

Ministry of Finance

Tax Bulletin



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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

Motor Vehicles Modified to Accommodate Persons with a Disability

Social Service Tax Act

Do you sell or lease vehicles that have been modified to accommodate a person with a disability?

Do you know how PST applies to a vehicle modified for a person with a disability?

This bulletin provides specific tax information to help motor vehicle dealers understand how the social service tax, also called the provincial sales tax (PST), applies to motor vehicles modified to accommodate persons with a disability.

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 sell or lease a vehicle that has been modified to accommodate a person with a disability, your customer may be eligible for a reduction in the PST payable on the purchase or lease of the vehicle. This PST reduction ensures that persons requiring modified vehicles do not pay a higher rate of PST on passenger vehicles simply because of the additional costs of the modifications.

If you sell or lease a modified vehicle that also qualifies as an alternative fuel vehicle or fuel efficient vehicle, please see **Bulletin SST 085**, *Alternative Fuel Vehicles and Fuel Efficient Vehicles*, for information on PST reductions on these vehicles.

For information on other exemptions related to specialized devices used in the transportation of persons who have permanent disabilities, please see **Bulletin SST 003**, *Equipment and Devices Used by Persons with a Permanent Disability*.

Definitions

Passenger Vehicle

A passenger vehicle is designed primarily to transport people. Cars, station wagons, motorcycles with engine capacities over 250 cc, as well as vans and trucks, up to and including $\frac{3}{4}$ ton, are all passenger vehicles.

PST Rate Value

The tax rate value is the retail price that a vehicle would normally sell for in the open market.

Qualifying Vehicle

A qualifying vehicle must meet both of the following criteria.

1. The motor vehicle has either:
 - been modified to place or transport a wheelchair in the vehicle without having to collapse the wheelchair, such as a lowered floor, a raised roof or widened doors, or
 - been equipped with an auxiliary driving control that allows a person with a disability to operate the vehicle.
2. It is the first retail sale or retail lease of the motor vehicle since being manufactured, modified or specially equipped as described above.

Sales of Qualifying Motor Vehicles

Purchase Price Reduction

If you sell a qualifying vehicle, you deduct the amount that can reasonably be attributed to the cost of the special features or modifications from the purchase price, and charge PST on the reduced amount. The purchase price is the total price your customer pays to purchase the vehicle, such as finance, documentation or other charges, fees, service charges, modifications and accessories. However, the purchase price does not include the environmental levy on batteries or the goods and services tax (GST).

The purchase price reduction applies to a new or used vehicle, provided it is the first retail sale after the modifications were made.

For example, if you buy a used van, modify it, and then resell it, you only charge PST on the reduced purchase price of the qualifying vehicle. However, if you later resell the same used van with the modifications, you charge PST on the entire purchase price of the vehicle as this is considered to be the second retail sale after the modifications were made.

In addition, if you resell a vehicle manufactured with the modifications, you charge PST on the total purchase price of the vehicle as this is also considered to be the second retail sale of the vehicle.

Where the qualifying vehicle is a newly manufactured vehicle, the cost of the special features may be determined by comparing the selling price of the modified vehicle to the selling price of the same make and model of vehicle without the modifications. Where the qualifying vehicle is a used vehicle, only the charges for those features directly related to, and necessary for, the modifications or special equipment may be deducted from the purchase price.

You charge PST on the reduced price, provided the amount for the cost of the modifications is listed separately on the invoice to your customer. You need to keep a copy of this invoice in your records to show why you charged a lower amount of PST.

Calculating the PST Payable

You charge PST at the rate of 7%, 8%, 9% or 10% on passenger vehicles based on the purchase price of the vehicle. You charge 7% on the purchase price for non-passenger vehicles.

Effective February 22, 2006, the PST rates applicable to passenger vehicles are as follows.

Purchase Price	PST Rate
Less than \$55,000	7%
\$55,000—\$55,999.99	8%
\$56,000—\$56,999.99	9%
\$57,000 and over	10%

For qualifying passenger vehicles, you determine the PST rate by the **reduced** purchase price, as follows.

	Modified Vehicle	Unmodified Vehicle
Purchase price of vehicle	\$55,500	\$53,000
Applicable PST rate	8%	7%
Minus the modification costs	- <u>2,500</u>	
Reduced purchase price	= \$53,000	
Applicable PST rate	X <u>7%</u>	
PST payable	= \$ 3,710	\$ 3,710

The amount for the cost of the modifications to the vehicle must be listed separately on the sales invoice. You need to keep a copy of this invoice in your records to show why you charged a lower amount of PST.

Leases of Qualifying Motor Vehicles

Eligible Leases

To be eligible for the PST reduction, qualifying vehicles that are leased must meet all of the following criteria:

- the lease must have been entered into after March 30, 1999,
- the lease must be for a period of at least 12 months, and
- it must be the first retail lease since the vehicle's manufacture or since being modified.

PST Reduction

If you lease a qualifying vehicle, you deduct the amount for the cost of the special features or modifications from the lease price or PST rate value (see definition), and charge PST on the reduced amount.

For example, if the PST rate value of the qualifying vehicle was \$55,000, and the charge for the modifications was \$2,000, the PST rate value to determine the PST reduction is \$53,000.

This reduced PST rate value also determines the PST rate that applies to the lease payments. The general PST rate that applies to leases of vehicles that are not passenger vehicles is 7%.

Effective February 22, 2006, the PST rate on passenger vehicles is based on the PST rate value of the vehicle as follows.

PST Rate Value	PST Rate
Less than \$55,000	7%
\$55,000 – \$55,999.99	8%
\$56,000 – \$56,999.99	9%
\$57,000 and over	10%

For qualifying vehicles, you charge the PST rate on each lease payment based on the rate that applies to the reduced PST rate value. Using the example above, if the qualifying vehicle is a passenger vehicle, with an actual PST rate value of \$55,000, the PST rate that applies to that vehicle is 8%. However, if the reduced PST rate value is \$53,000, the PST rate that applies to that vehicle is 7%.

You charge the reduced PST rate on all lease payments made by your customer during the lease period, as well as to any variation or renewal of the lease for that same vehicle by the same customer.

To determine how much PST you charge your customer on each lease payment, the lease payment is reduced by the same percentage as the reduction in the overall PST rate value, as outlined below.

Determining the Percentage Reduction in the Overall PST Rate Value

PST rate value before reduction	\$55,000
Cost of modifications	<u>2,000</u>
Reduced PST rate value	\$53,000
Percentage reduction in PST rate value	
$\frac{\$ 2,000}{\$55,000} \times 100\%$	= 3.64%
Actual lease payment	\$650.00
Minus the percentage reduction ($\$650 \times 3.64\%$)	- <u>23.66</u>
Reduced PST rate value	= \$626.34
Multiplied by reduced PST rate	X <u>7%</u>
PST payable on lease payment	= \$ 43.84

The amount for the cost of the modifications to the vehicle must be listed separately on the lease invoice and in the lease agreement. You need to keep a copy of this invoice in your records to show why you charged a lower amount of PST.

Option to Purchase

If your customer, the first lessee, chooses to purchase the vehicle under the terms of the first lease, variations of that lease, or renewals of that lease, your customer is eligible for a reduction in PST as though it were the first retail sale. This means that the PST that applies to the purchase price (lease buy-out price) will be reduced by the portion of the purchase price that can reasonably be attributed to the special features or modifications. The PST reduction does not apply when the vehicle is resold to someone other than the first lessee.

Services to Modify Motor Vehicles

You do not charge PST for services to adapt or modify motor vehicles used by persons using a wheelchair. This includes labour charges to modify a vehicle for wheelchair access, such as raising the roof, lowering the floor or widening the vehicle entries.

You do not pay or charge PST on parts and materials that are used for the sole purpose of providing such modifications, and that are attached to, and become part of, the vehicle.

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

However, you are required to pay PST on any materials and equipment used or consumed in the course of providing your service.

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.

Acknowledgments

We wish to acknowledge and thank the *New Car Dealers Association of BC* for consulting with us on public information for the motor vehicle industry. By working with us, they help us better serve their members and work towards making British Columbia the best place to do business.

References: *Social Service Tax Act*, Sections 1, 5, 6, 20, 23, 24, 42(2), 71(g), 75(2-3), and Regulations 2.41, 2.42, 2.46(i) and 3.25.