

Ministry of Finance

Tax Notice



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Notice 2007-010

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 notice 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

New Registration and Collection Threshold

Social Service Tax Act

Effective February 21, 2007, registration and collection of the provincial sales tax (PST) may be optional (referred to as optional registration and collection) for some individuals and groups who meet certain conditions.

Please note: The changes described below do not apply to the leasing of goods. For information on the requirements for leasing as a lessor, please *Rentals and Leases of Tangible Personal Property*.

Overview

You may qualify for optional registration and collection if you meet all of the following three threshold conditions:

- your gross annual sales of qualifying goods and services is \$10,000 or less (for information on what goods and services qualify, see the section below, *Qualifying Goods and Services*),
- you do not regularly sell your goods or services or regularly make leases from an established commercial premises, and
- you do not maintain an established business premises.

Before this new registration and collection threshold was introduced (i.e. before February 21, 2007), all persons who regularly made taxable retail sales of goods in the ordinary course of business were required to register as vendors, and collect and remit PST on those sales, regardless of the amount of the sale. In addition, persons who occasionally made retail sales, who were not required to register because they did not

make regular sales in the ordinary course of business, were still required to collect and remit PST on the retail sales they did make, regardless of the amount of the sale.

This new registration and collection threshold simplifies PST requirements for eligible individuals and groups, who regularly or occasionally make sales, by not requiring them to register as a vendor or to collect and remit PST. The customers of these eligible persons are not required to pay PST on the purchase of qualifying goods. However, persons who qualify for optional registration and collection and who decide not to register as a vendor or not to collect and remit PST are responsible for paying PST on all the goods they purchase for resale, including items used to make other goods for resale.

This notice provides information on:

- how to determine if you qualify for optional registration and collection,
- requirements for eligible persons who choose to not register and not collect PST, and
- where to get more information.

Please note: For many, the requirement to register as a vendor and collect and remit PST is a legal obligation. Penalties may result if you do not register when you are required to do so. If you are unsure about whether or not you are required to register as a vendor, or if you meet the conditions for optional registration and collection, or you have any questions about the information contained in this notice, please contact the ministry (see the section below, Further Information).

How to Determine If You Qualify for Optional Registration and Collection

To qualify for optional registration and collection, you must meet *all* of the following three conditions:

1. your gross annual sales of qualifying goods and services must be \$10,000 or less,
2. you do not regularly sell goods or services, or regularly make leases, from an established commercial premises, and
3. you do not maintain an established business premises.

The following will help you determine if you meet each of the three conditions.

1. What Does Gross Annual Sales of Qualifying Goods and Services of \$10,000 or Less Mean?

Calculating Gross Annual Sales

To determine if you qualify under this condition you need to calculate and keep track of your monthly gross sales. You also need to keep a cumulative total of your sales. You calculate your annual gross sales based on the immediately preceding 12 consecutive months, not on a calendar year. If at any time your gross annual sales for the preceding 12 months reach \$10,000 or more, then you may be required to collect and remit PST on your sales and register as a vendor if you regularly make sales in the ordinary course of business.

Qualifying Goods and Services

Qualifying goods and services includes all goods and services that would normally be taxed, including:

- all goods, other than *the non-qualifying goods* mentioned below,
- legal services provided in British Columbia,
- telecommunication services provided in British Columbia, and
- taxable services provided to qualifying goods.

A taxable service is any service to repair, install, assemble, dismantle, adjust, restore, recondition, refinish or maintain tangible personal property. For more information, please see **Bulletin SST 018, Taxable Services**.

Non-qualifying goods are:

- liquor,
- motor vehicles, including all terrain vehicles (ATVs), snowmobiles and trailers,
- aircraft,
- vessels, including personal watercraft, and
- parking rights.

If you *regularly* sell non-qualifying goods or provide taxable services to non-qualifying goods, you are not eligible for optional registration and collection, and you must register to collect and remit PST on your sales. If you occasionally sell non-qualifying goods, your customers are required to pay PST on the purchase price and you are required to remit all PST collected.

Examples

You calculate your gross annual sales by adding the total of all your qualifying sales in the past 12 months.

Example 1

You make stained glass window decorations and picture frames (qualifying goods) from your home to occasionally sell at craft fairs. Your sales for the past 12 months included \$1,000 in picture frames, \$3,000 in window decorations and \$300 in repair services to stained glass. Your gross annual sales are:

Picture frames	\$1,000
Window decorations	3,000
Stained glass repairs	<u>300</u>
Total	\$4,300

Because your gross annual sales are less than \$10,000, and your circumstances meet the other conditions, you qualify for optional registration and collection of PST.

Example 2

You regularly sell candles at a church craft market only in the summer and winter months, and your sales in 2006 and 2007 are:

Sales by Month	2006	2007
July	\$2,000	\$3,500
August	\$2,000	\$3,500
November	\$3,000	\$3,000
December	\$2,000	\$3,000

As of February 21, 2007, your sales for the previous 12 months are less than \$10,000.

July 2006	\$2,000
August 2006	2,000
November 2006	3,000
December 2006	<u>2,000</u>
Total	\$9,000

In July 2007, your sales exceed \$10,000 for the previous 12 months.

August 2006	\$2,000
November 2006	3,000
December 2006	2,000
July 2007	<u>3,500</u>
Total	\$10,500

Since in July 2007, your sales exceed the \$10,000 threshold condition for the preceding 12 months, you are required to register as a vendor because you make regular sales in the ordinary course of business.

Please note: If your sales are close to exceeding \$10,000 for the previous 12 months, or you expect your sales to increase in the upcoming months (to push your gross annual sales over the \$10,000 threshold), you may want to register as a vendor in advance. For more information, please see **Bulletin SST 044, Do You Need to Register as a Vendor?**

Example 3

Your non-profit organization meets in a local community centre. It holds two large garage sales each year to raise funds, and makes no other sales. All goods are donated. The garage sales raise a total of \$6,000 in a 12 month period. Because the organization has gross annual sales of less than \$10,000, and meets the other conditions, it qualifies for optional registration and collection, and is not required to collect and remit PST on its sales.

2. What does Established Commercial Premises Mean?

If you regularly sell goods or services (including both qualifying and non-qualifying goods and services, see section above, Qualifying Goods and Services) or regularly make leases from an established commercial premises, you do not qualify for optional registration and collection, regardless of the amount of your annual gross sales.

Established commercial premises are a recognized location where your customers buy or lease goods or services, or where anything is bought, sold or leased, including:

- a store-front location, including retail stores in malls and strip-malls, and also including a retail store operated by a non-profit or charitable organization,
- a consignment store,
- a kiosk located in a shopping mall,
- a stall in an outdoor location, rented for regular sales or leases,
- a store-front attached to a residential building,

- an established studio (e.g. pottery or painting studio) on residential property, which is well advertised and customers come there to make purchases, or
- a space (or room) in a house designated for the purpose of making sales or leases. For example, you operate a hair salon in your home and the salon is advertised to clients who come there to receive hair styling and purchase hair care products.

Established commercial premises do not include:

- a folding table set up in a shopping mall for a weekend craft sale,
- a craft fair held in a recreation centre, conference centre, church, hall or similar location,
- an occasional garage sale at your residence, or
- occasional internet sales made from your residence (e.g. you occasionally sell items on an online auction website).

Please note: You may be eligible for optional registration and collection if you only occasionally make sales from a flea market or swap meet, even though these locations are considered established commercial premises. This is because although the flea market is a recognized location for sales of goods, you do not sell from it on a regular basis.

3. What is an Established Business Premises?

If you have an established business premises, you do not qualify for optional registration and collection, regardless of the amount of your gross sales or the location of the sale.

An established business premises is a recognized location for more general business activities, including:

- a business office in a strip mall,
- a business office in an office building, or
- another designated business or industrial space (e.g. ground floor offices in an apartment complex).

For example, you run a construction business out of a location in an industrial warehouse complex and only make lump sum contracts for the improvement to real property. Once a year you sell off old equipment and tools. You are not eligible for optional registration and collection because you have an established business premises. If you do not regularly make sales in the ordinary course of business, you are not required to register as a vendor; however, you are required to collect and remit PST on any of your sales.

Established business premises do not include:

- office space occupied by a charity, non-profit or benevolent organization (these are not considered “business” premises, as the organization itself does not intend to make a profit).
- a designated space in the home used for a home office or to make crafts or hobby items for sale, *if* customers do not usually come to the home to make purchases. For example, a workshop in your basement where you make wood carvings that you sell at craft fairs, flea markets or the occasional garage sale.

Requirements for Eligible Persons Who Do Not Register

If you meet the conditions for optional registration and collection of PST and you choose not to register as a vendor or to collect and remit PST, the following requirements apply.

- **You must not collect PST** on your sales of qualifying goods or services.
Please note: If you do collect an amount as PST (e.g. you bill PST on your sales invoice and collect it from your customer as PST), you must remit it immediately to the ministry using the form, *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller Not Registered Under the Social Service Tax Act (FIN 428)*.
- You need to keep a record of all your sales and leases for at least five years. If we request this information, it will help verify your eligibility for optional registration and collection.
- You must pay PST on qualifying goods you purchase for resale, such as candles you repackage and sell at craft shows. You pay PST on the purchase price of the goods for resale when you buy them from the supplier.
- You must pay PST on items you purchase to make goods for resale, such as:
 - craft supplies used to make crafts, such as wax and wicks used to make candles,
 - art supplies used to make paintings or other artwork,
 - goods used to provide a taxable service, such as wood used to replace a table leg while providing table repair services,
 - labels, containers and other packaging,
 - abrasives and grinding wheels,
 - audio or video images, animations and other products incorporated into video productions (e.g. if you produce wedding videos you pay PST on products purchased to incorporate into the wedding videos),

- items that are exempt for printers and photographers (e.g. film, photographic paper and chemicals that are exempt to commercial developers, and artwork, photographs and typeset products that are exempt to printers and publishers),
 - catalysts and direct agents,
 - production machinery and equipment,
 - software incorporated into other goods for resale or re-licensing, or
 - software or modified software as part of a business sold as a going concern.
- You must pay PST on any taxable services or telecommunications purchased for resale.

For more information on the types of goods you pay PST on, please call us toll-free at 1 877 388-4440, or e-mail your questions to CTBTaxQuestions@gov.bc.ca

Please note: Your customers are not required to pay PST on their purchases of qualifying goods from you.

Purchases from Out-of-Province Suppliers

If you are eligible for the optional registration and collection, and you choose to not register as a vendor or to collect and remit PST, and you purchase qualifying goods from an out-of-province supplier for the purpose of resale, or for use in making goods for resale (as above), you must 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 pay the PST due using the form, *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller Not Registered Under the Social Service Tax Act (FIN 428)*.

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

Occasional Sales of Non-Qualifying Goods

If you occasionally sell non-qualifying goods, the purchaser is required to pay PST on the goods and you are required to remit all PST collected. For example, if you sell your used car to your neighbour, your neighbour is required to pay PST on the purchase price of the used car.

Goods You Receive For Free

You do not pay PST (or self-assess PST) on goods you receive for free. For example, if you are a charitable organization and receive donations of used goods for a garage sale, you do not pay PST on those goods.

Questions

What happens if I am no longer eligible?

If your circumstances change and you no longer meet the eligibility criteria for optional registration and collection of PST (e.g. you make over \$10,000 in gross annual sales or you open a retail store), please see **Bulletin SST 044**, *Do You Need to Register as a Vendor?*

If you regularly make sales in the ordinary course of business, you will be required to register as a vendor.

What if I am eligible for optional registration and collection, but I want to register?

If you are eligible for optional registration and collection of PST, but you choose to register, you will be a registered vendor. Registered vendors can purchase goods for resale and goods incorporated into other goods for resale without paying PST.

Registered vendors are also required to collect and remit PST. For more information, please see **Bulletin SST 044**, *Do You Need to Register as a Vendor?*

What if I am currently a registered vendor, but I am eligible for optional registration and collection?

You can choose to cancel your registration. To cancel your registration as a vendor, please contact the ministry.

Further Information

If you have any questions, please call us toll-free at 1 877 388-4440, or e-mail your questions to **CTBTaxQuestions@gov.bc.ca**

The information in this notice 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.