

Ministry of Finance

Tax Bulletin



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On July 1, 2010, the provincial sales tax (PST) was replaced with the harmonized sales tax (HST). However, the information in this bulletin may still be applicable if, under the transitional rules, PST applies. For information on the transitional rules, please see www.sbr.gov.bc.ca/business/Consumer_Taxes/Harmonized_Sales_Tax/hst.html

Real Property Contractors

Social Service Tax Act

Are you in the construction industry?

Do you supply and install materials and equipment that become real property?

This bulletin provides specific tax information to help real property contractors understand how the social service tax, also called the provincial sales tax (PST), applies to their businesses.

For general PST information that applies to all businesses, such as who needs to register, when general exemptions apply, and how to charge and collect the PST, please read our *Small Business Guide to Provincial Sales Tax (PST)*.

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Overview

If you construct buildings, or supply and install materials and equipment that become improvements to real property, you are a real property contractor. This includes contractors and trade subcontractors in the construction industry, as well as other businesses that make improvements to real property.

Here are some examples of real property contractors.

- Bricklayers
- Cabinet installers
- Carpenters
- Carpet layers
- Drywallers
- Excavators
- Electricians
- Fence builders
- Foundation contractors
- Framing contractors
- Glass and glazing contractors
- Heating system installers
- Home builders
- Kitchen installers
- Landscapers
- Masonry contractors
- Mechanical contractors
- Painters
- Pavers
- Plumbers
- Roofers
- Sheet metal contractors
- Siding contractors
- Sundeck builders
- Window installers

To understand how PST applies to your contracts, there are two important questions that you need to consider.

1. Do you install materials and equipment that become improvements to real property?

Real property is land and any items permanently attached to land (buildings and structures). Materials and equipment that become permanently attached to the land or buildings on installation are called improvements to real property. Improvements to real property include integral parts of buildings or land, such as windows, doors and driveways. It also includes very large machinery or equipment that is constructed on site, such as machinery used in sawmills, pulp mills or other industrial locations.

For more details on real property, see the section below, Improvements to Real Property.

2. When did you enter into the contract?

Before October 1, 2008

For real property contracts that you **enter into before October 1, 2008**, the way you structure your contract determines whether you pay PST or you charge your customer PST on the materials and equipment that you supply and install to complete the contract.

The general rules for real property contracts are as follows.

Type of real property contract:	Who pays the PST:
Lump sum or fixed-price contracts	Contractor pays PST on the materials and equipment
Time and materials contracts	Customer pays PST on the materials and equipment but not on the labour
Services to existing real property	Neither contractor nor customer pays PST, as services to real property are exempt

Please note: there are some exceptions to the general rules. For more information, see the section below, Real Property Contracts – Before October 1, 2008.

On, or after, October 1, 2008

For real property contracts that you **enter into on, or after, October 1, 2008**, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST. It is important that you read the section below, Real Property Contracts – On, or After, October 1, 2008, for more information.

Improvements to Real Property

It can be difficult to distinguish tangible personal property from fixtures or improvements to real property. The rules regarding real property are based on common-law principles, which add considerable complexity. **While we have set out guidelines and examples for you below, if you are unsure how PST applies, please contact us. We will provide you with an answer that applies to your particular situation.**

Tangible Personal Property

Tangible personal property is property that you can see, weigh, measure or touch, or that is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Retail sales or leases of tangible personal property are taxable, unless there is a specific exemption. As a general rule, if the tangible personal property is taxable when purchased, services provided to the tangible personal property are also taxable (these services are taxable as the tangible personal property is not an improvement to real property).

Fixtures

While fixtures may be commonly understood by contractors to mean items, such as lighting, bathroom and plumbing fixtures, for PST purposes, fixtures has a specific definition in the legislation. Fixtures include certain machinery, equipment or apparatus that are used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property, or in the provision of a service.

Sales or leases of fixtures are taxable but services to fixtures are exempt. For a detailed explanation and the criteria for fixtures, please see **Bulletin SST 078, *Fixtures***.

Real Property

Real property is land and any items permanently attached to land (buildings and structures). It also includes tangible personal property that is installed for the purpose of improving and becoming permanently part of the land or a building. Once installed, the tangible personal property becomes an improvement to real property.

There is no PST on sales or leases of real property, or on services to real property. However, the tangible personal property that becomes an improvement to real property on installation is taxable. For more information, please see the following sections in this bulletin:

- Real Property Contracts – Before October 1, 2008
- Real Property Contracts – On, or After, October 1, 2008

General Criteria for Improvements to Real Property

There are two basic categories of improvements to real property. The criteria for each category are detailed below.

Category 1 – Integral parts of buildings or land

This includes tangible personal property that, on installation, becomes an integral part of a building, structure or land. This includes items, such as heating, air conditioning, lighting or sewage disposal equipment for a building, and elevators and escalators.

To become an integral part of a building, structure or land, the tangible personal property must meet all of the following criteria.

Criteria

1. The tangible personal property is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.
3. The tangible personal property is installed for the better use of the building, structure or land.
4. The tangible personal property is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 1 – Integral Parts of Buildings or Land. If any of the items are sold without installation, they are tangible personal property.

- Aircraft hangar doors
- Air conditioning systems – does not include portable or window units
- Air ventilation systems
- Alarm systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Altar railings, built-in
- Antennae, scatter
- Artwork – permanently attached to, and part of, a building (e.g. statues, fountains, murals and decorative wall panels)
- Asphalt roads
- Awnings
- Baseboards
- Bins, built-in
- Bleachers – folding and attached to gym walls
- Blinds, venetian
- Bridges
- Boilers – used to service a building for heat, electricity or lighting only
- Booths, built-in
- Cabinets and counters, built-in
- Cablevision cables, cable connectors, wall plates – does not include cable to the television, unless there is no wall plate
- Carpeting – wall-to-wall and attached to the floor
- Ceilings
- Church pews, pew fronts, altar rails, organ and chancel screens
- Closet organizers, built-in
- Construction materials – once installed that are used to construct a building or other permanent structure (e.g. lumber, concrete, glass and insulation)
- Conveyors
- Dishwashers, built-in
- Docks – permanently attached to pilings that are sunk into the seabed; includes floating docks and floating breakwaters

- Doors, door frames and door locks
- Drapery tracks and rails – does not include the drapes
- Driveways (e.g. asphalt or concrete)
- Elevators and escalators
- Eaves troughs
- Fences – does not include temporary fences or fences that rest upon the ground on their own weight
- Fibre-optic telecommunications systems – includes buried fibre optic cable and access points to install or maintain the cable, and above-ground wire and poles to connect users; does not include computers to manage the system
- Fire alarm and detection devices, built-in
- Fire hydrants
- Fireplaces – does not include electric fireplaces that plug in to electrical outlets
- Flooring (e.g. tile, linoleum, wall-to-wall carpeting and hardwood)
- Foundations
- Furnaces and duct work
- Garage doors
- Gas fireplaces, stoves and heaters – attached to the gas line and an outside venting system
- Glass – installed in buildings
- Greenhouses – does not include portable types
- Hand rails
- Hardwood floors
- Heating systems
- Heat pumps
- Hot water heaters
- Hot tubs – permanently attached to the land or buildings; does not include hot tubs that can be readily dismantled and removed
- Houseboats – permanently moored and hooked up to utilities; does not include houseboats that are self-propelled

- Irrigation systems
- Island units (e.g. kitchen islands, supermarket islands)
- Kitchen countertops
- Landscaping materials (e.g. plants, trees, shrubs, underground sprinklers, irrigation lines, retaining walls; does not include potted plants)
- Lighting systems and light fixtures – permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps
- Mirrors – permanently attached
- Moldings and baseboards
- Partition walls
- Plumbing fixtures and pipes
- Pools and spas – plumbed into the water supply; above ground must be enclosed by a permanent deck; does not include above ground pools or spas that can be readily dismantled and removed
- Rail sidings and rail spurs
- Range hoods
- Restaurant booths and stools – attached to floor
- Retaining walls
- Roads (e.g. asphalt or concrete)
- Roofs
- Scatter antennae
- Security systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Sewage disposal equipment
- Shelves – built into walls
- Signs – either directly bolted to concrete bases embedded in the ground, or affixed to poles or pylons which are bolted to concrete bases embedded in the ground (e.g. canopy, cube, twin pole and flag mount pylon signs)
- Signs – mounted on walls of buildings (e.g. fascia or neon signs)
- Sinks and sink counters

- Sprinkler systems – embedded in the ground or affixed to a building
- Stairs
- Stools – restaurant stools attached to the floor
- Swimming pools, in-ground
- Telecommunications towers
- Trash compactors
- Vacuum cleaner systems – built-in; does not include plug-in hoses and attachments
- Venetian blinds
- Water meters
- Water treatment systems, built-in
- Windows – includes screens
- Wiring – built into walls

Category 2 - Very large machinery and equipment

This includes machinery or equipment that is constructed on site because of its size, such as machinery used in sawmills, pulp mills or other industrial locations. The machinery or equipment is used in specific business processes that include manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmitting or distributing tangible personal property, or delivering a service. Machinery or equipment that runs on rails or tracks, or moves around on, or from, the site it was constructed does not qualify.

The machinery and equipment must meet all of the following criteria to qualify.

Criteria

1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
3. The machinery or equipment is constructed on site because of its size.

4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.
5. The machinery or equipment cannot be moved from the site without:
 - dismantling the machinery or equipment, or
 - dismantling or causing substantial damage to the building in which it is installed or attached.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 2 – Very Large Machinery and Equipment. If any of the items are sold without installation, they are tangible personal property.

- Aerial tramways – does not include tramway cars
- Alpine slides – does not include the cars that go down the slide
- Automotive spray booths
- Chairlifts – includes steel towers, gearboxes, motors and engines bolted to concrete, cables and chairs
- Coolers, walk-in
- Compressors – used in natural gas pipelines
- Dry kilns
- Freezers, walk-in
- Gas distribution systems – consisting of underground mainlines, distribution pipes, etc.
- Ice-making equipment – used in cold storage plants or curling and skating rinks; does not include ice resurfacing machines or equipment used to make ice for sale
- Paint spray booths – includes ventilation systems
- Pulp mills – includes black liquor evaporating plant, black liquor oxidation plant, black liquor storage tanks, block conveyor and chlorine dioxide generators
- Refrigeration systems – includes freon refrigerant
- Saw mills – includes waste conveyors, green chains, storage bins, kickers (part of conveyor), drop gate, landing decks, sewage, wastewater and treatment systems and septic tanks when installed in real property, walkways and platforms for access to machinery
- Tanks, process – must be of a size that cannot be transported in one piece and are assembled on the site
- Walk-in freezers and coolers

Improvements to Real Property Summary

The following table provides a quick reference guide to the general criteria that are described in the previous section, Improvements to Real Property.

Category	Criteria:	Examples:
Integral parts of buildings or land	1. Tangible personal property that is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Building materials (once installed) to construct buildings, such as lumber, concrete, steel, glass and insulation ▪ Windows and doors ▪ Flooring, such as tiles, linoleum, wall-to-wall carpeting, hardwood floors ▪ In-ground swimming pools ▪ Furnaces and duct work
	2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.	
	3. The tangible personal property is installed for the better use of the building, structure or land.	
	4. The tangible personal property is permanently installed at a location where it is intended to remain.	
Very large machinery and equipment	1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Automotive spray booths ▪ Pulp mills: chlorine dioxide generators ▪ Saw mills: waste conveyors ▪ Walk-in freezers and coolers
	2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.	
	3. The machinery or equipment is constructed on site because of its size.	
	4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.	
	5. The machinery or equipment cannot be moved from the site without: <ul style="list-style-type: none"> ▪ dismantling the machinery or equipment, or ▪ dismantling or causing substantial damage to the building in which it is installed or attached. 	

Real Property Contracts – Before October 1, 2008

For real property contracts that you **enter into before October 1, 2008**, how PST applies depends on whether you use your own materials and equipment to improve the

customer's property, or you improve the customer's property using materials and equipment that you have sold to your customer. In most cases, this depends on whether the contract is for a lump sum or a time and materials contract.

If you are uncertain about how PST applies to your contract, please contact the ministry. We will provide an answer that applies to your particular situation.

Lump Sum (Fixed-Price) Contracts

These are contracts where a single charge is made for the tangible personal property and labour services supplied under the contract.

With this type of contract, your customer is not purchasing tangible personal property, but is purchasing an improvement to real property. Therefore, you are considered the last purchaser of the tangible personal property and must pay PST on all materials and equipment used to fulfill the contract.

A contract may contain a provision transferring ownership of the materials and equipment to the customer. This is to ensure that the customer maintains a security interest in the property in case you go bankrupt. If the contract is a lump sum contract, this type of provision will not change the nature of the contract into a sale of tangible personal property.

Your customer may request a breakdown in the price of the lump sum contract between the materials and the labour without changing the nature of the contract. Where the contract remains a single fixed-price contract for the delivery of a completed improvement to real property, a breakdown in costs for materials and labour may be provided to your customer for information only. To avoid misunderstanding, you should include a statement on the invoice explaining that the breakdown of the price is for information only and does not indicate that the parties intend that the contract involve a sale of tangible personal property.

Indicators of a lump sum contract

- The contract price is for a single fixed amount for completion of described work. The contract does not consider separate charges for materials and labour (although the price may be adjusted for changes, extra work etc.).
- The contract and invoice do not break down the contract price into separate amounts for materials, equipment and labour.
- You are to deliver a completed improvement to real property.
- The payment schedule is based on a percentage of the lump sum price.

Time and Materials (Cost-Plus) Contracts

These are contracts where the charges for the supply of tangible personal property and labour services are separately identified and accounted for in the contract.

Indicators of a time and materials contract

- The contract price separately identifies and prices the materials, equipment and labour.
- The invoice has a breakdown with separate charges for materials, equipment and labour.
- According to the contract or invoice, you charged your customer PST on the materials and equipment.

General rule

When a contract is structured this way, the general rule is that you have sold the tangible personal property to your customer before it becomes installed as an improvement to real property (see below for exceptions to the general rule). Therefore, **your customer must pay PST** on all materials and equipment purchased. You charge your customer PST on the sale price of all tangible personal property supplied under the contract.

Exception to the general rule

The exception to the general rule is where a time and materials contract does not involve a sale of tangible personal property. If a time and materials contract does not involve a sale of tangible personal property, you are considered the last purchaser of the tangible personal property and **you must pay PST** on all materials and equipment used to fulfill the contract.

The information below will help you to determine whether or not a time and materials contract involves a sale of tangible personal property, and therefore, whether you or your customer must pay PST.

Indicators that the contract does not involve a sale of tangible personal property

- You retain any surplus materials and equipment once the installation is complete.
- The materials and equipment remain as your property, and ownership of the materials and equipment does not transfer to your customer until after the installation is complete. This does not include a situation where the purpose of a contractual provision is for you to maintain a security interest in the materials and equipment.
- The contract indicates that you are liable for all sales taxes.

Indicators that the contract involves a sale of tangible personal property

- According to the contract or invoice, you charged your customer PST on the materials and equipment.
- Ownership of the materials and equipment transfers to your customer upon delivery to the site, and before installation.
- You are liable to your customer for any damage to materials and equipment supplied and intended to be incorporated into the improvement to real property.
- Any surplus materials and equipment are the property of your customer.
- The customer keeps the materials and equipment in the event the contract is cancelled.
- The contract indicates that the property is to remain as tangible personal property.

Lump Sum Contracts Involving Both Tangible Personal Property and Real Property

You may have a lump sum contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, the parts are taxable to either you or your customer depending on the type of contract, unless an exemption applies. PST applies to the repair parts as explained in the above sections, Lump Sum (Fixed-Price) Contracts, and Time and Materials (Cost-Plus) Contracts. If you install the parts under a lump sum contract, you pay PST on the parts. If you install the parts under a time and materials contract, the general rule is that you charge your customer PST on the parts but not on the labour to install them.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If a subcontractor has a lump sum contract with a contractor, the subcontractor pays PST. If a subcontractor has a time and materials contract with a contractor, the subcontractor charges the contractor PST on the materials and equipment but not on the labour.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into before October 1, 2008. However, there is an exception to the general rules. For details on the exception, see the section above, Exception to the general rule, under the section, Time and Materials (Cost-Plus) Contracts.

If the material or equipment is:	And your contract is:	The following person pays the PST:
Improvement to real property or fixture	Lump sum / fixed price	Contractor pays on purchase price of materials and equipment
	Time and materials	Customer pays on sale price of materials and equipment but not labour (time)
	Service / repair (time) only	Neither contractor nor customer pays PST on services to improvements to real property or fixtures If repair parts installed: Contractor pays on parts for lump sum contracts Customer pays on parts for time and materials contracts
Tangible personal property	Supply / materials only	Customer pays on sale price of materials and equipment
	Service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers Before October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of eligible customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments.

If you structure your contract with an exempt customer as a time and materials contract, you purchase the materials and equipment without paying PST by giving your PST registration number to the supplier.

You do not charge PST as long as your customer meets all the criteria for an exemption. To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

If you structure your contract as a lump sum contract, you pay PST on the materials and equipment. This is because, under lump sum contracts, you are considered the final purchaser of the materials and equipment. You are not reselling the materials and equipment because your customers are purchasing them after you have installed them into real property. The only exception is when you supply and install production

machinery and equipment under specific conditions. In this case, you may claim an exemption using the *Certificate of Exemption - Production Machinery and Equipment* form (FIN 453/M). For more information, please see **Bulletin SST 054, Manufacturers**.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, Manufacturers

SST 023, Bona Fide Farmers

SST 046, Exemption for Indians and Indian Bands

SST 034, Procedures for Making Exempt Sales or Leases to Indians and Indian Bands

GEN 007, Exemption for Members of the Diplomatic and Consular Corps

GEN 006, Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators

Real Property Contracts – On, or After, October 1, 2008

Contractor is Responsible for the PST

For real property contracts that you **enter into on, or after, October 1, 2008**, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST.

Customer is Responsible for the PST

For you to charge PST, the written contract or a separate written agreement **must specifically state**:

- the value of the materials and equipment, and
- that the customer is responsible for paying PST on this amount.

For contracts where you charge your customers PST, you purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

If you regularly enter into contracts where your customers pay PST, you need to register as a vendor. For information on how to register as a vendor, please see **Bulletin SST 044, Registering to Collect Provincial Sales Tax (PST)**.

Contracts Involving Both Tangible Personal Property and Real Property

You may have a contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts, PST applies as outlined below.

If the contractor is responsible for the PST:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

If the customer is responsible for the PST:

- if you and your customer have agreed, in writing, that your customer pays the PST on the materials and equipment that become improvements to real property (**see box above**), you charge your customer PST on:
 - all of the materials and equipment that you supply and install to complete the contract, and
 - the **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, you pay PST on the parts, unless you and your customer have agreed, in writing, (**see box above**), that your customer pays the PST.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If you are a subcontractor, you pay PST on the materials and equipment that you supply and install to complete the

contract, unless you and the contractor agree, in writing (**see box above**), that the contractor pays the PST.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into on, or after, October 1, 2008.

If the material or equipment is:	And:	The following person pays the PST:
Improvement to real property or fixture	The contract does not specify that the customer pays the PST and/or the value of the materials and equipment	Contractor pays on purchase price of materials and equipment
	You and your customer have agreed, in writing, that your customer pays the PST, and the value of the materials and equipment is specified	Customer pays on sale price of materials and equipment but not labour (time)
	The contract is for service / repair (time) only	Neither contractor nor customer pays on services to improvements to real property or fixtures If repair parts installed: Contractor pays PST on parts unless the contractor and the customer agree, in writing (see box above), that the customer will pay PST
Tangible personal property	The contract is for supply / materials only	Customer pays on sale price of materials and equipment
	The contract is for service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of exempt customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments. For contracts that you **enter into on, or after, October 1, 2008**, there are two ways to claim a PST exemption on materials and equipment that you are installing on behalf of an exempt customer, depending on the contract with your customer (see the beginning of this section, Real Property Contracts – On, or After, October 1, 2008).

1. Customer is responsible for the PST - the contract specifies that your customer pays the PST

You purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

You do not charge your customer PST as long as your customer meets all the criteria for the exemption (for more information, see bulletins listed below). To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

2. Contractor is responsible for the PST - the contract does not specify that the customer pays the PST

You purchase the materials and equipment without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, give the supplier a completed *Certificate of Exemption - Contractors* form (FIN 453/C) completed by the customer (the contractor only completes Part B). This form is available from the ministry or any **Service BC Centre**. You will also find it on our website.

For you to qualify for the exemption, your customer must qualify for and meet all the criteria for exemption as if they were purchasing the materials and equipment themselves. For example, for Status Indians to qualify for an exemption on the purchase of goods, title to the goods must pass to the Status Indian at a location on reserve land. Therefore, if your customer is a Status Indian, title to the materials and equipment must pass to you at a location on reserve land to qualify for the exemption.

You must obtain documentation from your customer confirming your customer's eligibility for the exemption. To show why you did not pay PST, keep this supporting documentation and a copy of the completed *Certificate of Exemption - Contractors* form (FIN 453/C) for your records. The bulletins listed at the end of this section provide more information on supporting documentation.

Please note: For contracts that you **enter into on, or after, October 1, 2008**, you cannot use the *Certificate of Exemption – Production Machinery and Equipment* form (FIN 453/M) to claim an exemption on production machinery and equipment that you supply and install under a real property contract for an eligible manufacturer. Instead, you follow the process described above.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, *Manufacturers*

SST 023, *Bona Fide Farmers*

SST 046, *Exemption for Indians and Indian Bands*

SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

GEN 007, *Exemption for Members of the Diplomatic and Consular Corps*

GEN 006, *Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators*

Sales

When to Charge PST

You charge PST on the retail sale or lease of goods, such as:

- supply-only sales of materials and equipment (excluding installation),
- materials and equipment sold under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment sold under real property contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see the section above, Real Property Contracts – On, or After, October 1, 2008), and
- supply and installation of materials and equipment that do not become improvements to real property (i.e. they remain tangible personal property after installation, such as drapes, gym lockers, Murphy wall-beds, wireless security systems etc.).

If you regularly sell taxable goods or services in British Columbia, you need to register and receive a PST registration number. If you are not required to register, you are still responsible for collecting and remitting PST if you occasionally make taxable sales. You self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Seller Not Registered Under the Social Service Tax Act* form (**FIN 428S**). This form is available from the ministry or any Service BC Centre. You will also find it on our website.

If you are located outside British Columbia and make taxable sales in British Columbia, you may be required to register. For more information, and to see if you need to register, please see **Bulletins SST 044**, *Registering to Collect Provincial Sales Tax (PST)*, and **SST 074**, *Out-of-Province Sellers*.

When Not to Charge PST

You do not charge PST on the following:

- materials and equipment installed under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment installed under real property contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- services to real property, such as installation or labour charges,
- sales to exempt customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above – Real Property Contracts Provided to Exempt Customers Before October 1, 2008), and
- sales to exempt customers under real property contracts that you enter into **on, or after**, October 1, 2008 (see section above, Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008).

Purchases

When to Pay PST

You pay PST on the purchase or lease of new or used goods and services that you use in your business, such as:

- materials and equipment you purchase to install under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase to install under contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- stationery, furniture and office equipment,
- advertising materials, such as flyers and brochures,
- goods you purchase to give away as free promotions,
- computer hardware and software (unless custom software),
- supplies that do not become part of the materials and equipment you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

If the supplier does not charge you PST on the above items, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number, you self-assess the PST due using a *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered under the Social Service Tax Act* form (**FIN 428P**). This form is available from the ministry or any Service BC Centre. You will also find it on our website.

When Not to Pay PST

You do not pay PST on the following:

- materials and equipment you purchase for resale or lease to your customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase for resale or lease to your customers under contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- materials and equipment that you purchase for resale or lease to your customers under supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

To purchase the above items without paying PST, give the supplier your PST registration number.

If you take taxable goods from your resale inventory for business or personal use, you self-assess PST on your cost of the goods.

Purchases for Taxable and Non-Taxable Sales

If you maintain an inventory and you do not know at the time of purchase whether the goods will be taxable or non-taxable, there are three possible ways to pay the PST on your purchases.

1. You maintain separate inventories for taxable sales and non-taxable sales. You pay PST on the purchases for the non-taxable sale inventory and do not pay PST on the purchases for the taxable sale inventory.
2. You pay PST on all your purchases. When you sell taxable goods, you charge your customer PST but you recover the PST paid on your purchase of the goods by claiming a refund from the ministry or taking an internal tax account adjustment. Under certain circumstances, you may take an internal tax account adjustment by deducting the PST paid on the purchase of the goods from the PST you have collected on your sales.

3. You make a reasonable estimate of the portion of the purchases that are for non-taxable sales and you pay PST to the supplier on that portion. You need to reconcile this estimate to your actual usage. If the reconciliation shows you used more goods for taxable purposes than estimated, you self-assess the PST owing on the goods purchased exempt, but used for taxable purposes. If you have a PST registration number, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number, you self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P).

If the reconciliation shows you used more goods for exempt purposes than estimated, you can recover the PST paid on items used for exempt purposes by claiming a refund from the ministry or taking an internal account adjustment.

For more information on when you can take internal tax account adjustments, please see **Bulletin SST 032**, *Completing the Tax Return Form*. For more information on refunds, please see **Bulletin GEN 008**, *Refunds of Overpayments of Tax*.

Safety Equipment and Protective Clothing

Effective February 20, 2008, all work-related safety equipment and protective clothing, designed to be worn by, or attached to, a worker, will be PST exempt if they **meet provincial work safety legislation** and are purchased by an employer, self-employed person, or school boards or similar authority. The definition of work gloves has also been expanded to include all gloves with built-in safety features, such as reinforced thumbs, cuffs or palms designed to protect a worker from physical harm, including traffic safety gloves to enhance visibility. There are also safety items that are exempt to everyone, such as gas detection monitors, portable fire extinguishers and their refills.

For more information, please see **Bulletin SST 002**, *Safety Equipment and Protective Clothing*.

Production Machinery and Equipment Exemption

If you manufacture goods (e.g. cabinets), you may qualify as a manufacturer. If you qualify as a manufacturer, you may purchase equipment used to produce your product without paying PST. For more information, and to see if you qualify for the production machinery and equipment exemption, please see **Bulletin SST 054**, *Manufacturers*.

General Exemptions Common to Contractors

Energy conservation exemptions

You do not charge PST on the following energy conservation materials and equipment:

- certain materials and equipment that prevent heat loss from a building,
- ENERGY STAR® Qualified residential oil-fired forced air furnaces, boilers, and air- or ground-source heat pumps,
- prescribed commercial boilers (for more information, please see **Bulletin SST 011**, *Exemption for Material and Equipment Used to Conserve Energy*),
- gas-fired water heaters (including gas-fired storage water heaters and gas fired instantaneous water heaters) with an energy factor of 0.80 or greater when purchased or leased for residential purposes,
- ENERGY STAR®¹ Qualified residential refrigerators, freezers and clothes washers,
- ENERGY STAR® Qualified windows, doors (including side panels) and skylights,
- insulation designed to prevent heat transfer to, or from, hot water tanks, hot or cold water pipes and ductwork, and
- prescribed ocean, wind, solar and micro-hydro power generating equipment.

As of February 21, 2007, windows, doors and skylights that do not have the ENERGY STAR® designation are taxable. This means that there is no longer an exemption for glass and other materials used to manufacture windows or skylights as the ENERGY STAR® designation is available only for pre-manufactured products. Also, there is no longer an exemption for window walls in high-rise residential and commercial buildings as there are no standards equivalent to ENERGY STAR® for these products.

There is no change to the exemption for replacement parts, such as glass used to repair ENERGY STAR® windows. If you provide repair services, you can purchase replacement parts without paying PST by giving your PST registration number to the supplier.

For more details on the ENERGY STAR® designation and energy conservation exemptions, please see our website.

Transitional refunds

Before February 21, 2007, the following products qualified under the PST exemption for windows and doors:

- storm windows, storm doors, multi-glazed windows and doors containing multi-glazed windows, and
- glass and other materials purchased to construct multi-glazed windows.

¹ The ENERGY STAR® mark is administered and promoted in Canada by Natural Resources Canada and is registered in Canada by the United States Environmental Protection Agency.

Recognizing that individuals and businesses may have entered into agreements before February 21, 2007, to purchase or supply and install products that qualified under the previous exemption, PST refunds are available for the following agreements:

- lump sum agreements entered into before February 21, 2007, by contractors to supply and install products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007, and
- written agreements entered into by individuals or businesses before February 21, 2007, to purchase a specific quantity of products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007.

To qualify for the above transitional refunds, applicants must:

- purchase and take delivery of the products between February 21, 2007 and March 31, 2009, inclusive, and
- apply for the refund before April 1, 2010.

Please note: Contractors cannot claim a refund if the lump sum agreement allows them to recover the PST from their customers.

To claim a refund, you need to provide the following information:

- a completed and signed *Application for Refund* form (**FIN 413**),
- a copy of the written agreement dated before February 21, 2007,
 - for contractors: the lump sum agreement to supply and install products that qualified under the previous exemption
 - for individuals and other businesses: the purchase order, receipt or other written document to purchase a specific quantity of products that qualified under the previous exemption
- purchase invoices or receipts, dated between February 21, 2007 and March 31, 2009, inclusive, for products that qualified under the previous exemption,
- proof that PST was paid on the purchase invoices or receipts (e.g. cancelled cheques or accounting records), and
- proof that the previously exempt products were delivered to the applicant between February 21, 2007 and March 31, 2009, inclusive.

Send your refund application and supporting documents to:

Consumer Taxation Branch
Refund Section
PO Box 9628 Stn Prov Govt
Victoria BC V8W 9N6

Goods Brought Into British Columbia

Goods or Equipment for Permanent Use

If you purchase taxable goods or equipment from an out-of-province supplier, or bring taxable goods or equipment into British Columbia for permanent use, you pay PST on the full value of the goods or equipment as outlined below.

The value of **new** goods or equipment you bring into the province is the total purchase price. The purchase price includes charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

The value of **used** goods or equipment you bring into the province is the greater of the depreciated value or 50% of the purchase price. You also include charges for transportation, customs, excise and any other costs that you pay before you use the equipment in British Columbia, except the goods and services tax (GST). Calculate the depreciated value using the depreciation rates shown below.

- Motor vehicles, including all self-propelled equipment and trailers, 30% per year (2.5% for each month).
- Aircraft, 25% per year (2.0833% for each month).
- Vessels, 15% per year (1.25% for each month).
- Railway rolling stock, 10% per year (0.8333% for each month).
- Other equipment, furniture and fixtures, 20% per year (1.667% for each month).

The value of goods that you manufacture or process outside of the province is the total direct manufacturing costs of the goods, including costs for materials, labour, fabrication, supplies, utilities, packaging and any other direct costs. You also include charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

However, you do not include services, such as design and engineering services that are provided by third-parties, as long as they are not directly involved in the manufacturing or processing of the goods, and they perform the services outside of the province prior to the goods being brought into the province.

For more information, please see **Bulletin SST 043**, *Goods Purchased from Out-of-Province Suppliers*.

Goods or Equipment for Temporary Use

If you bring taxable goods or equipment into the province for temporary use, you may qualify to pay the PST due using the temporary use formula. The temporary use formula, also known as the one-third formula, allows you to pay PST on one-third of the value of the equipment for each 12-month period the equipment is in the province for **6 days or more**. Equipment brought into the province for 5 days or less during each 12-month period is not taxable.

If you bring leased goods into the province for temporary use to perform a specific task related to your contract, you pay PST based on the time you have the goods in the province. The 5-day exemption does not apply to leased equipment.

For more information, please see **Bulletin SST 098**, *Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

Remitting the PST

If you have a PST registration number and the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number and the supplier does not charge you PST, you self-assess the PST due using a *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (**FIN 428P**) at the time you bring or ship the goods into British Columbia.

Need more info?

Toll free in Canada: 1 877 388-4440

E-mail: CTBTaxQuestions@gov.bc.ca

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations are available on our website.

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 74(e), 76, 77, 92 and 138(1)(j) - (j.2), and Regulations 2.21, 2.37, 2.45, 2.46, 2.47, 2.52 and 3.20; *Budget Measures Implementation Act*, 2009.