

# Ministry of Finance

## Tax Bulletin



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Bulletin SST 090

[www.fin.gov.bc.ca/rev.htm](http://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](http://www.sbr.gov.bc.ca/business/Consumer_Taxes/Harmonized_Sales_Tax/hst.html)

## Design Consultants

### *Social Service Tax Act*

**Do you provide design consulting services, such as architectural, engineering, industrial, interior or landscape design?**

**Do you need to know how PST applies to your business?**

This bulletin provides specific tax information to help design consultants 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

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PST applies differently to the various services and products you offer, depending on the type of service or product you provide to your client.

When you are consulting with your client, or creating the design concept, you are providing a non-taxable service. You do not charge PST on fees for design services, such as interior design or architectural services that do not include the production or sale of a tangible product. However, you pay PST on the materials you use to provide the service.

The tax application may change when you produce a tangible product with your design services, such as an industrial designer who produces furniture or an interior designer who makes custom cushions or bedding. If the main purpose of the contract is to produce a tangible product, you charge PST on the total amount of the contract, which includes your design services, materials and labour charges (e.g. labour charges to build custom furniture).

## Services

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You do not charge PST on design services when you do not produce tangible products to sell to your client. For example, if you design a concept and make a presentation board, scale model, digital presentation or original blueprint to show the concept to the client, you do not charge PST for your design service. You do not charge PST on the presentation board, scale model, digital presentation or original blueprint, as it is considered incidental to the services you are providing. However, you pay PST on the cost of all the materials you use in developing the concept and preparing the presentation board, scale model, digital presentation or original blueprint.

**Please note:** Only the **original** copy, or first final version, of a design provided to your client on a tangible medium (i.e. paper, disk or electronic file) qualifies as incidental. You charge PST on any subsequent copies provided to your client. If you do not normally have a set price for the subsequent copies you sell, you determine the value from the cost of the materials you used to create them.

For information on prototypes, please see the section below, Prototypes.

You charge PST on taxable services that you provide, such as:

- re-upholstering, refinishing and repairing furniture,
- custom framing, and
- installing or setting up portable display models.

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

## **Sales**

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### **Producing Tangible Products**

If you produce tangible products with your design services and sell them to your client, the PST application depends on the purpose of the contract.

If the purpose of the contract is for design services and the tangible product provided is merely incidental to the design services, you do not charge PST (see the section above, *Services*).

If the purpose of the contract is to produce a tangible product, you charge PST on the **entire** contract. You charge PST on the entire contract to produce a tangible product even if you separate the charges for the design services from the charges to produce the tangible product. For example, if you produce custom furniture for your client, you charge PST on the entire contract, which includes your design services, materials and labour charges to build the furniture.

**Please note:** If there is a time delay between when you provide the design services and when you produce the tangible product and you are unsure of how PST applies, please contact us.

### **Retail Products**

You charge PST on the retail sale of tangible products you sell to your client.

If the purpose of the contract is to provide both tangible products and design services, you charge PST on the tangible products but not on the design services. For example, if you design the landscape for your client's yard and you sell the client patio furniture and potted plants (tangible products), you only charge PST on the patio furniture and potted plants. The landscape design services are not taxable as they do not relate to the production of a tangible product.

If you charge a single price for the tangible products and design services, generally you only charge PST on the fair market value of the taxable products (see the section below, Bundled Goods and Services).

### **Bundled Goods and Services**

Generally, if a non-taxable good or service, such as design consulting, is bundled together with a taxable good or service, such as a lamp, and sold together for a single price, you charge PST only on the fair market value of the taxable good or service. However, there are two exceptions to this general rule. For details, please see **Bulletin SST 119**, *Bundled Sales: Taxable and Non-Taxable Goods or Services Sold Together for a Single Price*.

### **Improvements to Real Property**

Real property is land and any items permanently attached to land (e.g. buildings and structures). Materials and equipment that become permanently attached to the land or buildings are called improvements to real property.

When you supply and install improvements to real property, such as certain displays, exhibits, murals, fountains and wallpaper, you are considered to be a contractor.

For 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 you supply and install to complete the contract. For contracts that you **enter into on, or after, October 1, 2008**, generally, you are required to pay PST. However, under certain circumstances, you charge your customer PST.

If you are involved in real property contracts, it is important that you read **Bulletin SST 072**, *Real Property Contractors*, for detailed information.

### **Prototypes**

If you develop and manufacture a qualifying prototype, you do not charge PST on the prototype. You also do not pay PST on materials used to manufacture a qualifying prototype. For more information on prototypes, please see **Bulletin SST 109**, *Exemption for Prototypes*.

### **Out-of-Province Sales**

You do not charge PST on taxable goods you ship to an out-of-province location. To show why you did not charge PST, your records must show that you shipped the goods out of the province.

## Purchases

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### 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:

- stationery, furniture and office equipment,
- advertising materials, such as flyers and brochures,
- items you purchase to give away as free promotions,
- samples and items used solely for demonstration, such as fabric, paint or carpet sample books and pieces,
- computer hardware and software, except custom software (for more information, please see **Bulletin SST 040**, *Computer Software and Hardware*),
- incidental goods you provide to your client with your service, such as a disk containing an **original** design,
- supplies, such as toner and paper, for your own use, i.e. draft concept designs,
- equipment used to perform your services, such as drafting tables, garden tools, paint brushes or tape measures, and
- services to repair your equipment.

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.

### When Not to Pay PST

You do not pay PST on the following:

- items you purchase for resale or lease to your clients,
- materials incorporated into the tangible products you sell, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your clients.

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

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

## Purchases from Out-of-Province Suppliers

If you purchase taxable goods from an out-of-province supplier, you pay PST on the total amount that you pay to bring the goods into British Columbia, including charges for transportation, customs, excise and any other costs, except the goods and services tax (GST). If the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return.

## Goods Sold from Your Supply Stock

If you purchased a product to provide a service and paid PST on the product, but you later sell the product to a customer, you charge the customer PST. If you did not use the product before you sold it, you may qualify for a refund from the ministry. For more information, please see **Bulletins GEN 008**, *Refunds of Overpayments of Tax*, and **SST 068**, *Personal Services*.

## Need more info?

Toll free in Canada: 1 877 388-4440

E-mail: [CTBTaxQuestions@gov.bc.ca](mailto: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

This bulletin has been prepared in consultation with industry representatives. We wish to acknowledge and thank the *British Columbia Industrial Design Association* and *Interior Design Institute of British Columbia* 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, 9, 11, 20, 40, 69.1 and 76, and Regulations 12, 12.1 and 16.1