown restriction is no longer imposed and the exemption continues to apply. However, the insurer **must** pay the proceeds directly to the lender as a term and condition of the policy.

A pro-rated exemption is available where a purchaser reduces the eligible indebtedness below the allowable limits prior to the first anniversary of the registration date. The pro-rated exemption is based on the date the mortgage was paid down below the required level of financing.

Where a pro-rated exemption is available, the pro-ration is applied to the obligation that is broken first (either the one-year occupancy requirement or the one-year mortgage paydown restriction).

Mortgage Paydown Limits

Limits for Properties Located in the Capital, Fraser Valley and Greater Vancouver Regional Districts

For purchases registered on or after February 16, 2005, if the property is located in the Capital Regional District, Greater Vancouver Regional District or Fraser Valley Regional District, during the first 12 months following registration of the transfer, the mortgage cannot be reduced by more than the greater of:

- **\$13,000, and**
- **the amount that would reduce the mortgage to 70% of the fair market value of the property (calculated on the date the application is made to register the transfer at the Land Title office).**

EXAMPLE

	Mortgage of 70%	Mortgage of 80%
Value of property	\$325,000	\$325,000
Amount of mortgage	\$227,500	\$260,000
Maximum amount by which the mortgage may be reduced	\$13,000	\$32,500

Please note: The maximum limits include the total of all regular and lump-sum principal payments.

Limits for Properties Located Elsewhere

For purchases registered on or after February 16, 2005, if the property is located outside the regional districts described above, during the first 12 months following registration of the transfer, the mortgage cannot be reduced by more than the greater of:

- **\$10,600, and**
- **the amount that would reduce the mortgage to 70% of the fair market value of the property (calculated on the date the application is made to register the transfer at the Land Title office).**

EXAMPLE

	Mortgage of 70%	Mortgage of 80%
Value of property	\$265,000	\$265,000
Amount of mortgage	\$185,500	\$212,000
Maximum amount by which the mortgage may be reduced	\$10,600	\$26,500

Please note: The maximum limits include the total of all regular and lump-sum principal payments.

Penalty for False Declaration

Every application for the exemption or refund is reviewed to verify eligibility.

If a purchaser applying for an exemption or refund makes a false declaration with respect to whether he or she has either previously been on title to a residence in which they resided, or previously obtained a first time home buyers' exemption or refund, the Administrator denies the exemption and the purchaser is assessed a penalty in addition to the tax payable.

The penalty is equal to the amount of the exemption or refund claimed by the purchaser.

Administrative Steps to Claim the Exemption

Ensure all the required steps are taken when a purchaser claims the first time home buyers' exemption to avoid confusion and processing delays.

The following information highlights areas where purchasers claiming the exemption commonly make errors.

First Time Home Buyers' Property Transfer Tax Return

Any purchaser claiming this exemption must complete the tax return specifically designed for the exemption. If a computer generated tax return form is used, **it must be stapled to the back of the original blue return form.**

The *First Time Home Buyers' Property Transfer Tax Return* requires the purchaser to provide information verifying that he or she meets all the requirements for the

exemption. Anyone seeking assistance when completing the FTHB tax return may contact the Property Transfer Tax office at 250 387-0604.

The purchaser must certify, by signing the return, that he or she meets all the requirements for the exemption. **Read this section carefully before signing.**

Specific Sections of the Tax Return Form

Many of the sections in the FTHB tax return are the same as those in the general and special tax returns that are also in use. However, several sections are unique to the FTHB tax return and attention should be paid to ensure they are completed correctly. The following information helps a purchaser complete sections A, B, C, E, F and H of the return.

Section A

Section A requires information about the person purchasing the property (the transferee). This section requires that **every purchaser acquiring an interest in the property** be identified. List the purchaser(s) who qualify for the exemption before those who do not qualify for the exemption.

The form also requires that each purchaser acquiring an interest in the property state the percentage of his or her ownership. If more space is needed to complete this section, an additional sheet may be attached.

Section B

Section B requires each purchaser claiming the exemption to provide information about where he or she lived for the two years immediately before the purchase. Purchasers claiming the exemption who did not reside in British Columbia for at least one year immediately prior to the purchase should complete line 3 in section G. If more space is needed, an additional sheet may be attached.

Section C

The mailing address for the property being purchased must be completed in each case. Where the Administrator has to contact the purchaser to confirm or obtain more information, this is the address that is used.

Section E

Section E requires the purchaser to provide information on the financing terms of the purchase.

Sections F and H

Section F calculates the amount of property transfer tax payable if the exemption is claimed. Section H determines the partial principal residence calculation, where it is required for section F.

Example 1 – Residential Improvements on Less than 0.5 Hectares

This example shows how to complete section F when the property purchased is less than 0.5 hectares and all improvements are residential.

Facts:

- 3 purchasers, each purchasing a 1/3 interest in the property; 2 are eligible for the exemption, therefore 66.67% of the tax is exempt
- the fair market value is \$250,000

F. Property Transfer Tax Calculation:

1. Fair market value of property	\$250,000	F1
1a. Fair market value of the interest being acquired in this transaction	\$250,000	F1a
2. Tax at 1% of the first \$200,000 reported on line F1 and 2% on the remainder	\$ 3,000	F2
3. If the size of the entire property is equal to or less than 0.5 hectares , and all improvements are residential, the percentage interest in the property being acquired by eligible first time home buyers claiming the exemption _____ % x F2 66.67% x \$3,000 = \$ 2,000		F3
4. If the size of the entire property is larger than 0.5 hectares , or if some of the improvements are not residential, <u>complete section H</u> below <u>principal residence value (H10)</u> x F2 = \$ _____ fair market value (F1a)		F4

5. If the fair market value of the entire property is greater than the applicable qualifying value (QV) (see condition 6 in the First Time Home Buyers' Instruction Guide) but less than the QV + \$25,000

$$(F3 \text{ or } F4) \times \frac{(QV + \$25,000 - F1)}{\$25,000} = \$ \underline{\hspace{2cm}} \quad F5$$

6. Property Transfer Tax Payable \$ 1,000 F6
 (F2 minus F5 (if completed) or F3 OR F4)

Example 2 – Residential Improvements on More than 0.5 Hectares

This example shows how to complete sections F and H when the property is **larger than 0.5 hectares and all improvements are residential**. Complete section H whenever the property is larger than 0.5 hectares.

Facts:

- 3 purchasers, each purchasing a 1/3 interest in the property; 2 are eligible for the exemption, therefore 66.67% of the tax is exempt
- the property is 1.4 hectares, the land value is \$150,000, the improvement value is \$100,000, and the fair market value is \$250,000

F. Property Transfer Tax Calculation:

1. Fair market value of property \$250,000 F1
- 1a. Fair market value of the interest being acquired in this transaction \$250,000 F1a
2. Tax at 1% of the first \$200,000 reported on line F1 and 2% on the remainder \$ 3,000 F2
3. If the size of the entire property is equal to or **less than 0.5 hectares**, and all improvements are residential, the percentage interest in the property being acquired by eligible first time home buyers claiming the exemption

$$\underline{\hspace{2cm}} \% \times F2 = \$ \underline{\hspace{2cm}} \quad F3$$

4. If the size of the entire property is **larger than 0.5 hectares**, or if some of the improvements are not residential, complete section H below

$$\frac{\text{Principal Residence Value (H10)}}{\text{Fair Market Value (F1a)}} \times \text{F2} = \$ \text{1,228.63} \text{ F4}$$

$$\frac{\$102,386.07}{\$250,000} \times \$3,000 = \$ \text{1,228.63} \text{ F4}$$

5. If the fair market value of the entire property is greater than the applicable qualifying value (QV) (see condition 6 in the First Time Home Buyer's Instruction Guide) but less than the QV + \$25,000

$$\text{F3 or F4} \times \frac{(\text{QV} + \$25,000 - \text{F1})}{\$25,000} = \$ \text{_____} \text{ F5}$$

6. Property Transfer Tax Payable
(F2 minus F5 (if completed) or F3 OR F4) \$ **1,771.37** F6

H. Proportional Principal Residence Calculation:

Where the property is larger than 0.5 hectares (1.24 acres), or the improvements are not entirely residential, please complete this section.

1. Value of improvements	\$100,000	H1
2. Value of land (see below)	\$150,000	H2
3. Fair market value of property (H1 plus H2 to equal F1)	\$250,000	H3
4. Size of property in hectares (see conversion factors below)	3.9	H4

5. If property is larger than 0.5 hectares, then perform the following proportional land exemption calculation:		H5
<p>\$150,000 (H2) divided by 1.4 (H4) multiplied by 0.5 = \$53,571.43 (to H7)</p>		
6. Value of residential improvement	\$100,000	H6
7. Land value portion eligible	\$ 53,571.43	H7
8. Value of home and land (H6 plus H7)	\$153,571.43	H8
9. Total percentage ownership being transferred to first time home buyers claiming tax exemption	66.67%	H9
10. Principal residence value (H9% of H8)	\$102,386.07	H10

Conversion Factors

To convert from square feet to hectares, multiply by .0000093

0.5 hectares = 53,763 square feet

To convert from acres to hectares, divide by 2.471

0.5 hectares = 1.24 acres

Example 3 – Proportional Exemption on More than 0.5 Hectares

This example shows how to complete sections F and H when the fair market value of the entire property is greater than the applicable qualifying value (QV) but less than the QV + \$25,000.

Facts:

- 2 purchasers, each purchasing a 1/2 interest in the property; 1 is eligible for the exemption, therefore 50% of the tax is exempt
- the property is 3.9 hectares, the land value is \$220,000, the improvement value is \$125,000 and is residential, the fair market value is \$345,000, and the property is in the Capital Regional District (QV is \$325,000)

F. Property Transfer Tax Calculation:

1. Fair market value of property	\$345,000	F1
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- 1a. Fair market value of the interest being acquired in this transaction \$345,000 F1a
2. Tax at 1% of the first \$200,000 reported on line F1 and 2% on the remainder \$ 4,900 F2
3. If the size of the entire property is equal to or **less than 0.5 hectares**, and all improvements are residential, the percentage interest in the property being acquired by eligible first time home buyers claiming the exemption
- % x F2 = \$ F3
4. If the size of the entire property **is larger than 0.5 hectares**, or if some of the improvements are not residential, complete section H below
- Principal Residence Value (H10) x F2
Fair Market Value (F1a)
\$76,602.57 x \$4,900 = \$ 1,087.98 F4
\$345,000
5. If the fair market value of the entire property is greater than the applicable qualifying value (QV) (see condition 6 in the First Time Home Buyers' Instruction Guide) but less than the QV + \$25,000
- (F3 or F4) x $\frac{(QV + \$25,000 - F1)}{\$25,000}$
- 1,087.98 x $\frac{(325,000 + 25,000 - 345,000)}{25,000}$ = \$ 217.60 F5
6. Property Transfer Tax Payable (F2 minus F5 (if completed) or F3 OR F4) \$ 1,771.37 F6

H. Proportional Principal Residence Calculation:

Where the property is larger than 0.5 hectares (1.24 acres), or the improvements are not entirely residential, please complete this section.

1. Value of improvements	\$125,000	H1
2. Value of land (see below)	\$220,000	H2
3. Fair market value of property (H1 plus H2 to equal F1)	\$345,000	H3
4. Size of property in hectares (see conversion factors below)	1.4	H4
5. If property is larger than 0.5 hectares, then perform the following proportional land exemption calculation: \$220,000 (H2) divided by 1.4 (H4) multiplied by 0.5 = \$28,205 (to H7)		H5
6. Value of residential improvement	\$125,000	H6
7. Land value portion eligible	\$ 28,205.13	H7
8. Value of home and land (H6 plus H7)	\$153,205.13	H8
9. Total percentage ownership being transferred to first time home buyers claiming tax exemption	50.00%	H9
10. Principal residence value (H9% of H8)	\$102,386.07	H10

Conversion Factors

To convert from square feet to hectares, multiply by .0000093

0.5 hectares = 53,763 square feet

To convert from acres to hectares, divide by 2.471

0.5 hectares = 1.24 acres

5. If the fair market value of the entire property is greater than the applicable qualifying value (QV) (see condition 6 in the First Time Home Buyers' Instruction Guide) but less than the QV + \$25,000

$$(F3 \text{ or } F4) \times \frac{(QV + \$25,000 - F1)}{\$25,000}$$

$$2,450.00 \times \frac{(325,000 + 25,000 - 345,000)}{25,000} = \$ 490 \quad F5$$

6. Property Transfer Tax Payable
(F2 minus F5 (if completed) or F3 OR F4) **\$ 4,410** F6

Need more info?

Telephone (Vancouver): 604 660-2421

Telephone (Victoria): 250 387-0604

Toll free in Canada: 1 800 663-7867 (request a transfer to 250 387-0604)

E-mail: PTTENQ@gov.bc.ca

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Property Transfer Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/individuals/Property_Taxes/property_taxes.htm