

Service Charges, Trade-Ins and Returns

Social Service Tax Act

Do you own or operate a retail store?

Do you know how PST applies to service charges, trade-ins and returns?

This bulletin explains how the social service tax, also called the provincial sales tax (PST), applies to service charges, trade-ins and returns.

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 \(PST\)](#).

Table of Contents

Service Charges	1
Trade-Ins	2
Returns	3

Service Charges

You charge PST on service charges that your customer must pay to take ownership of taxable goods. For example, you charge PST on service charges, such as:

- emergency, after-hours and special order charges,
- handling and transportation charges,
- financing, interest, customs and excise charges,
- delivery charges (for more information, please see [Bulletin SST 083, Transported Goods](#)),
- early termination charges for leased goods,

This bulletin has been completely rewritten and replaces the previous version dated January 2007.

- chill charges included in the purchase price of alcoholic beverages (for more information, please see [Bulletin SST 094](#), *Liquor Sellers*), and
- environmental levies on goods, but not the provincial environmental levy on batteries or the Innovative Clean Energy Fund levy (for more information, please see [Bulletin SST 015](#), *Environmental Levies on Batteries*).

You charge PST on services provided to taxable goods, such as installation and repair services. For more information, please see [Bulletin SST 018](#), *Taxable Services*.

Please note: You do not charge PST on the federal goods and services tax (GST) or other retail sales taxes.

Trade-Ins

Goods Traded In

A trade-in credit reduces the amount of PST due on the sale of taxable goods. You charge PST on the difference between the price of the goods you are selling and the credit you are allowing for the trade-in if:

- British Columbia PST was paid on the trade-in goods unless it was tax-exempt, and
- the trade-in goods are accepted at the same time the new or used goods are sold (i.e. the sales agreement must show the value of the trade-in).

For example, if you accept a \$200 trade-in value on an item toward the sale of a \$2,000 stove, you charge your customer PST on the \$1,800 difference.

You can usually assume that your customer previously paid PST on the trade-in good. However, if it appears that PST was not paid on the trade-in good (e.g. a vehicle still licensed with out-of-province plates), you charge PST on the full selling price, unless your customer can verify that British Columbia PST was paid on the trade-in good.

Trade-in goods accepted as a down payment on a lease or as a partial payment against future lease payments cannot be used to reduce the amount of PST you charge. For more information, please see [Bulletin SST 082](#), *Rentals and Leases of Tangible Personal Property*.

Please note: A trade-in tax credit is granted only at the time you sell or take a written order for specified goods. You cannot use a credit note against an unspecified future delivery of a good as a trade-in credit to reduce the PST due.

Motor Vehicles Traded In

A vehicle trade-in may reduce the amount of PST your customer pays. For more information on how PST applies to motor vehicle trade-ins, please see [Bulletin SST 042, Motor Vehicle Dealers and Leasing Companies](#).

Returns

Goods Returned Within 90 Days

If your customer returns goods, other than a motor vehicle, for a full refund within 90 days from the purchase date, you refund the PST paid.

If you do not refund your customer the full purchase price (e.g. you charge your customer a depreciation or restocking fee to return the goods), you refund the PST based on the amount of the purchase price refunded. For example:

Date of Purchase:	October 1, 2007
Selling Price:	\$1,000 plus 7% PST (\$70)
Goods Returned:	November 1, 2007 (within 90 days)
Restocking Fee:	\$300
Amount Refunded:	\$700 (\$1,000 - 300)
PST Refunded:	<u>+ 49</u> (\$700 x 7%)
Amount Refunded:	\$749

You can recover the PST you refunded to your customer by taking an adjustment on your next tax return. For more information on taking adjustments on your tax return, please see [Bulletin SST 032, Completing the Social Service Tax Return](#).

If your customer returns new lead-acid batteries for a refund within 90 days from the purchase date, you refund the PST, plus the provincial environmental levy paid on the batteries.

Goods Returned Over 90 Days

If your customer returns goods over 90 days from the purchase date for a **full** refund, you can refund the PST paid or have your customer apply directly to the ministry for a refund.

If you refund the **full** purchase price and the PST paid, this is considered a cancelled sale and you can apply to the ministry for a refund of the PST.

If you refund the **full** purchase price but do not refund the PST, your customer can apply to the ministry for a refund of the PST.

You, or your customer, can apply for a refund of the PST by submitting an *Application for Refund of Social Service Tax or Hotel Room Tax* form ([FIN 413](#)). However, the ministry cannot provide a refund of less than \$10. For more information, please see [Bulletin GEN 008](#), *Refunds of Overpayments of Tax*.

Please note: If your customer returns goods over 90 days from the purchase date and you do not refund the **full** purchase price, you do not refund the PST and your customer is not eligible for a refund of the PST from the ministry.

Goods Returned From a Purchase With a Trade-In

If you give your customer a trade-in credit toward a purchase and they later return the item for a refund, do not refund the PST they originally paid on the trade-in good. The PST was correctly paid when they originally purchased the good. You only refund the PST your customer paid you on the purchase. For example, a \$2,000 trade-in value on the sale of a \$10,000 vehicle:

Purchase Price:	\$10,000
Trade-In:	<u>- 2,000</u>
Price After Trade-In:	\$8,000
PST Due:	<u>+ 560</u> (\$8,000 x 7%)
Total Amount Paid:	\$8,560

Your customer later returns the vehicle for a full refund; therefore, you refund the PST your customer paid you on the vehicle:

Full Refund:	\$10,000
PST Refunded:	<u>+ 560</u> (amount of PST you collected)
Total Refund:	\$10,560

If you do not refund the full purchase price of the vehicle (e.g. you charge your customer a depreciation fee), you base the PST refunded on the amount of PST your customer paid you on the vehicle:

Depreciation Fee:	\$2,500
Amount Refunded:	\$7,500 (\$10,000 - \$2,500)
Refund Proportion:	75% (\$7,500 / \$10,000)
PST Refunded:	\$420 (\$560 x 75%)

You do not refund any PST if a returned good is put toward the purchase of another good and you allow a trade-in credit for the returned good. You charge PST as described in the section above, Trade-Ins.

Please note: If your customer returns taxable good other than a vehicle over 90 days from the purchase date and you do not refund the **full** purchase price, you do not refund the PST.

Motor Vehicle Returns and Refunds

If a motor vehicle is returned to the dealer for a refund **within one year** from the purchase date, the PST paid on the vehicle may be refunded. If a motor vehicle is returned to the dealer for a refund **over one year** from the purchase date and the dealer does not refund the **full** purchase price, no PST can be refunded. For more information, including when motor vehicles are returned after one year of the purchase date, please see [Bulletin SST 042](#), *Motor Vehicle Dealers and Leasing Companies*.



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 on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/legislation.htm

Acknowledgments

This bulletin has been prepared in consultation with industry representatives. We wish to acknowledge and thank the *Canadian Federation of Independent Business* for their input. 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, 10, 67 and 84