

Ministry of Finance

Tax Bulletin



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Bulletin SST 020

www.fin.gov.bc.ca/rev.htm

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

Containers, Labels and Packing Materials

Social Service Tax Act

This bulletin provides specific tax information to help purchasers of packing related materials understand how the social service tax, also called the provincial sales tax (PST), applies to these items.

The 2004 Budget amended the *Social Service Tax Act* (retroactive to February 17, 1998) to clarify how PST applies to reusable containers such as pop bottles, beer bottles and crates. Prior to this amendment, containers designed to be returned and reused were taxable to the seller of the product even if they were not returned for reuse. Now, only containers which meet certain criteria, such as being subject to a deposit, are taxable. Sellers of products may apply for a refund of PST paid if the containers are used to deliver products to an out-of-province location that is not part of a collection and re-distribution system that includes British Columbia.

Unless a specific exemption exists, PST must be paid on containers, labels, and packing materials by the final consumer.

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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What Containers and Packing Materials are Taxable?

When PST Applies

Sellers of packaged products are considered to be the final consumers of containers and packing materials and are required to pay PST on the purchase price, when the containers or packing materials are used in the following circumstances:

- for handling the merchandise before delivery,
- for providing a service rather than for selling merchandise (other than eligible packaging material used to return an item that has received a taxable service. Please see the section below, How does PST Apply to Packaging-Related Services?),
- for sales and deliveries of merchandise where the seller retains ownership, or
- when they are capable of being returned and reused (see directly below for further information).

Examples of Containers and Packing Materials that are Taxable

Containers and packing materials that are taxable on their purchase price include the following:

- barrels, drums, pallets and carboys that are reusable and returnable to the shipper, or require a deposit from the customer (customer's deposit is not subject to PST),
- liquor, beer and pop bottles that are returnable to a re-distribution system that includes British Columbia,

- bottle hangers and cardboard collars for soft drink bottles used as advertising and not permanently affixed to the product,
- DVD and cassette cases provided to protect leased DVDs and videocassette tapes,
- envelopes used to transport film(s) to processing labs,
- floor bearing pieces and guide rails affixed to railway cars,
- pick up sheets for use in bakeries, restaurants etc., and
- railway car covers and Vabar Paper to keep dust levels down.

Returnable and Reusable Containers

Container purchases are taxable to the seller of the packaged products, when their customer is able to return the container in which the product is held to the seller. PST applies to the purchase of these containers, because the seller retains an interest in the container after the sale or lease of the product being packaged.

Taxable containers include pop and beer bottles and pallets that can be returned and reused. This applies to any returnable and reusable container purchased, brought, sent or received in the province for use by the seller of the packaged product.

PST is payable by the seller of a product on containers if:

- the purchaser of the product pays a deposit, credit, penalty or replacement charge to encourage return of the container for reuse,
- the seller continues to have an interest in the container after the sale of the product,
- the container can be returned to the seller, or
- the product is sold in a place where there is a program designed to collect the container for reuse by the seller, or other participants in the program.

Refunds on Beer Bottles Shipped out of the Province

British Columbia, Alberta, Saskatchewan and Manitoba participate in a re-distribution system. Beer bottles shipped out-of-province may qualify for a refund of PST paid if the product was shipped outside these jurisdictions.

For more information, please see **Bulletin GEN 008**, *Refunds of Overpayments of Tax*.

What Containers and Packing Materials are Exempt?

Criteria for Exemption

Containers and packing materials are considered to form part of merchandise sold, and may be purchased exempt from PST, when both of the following conditions are met:

- they are purchased by a seller of the merchandise for use in the shipment or delivery of merchandise sold by that person, and
- the packaging materials become the property of the buyer of the merchandise without any additional charge.

Packaging materials may be purchased tax-exempt by sellers of products who use containers and packing materials in this manner.

If the seller makes their own containers for use as described above, the materials used to make the containers may also be purchased tax-exempt, provided they become a necessary part of the container produced.

Examples of Containers and Packing Materials that are Exempt

Provided they are not capable of being reused and returned (as discussed earlier), and subject to the criteria for exemption above, containers and packing materials which qualify for exemption include the following:

- airbags included with the container delivered to the customer,
- bags and sacks made of plastic and paper,
- barrels, carboys and drums that are sold with the product and are not returnable to the shipper,
- boxes, cartons and crates,
- cans, plastic drink bottles or beer bottles that are not intended for re-use, even though they are returnable for refund, are not subject to PST on the original purchase by the soft drink manufacturer,
- disposable cups, plates, utensils, carry-out trays and bags that are sold with the product and are only meant to be used once,
- dunnage materials used to support and protect cargo during transport,
- film print “wallet” envelopes used for the **return** of finished film prints to the customer,

- materials used to manufacture containers that become the property of the purchaser including nails, staples, cardboard, wood, glue, gummed tape or other products used to seal containers,
- pallets designed to be used only once, and which are not returned to the shipper,
- pots of compressed peat moss, fibre, plastic and other materials used to facilitate delivery of plants and sold with the product,
- strapping wire for bundling lumber for resale to a customer, and
- tape, twine and other materials used for binding containers.

In addition, there is a specific exemption for milk bottles, when used to sell milk at retail and the bottles are returnable to, and reusable by, a dairy.

Are Compressed Gas Cylinders (Oxygen & Acetylene Containers) Taxable?

Cylinders used to hold compressed gases may or may not be taxable, depending on how the supplier charges the customer for the use of the cylinder. When a supplier consistently charges a fee for the use of cylinders (not a refundable deposit), PST applies to the total charge to the customer. The supplier is not required to pay PST on cylinder purchases.

When the supplier provides a free period of use, and a charge is levied as penalty for late return, PST does not apply to the late return charge. In this case, the supplier must pay PST on cylinder purchases.

What if the Containers are Provided with Leased Items?

The application of PST to containers provided with leased goods is similar to that for containers provided with goods that are purchased.

If the container provided with the leased goods is not returned to the lessor, but is kept by the lessee (e.g. a plastic or paper bag), the lessor may buy the items without paying PST.

However, if the containers **are** returned to the lessor, (e.g. DVD and video cassette cases provided with rented DVDs and videotapes), the purchase of the container by a lessor is considered to be for the lessor's business use. As such, lessors are required to pay PST on the purchase price of returnable containers.

Are Labels Used by Vendors Taxable?

Labels that are Exempt from PST

Effective March 31, 1999, labels purchased by manufacturers, sellers or lessors are exempt from PST if:

- they are attached to goods for sale or lease, and
- remain with the product after the sale or lease.

Labels that are removed from the item before it is sold or leased are taxable.

Labels that are Self-Manufactured

Materials used in the self-manufacture of labels are taxable. Therefore, items such as paper, cloth and ink used by a business to make labels for its own use cannot be purchased exempt from PST.

How does PST Apply to Packaging Related Services?

Whether PST applies to packaging services and materials depends on if:

- a taxable service has been performed by a service provider on the goods being packaged,
- there is a charge for the service, and
- the goods being packaged are already owned by the customer.

Goods on which a Taxable Service has been Performed

If a taxable service is provided to goods owned by a customer, packaging materials (such as boxes, wrapping paper and bags) for the return of the merchandise may be purchased tax-exempt by the service provider, as long as the packaging materials are not returned to, and re-used by, the service provider.

For more information, please see **Bulletin SST 018**, *Taxable Services*.

Crating Charges

When a customer purchases goods from a seller, and a separate or extra charge is made for crating, wrapping or packaging the merchandise prior to delivery, the charge is subject to PST. Such charges are taxable because they form part of the total price paid by the customer to take possession and ownership of the goods. In this case, the seller may purchase materials for providing this service without paying PST, provided the materials are not returnable to, and reusable by, the seller.

However, if there is no separate or extra charge for this packaging service, the seller must pay PST on the purchase price of the materials used in crating, wrapping or packaging the merchandise prior to delivery.

Charges for crating, wrapping or packaging goods already owned by the customer are not taxable. Therefore, the person providing the crating service is required to pay PST on the purchase of the crating and packaging materials.

Production Machinery and Equipment Exemption

Some businesses that package their customers' products also manufacture their own packaging materials. The machinery and equipment used to manufacture the packaging is eligible for the production machinery and equipment exemption, provided the requirements to qualify for the exemption are met.

Machinery and equipment used to place the customer's products in the packages does not qualify for exemption, because it is not part of a manufacturing process.

For more information, please see **Bulletin SST 054**, *Manufacturers*.

Need more info?

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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 8, 11, 70(e), 76(1)(c), 76(1)(h), 76(4) and 87(1), and Regulation 2.54