



Province of
British Columbia
Ministry of
Finance

Parliament Buildings
Victoria
British Columbia
V8V 2L9

CONSUMER TAXATION BRANCH

No: 72-86

September 1986

SOCIAL SERVICE TAX ACT

CONTRACTORS AND SUBCONTRACTORS

This bulletin provides general guidelines on the application of social service tax for persons who enter into contracts for the construction, repair or improvement of real property. This includes persons who supply and install furnaces, sprinkler systems, bridges, electrical wiring, paving, roofing, floor coverings or other items which become permanently affixed to real property.

Persons requiring more detailed information on the application of tax to their specific contracts should contact their local Consumer Taxation Branch office.

Contractors

For the purposes of this bulletin, all persons who, as contractors, sub-contractors or otherwise, undertake for others the construction, repair or improvement of real property are considered contractors. This includes persons who undertake the construction of buildings as well as persons who supply and install tangible personal property which becomes an improvement to real property when installed (see below).

Contractors are the consumers of all tangible personal property used or consumed in carrying out the terms of their contract and are required to pay tax on their purchase of such materials. This includes building materials, machinery and other tangible personal property which improve real property when set into place under the terms of the contract, as well as machinery and tools used to carry out such contracts.

As tax does not apply to charges to customers for the construction, repair or improvement of real property, persons who undertake only such contracts do not qualify as vendors under the Social Service Tax Act. They are therefore not required to be registered with the Consumer Taxation Branch.

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Contractors as Vendors

Contractors are considered to be vendors and are required to be registered with the Consumer Taxation Branch when:

- ° they supply but do not install tangible personal property which becomes an improvement to real property;
- ° they supply and install tangible personal property which does not qualify as improvements to real property,

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers. Installation charges which are separately stated on the customer's invoice are not subject to the tax.

Items Qualifying as Improvements to Real Property

The following items, not an all inclusive list, are considered to be improvements to real property when they are permanently affixed by the supplier to the premises where they are intended to remain.

Air conditioning
Awnings
Artwork which is permanently affixed to, and forms part of a building
Built-in items such as booths, cabinets, counters, cupboards, dishwashers, shelving, stoves
Burglar and security alarm systems
Ceilings
Chairlifts
Conveyer systems, except those within a manufacturing or production process
Docks
Drapery tracks and rails
Elevators and escalators
Fire alarm and detection devices
Fireplaces
Floor coverings, tiles, linoleum, wall to wall carpeting
Furnaces and duct work
Hand rails
Heating systems
Island units such as in supermarkets and kitchens
Lighting systems and fixtures
Partition walls
Plumbing fixtures and pipes
Sinks and sink counters
Sprinkler systems
Vacuum cleaning systems which are attached to the building (structure) but not hoses and accessories
Walk in freezers and coolers
Wiring, electrical

Please note that if any of the items above are sold without installation, they are subject to tax on the total price paid by the purchaser.

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Items Which do not Qualify as Improvements to Real Property

The following, not an all inclusive list, do not qualify as improvements to real property even when installed by the supplier. Where sold on a lump sum installed basis, tax applies to the total charge to the customer. Charges for installation, service or financing, if separately indicated in the original sales contract agreed to by the purchaser, are not subject to the tax.

- Aerials, radio and television
- Boilers used in production or processing of goods
- Compressors
- Cranes and hoists that run on rails
- Draperies
- Generators
- Ice machines to make ice for resale
- Lockers: gym, school, rental
- Production machinery and equipment

Energy Saving Materials and Equipment

Under the Social Service Tax Act, designated materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain a copy of Bulletin 11-81, "Exemption for Material and Equipment Used Directly or Indirectly for the Conservation of Energy", available from all Consumer Taxation Branch and Government Agency offices.

Non Resident Contractors

A non-resident contractor working in British Columbia is required to pay tax on his landed cost of all materials which are brought into this province to be incorporated into real property. This includes the cost of the material, out of province fabrication costs, freight, federal sales tax, customs charges, brokerage fees and out of province overhead expenditures that would normally be allocated to such materials.

Tax also applies to machinery, equipment, tools, instruments and any other items used or consumed in this province in the course of carrying out the terms of the contract.

Where used equipment is brought into the province for use, tax applies to the depreciated value to a maximum of 50% of the original purchase price. The rates for calculating depreciation are:

- ° for all self-propelled equipment, including vehicles, earth moving and construction equipment, 30% per annum (2.5% per month);
- ° for all aircraft, 25% per annum (2.0833% per month);
- ° for all railway rolling stock, 10% per annum (0.8333% per month);
- ° for all other equipment, 20% per annum (1.6667% per month).

The tax is payable to the Minister of Finance and should be forwarded to the Commissioner, Social Service Tax, Parliament Buildings, Victoria, B.C., V8V 2M1, at the time the equipment is brought into the province for use.

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Federal Government Contracts

The tax applications set out in this bulletin also apply to contracts with the federal government.

Refunds of Social Service Tax Paid on Federal Sales Tax Refunded

When a contractor receives a refund of federal sales tax on the purchase of material incorporated into a project on which he has also paid social service tax, then the contractor's purchase price of the material has been reduced by the amount of the federal sales tax refunded. The contractor may therefore apply for a refund of the proportion of social service tax he paid on the federal sales tax. Applications for claiming a refund of tax and related information may be obtained from any Consumer Taxation Branch office.

FOR FURTHER INFORMATION, please contact your nearest Consumer Taxation Branch office. These offices are located in Vancouver, Nanaimo, Campbell River, Chilliwack, Penticton, Kamloops, Prince George, Terrace, Vernon, Cranbrook, Dawson Creek, Williams Lake, Nelson and Victoria.

References: Social Service Tax Act, Sections 1, 2(4), 3, 4(1)(x), 39;
Regulation 3-20, 4.



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CONSUMER TAXATION BRANCH

No: 72-86
Rev: Oct. 87

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SOCIAL SERVICE TAX ACT

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Contractors are the consumers of all tangible personal property used or consumed in carrying out the terms of their contract and are required to pay tax on their purchase of such materials. This includes building materials, machinery and other tangible personal property which improve real property when set into place under the terms of the contract, as well as machinery and tools used to carry out such contracts.

As tax does not apply to charges to customers for the construction, repair or improvement of real property, persons who undertake only such contracts do not qualify as vendors under the Social Service Tax Act. They are therefore not required to be registered with the Consumer Taxation Branch.

Note: Revisions to previous content have been identified by a bar (|).

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Contractors as Vendors

Contractors are considered to be vendors and are required to be registered with the Consumer Taxation Branch when:

- ° they supply but do not install tangible personal property which becomes an improvement to real property;
- ° they supply and install tangible personal property which does not qualify as improvements to real property,

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers. Installation charges which are separately stated on the customer's invoice are not subject to the tax.

Items Qualifying as Improvements to Real Property

The following items, not an all inclusive list, are considered to be improvements to real property when they are permanently affixed by the supplier to the premises where they are intended to remain.

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Burglar and security alarm systems
Ceilings
Chairlifts
Conveyer systems, except those within a manufacturing or production process
Docks
Drapery tracks and rails
Elevators and escalators
Fire alarm and detection devices
Fireplaces
Floor coverings, tiles, linoleum, wall to wall carpeting
Furnaces and duct work
Hand rails
Heating systems
Island units such as in supermarkets and kitchens
Lighting systems and fixtures
Partition walls
Plumbing fixtures and pipes
Sinks and sink counters
Sprinkler systems
Vacuum cleaning systems which are attached to the building (structure) but not hoses and accessories
Walk in freezers and coolers
Wiring, electrical

Please note that if any of the items above are sold without installation, they are subject to tax on the total price paid by the purchaser.

Items Which do not Qualify as Improvements to Real Property

The following, not an all inclusive list, do not qualify as improvements to real property even when installed by the supplier. Where sold on a lump sum installed basis, tax applies to the total charge to the customer. Charges for installation, service or financing, if separately indicated in the original sales contract agreed to by the purchaser, are not subject to the tax.

- Aerials, radio and television
- Boilers used in production or processing of goods
- Compressors
- Cranes and hoists that run on rails
- Draperies
- Generators
- Ice machines to make ice for resale
- Lockers: gym, school, rental
- Production machinery and equipment

Energy Saving Materials and Equipment

Under the Social Service Tax Act, designated materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain a copy of Bulletin 11-81, "Exemption for Material and Equipment Used Directly or Indirectly for the Conservation of Energy", available from all Consumer Taxation Branch and Government Agents Branch offices.

Non Resident Contractors

A non-resident contractor working in British Columbia is required to pay tax on his landed cost of all materials which are brought into this province to be incorporated into real property. This includes the cost of the material, out of province fabrication costs, freight, federal sales tax, customs charges, brokerage fees and out of province overhead expenditures that would normally be allocated to such materials.

Tax also applies to machinery, equipment, tools, instruments and any other items used or consumed in this province in the course of carrying out the terms of the contract.

Where used equipment is brought into the province for use, tax applies to the greater of the depreciated value or 50% of the original purchase price. The rates for calculating depreciation are:

- for all self-propelled equipment, including vehicles, earth moving and construction equipment, 30% per annum (2.5% per month);
- for all aircraft, 25% per annum (2.0833% per month);
- for all railway rolling stock, 10% per annum (0.8333% per month);
- for all other equipment, 20% per annum (1.6667% per month).

The tax is payable to the Minister of Finance and Corporate Relations and should be forwarded to the Commissioner, Social Service Tax, Parliament Buildings, Victoria, B.C., V8V 2M1, at the time the equipment is brought into the province for use.

Federal Government Contracts

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Refunds of Social Service Tax Paid on Federal Sales Tax Refunded

When a contractor receives a refund of federal sales tax on the purchase of material incorporated into a project on which he has also paid social service tax, then the contractor's purchase price of the material has been reduced by the amount of the federal sales tax refunded. The contractor may therefore apply for a refund of the proportion of social service tax he paid on the federal sales tax. Applications for claiming a refund of tax and related information may be obtained from any Consumer Taxation Branch office.

FOR FURTHER INFORMATION, please contact your nearest Consumer Taxation Branch office. These offices are located in Vancouver, Nanaimo, Campbell River, Chilliwack, Penticton, Kamloops, Kelowna, Prince George, Terrace, Vernon, Cranbrook, Dawson Creek, Williams Lake, Nelson and Victoria.

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CONSUMER TAXATION BRANCH

Issued: September 1986
Revised: March 1990

No. 072

SOCIAL SERVICE TAX ACT

CONTRACTORS AND SUBCONTRACTORS

This bulletin provides general guidelines on the application of social service tax for persons who enter into contracts for the construction, repair or improvement of real property. This includes persons who supply and install furnaces, sprinkler systems, bridges, electrical wiring, paving, roofing, floor coverings, or other items which become permanently affixed to real property.

Persons requiring more detailed information on the application of tax to their specific contracts should contact their local Consumer Taxation Branch office.

CONTRACTORS

For the purposes of this bulletin, all persons who undertake for others the construction, repair or improvement of real property are considered contractors. This includes persons who undertake the construction of buildings as well as persons who supply and install tangible personal property which becomes an improvement to real property when installed. Items qualifying as improvements to real property are outlined below.

LUMP SUM OR FIXED PRICE CONTRACTS

Under lump sum or fixed price contracts, the contractors are the consumers of all tangible personal property used or consumed in carrying out the terms of the contract. The contractors are therefore required to pay tax on their purchase of such materials. This includes building materials, machinery and other tangible personal property which, upon installation, qualify as improvements to real property. The contractor is also required to pay tax on all machinery, tools and other equipment used to carry out the contract.

Note: This Bulletin replaces Bulletin No. 72-86. Revisions to previous content of Bulletin 72-86 have been identified by a bar (|).

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Social service tax does not apply to the charge to customers for a lump sum contract because the customer is purchasing real property.

Contractors who undertake only lump sum contracts do not qualify as vendors under the Social Service Tax Act, and are not required to be registered with the Consumer Taxation Branch.

TIME AND MATERIAL OR COST PLUS CONTRACTS

Under a time and material or cost plus contract, a separate sale is made to the customer for materials incorporated into the real property. As title to these materials passes directly to the customer, tax must be collected from the customer on the charge for the materials. The contractor is not required to pay tax on his purchase of these materials. However, the contractor is required to pay tax on all machinery, tools and other equipment used to carry out the terms of the contract.

Contractors who regularly undertake time and material, or cost plus, contracts must be registered as vendors with the Consumer Taxation Branch. Contractors may then obtain materials for use in such contracts without payment of tax by quoting their registration number to their suppliers. Information on remitting tax collected will be provided upon registration.

Contractors who only occasionally undertake time and material contracts are not required to be registered. They may obtain materials for use in such contracts without payment of tax by providing their supplier with a completed Certificate of Exemption. Tax collected from customers on time and material contracts must be remitted to the Minister of Finance and Corporate Relations. Certificates, forms, and instructions for remitting the tax may be obtained from any Consumer Taxation Branch office.

CONTRACTORS AS VENDORS

Contractors are also considered to be vendors and are required to be registered with the Consumer Taxation Branch when:

- ° they supply but do not install tangible personal property which becomes an improvement to real property;
- ° they supply and install tangible personal property which does not qualify as improvements to real property,

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers. Installation charges which are separately stated on the customer's invoice are not subject to the tax.

ITEMS QUALIFYING AS IMPROVEMENTS TO REAL PROPERTY

The following items are considered to be improvements to real property when they are permanently affixed by the contractor to the premises where they are intended to remain. This is not an all inclusive list.

Air conditioning
Awnings
Artwork permanently affixed to, and part of, a building
Built-in booths, cabinets, counters, cupboards, dishwashers, shelving,
stoves, and similar items
Burglar and security alarm systems
Ceilings
Chairlifts
Conveyer systems, except those within a manufacturing or production
process
Docks
Drapery tracks and rails
Dry kilns
Elevators and escalators
Fire alarm and detection devices
Floor coverings, tiles, linoleum, wall to wall carpeting
Furnaces and duct work
Hand rails
Heating systems
Island units, such as in supermarkets and kitchens
Lighting systems and fixtures
Partition walls
Plumbing fixtures and pipes
Scatter antennae
Sinks and sink counters
Sprinkler systems embedded in the ground or affixed to a building
Vacuum cleaning systems attached to the building (structure) but not
hoses and accessories
Walk in freezers and coolers
Wiring, electrical

Please note that if any of the items above are sold without installation, they are subject to tax on the total price paid by the purchaser.

ITEMS WHICH DO NOT QUALIFY AS IMPROVEMENTS TO REAL PROPERTY

The following do not qualify as improvements to real property even when installed by the supplier. Where sold on a lump sum installed basis, tax applies to the total charge to the customer. Charges for installation, service or financing, if separately indicated in the original sales contract agreed to by the purchaser, are not subject to the tax. Please note that this is not an all inclusive list.

Aerials, radio and television
Boilers used in production or processing of goods
Compressors
Cranes and hoists that run on rails
Draperies
Generators
Ice machines to make ice for resale
Lockers: gym, school, rental
Production machinery and equipment

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ENERGY SAVING MATERIALS AND EQUIPMENT

Under the Social Service Tax Act, prescribed materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain a copy of Bulletin No. 011, "Exemption for Material and Equipment Used Directly or Indirectly for the Conservation of Energy", available from all Consumer Taxation Branch and Government Agents Branch offices.

NON RESIDENT CONTRACTORS

Under a lump sum contract, non-resident contractors working in British Columbia are required to pay tax on their total cost of all materials brought into this province to be incorporated into real property. This includes the cost of the material, out of province fabrication costs, freight, federal sales tax, customs charges, brokerage fees and any other costs and expenses that would normally be allocated to such materials.

Tax also applies to machinery, equipment, tools, instruments and any other items brought into the province and used or consumed in the course of carrying out the terms of the contract, regardless of whether it is a lump sum contract or a time and material contract. The application of tax depends upon the item used and the duration of the task being undertaken. Non-resident contractors should obtain a copy of Bulletin No. 098, "Equipment Brought into the Province for Temporary Use", which is available from all Consumer Taxation Branch and Government Agents Branch offices.

FEDERAL GOVERNMENT CONTRACTS

The tax applications set out in this bulletin also apply to contracts with the federal government.

REFUNDS OF SOCIAL SERVICE TAX PAID ON FEDERAL SALES TAX REFUNDED

When a contractor receives a refund of federal sales tax on the purchase of material incorporated into a project on which he has also paid social service tax, then the contractor's purchase price of the material has been reduced by the amount of the federal sales tax refunded. The contractor may therefore apply for a refund of the social service tax paid on the federal sales tax. Applications for claiming a refund of tax and related information may be obtained from any Consumer Taxation Branch office.

FOR FURTHER INFORMATION, please contact your nearest Consumer Taxation Branch office. These offices are located in Vancouver, Nanaimo, Campbell River, Chilliwack, Penticton, Kamloops, Kelowna, Prince George, Terrace, Vernon, Cranbrook, Dawson Creek, Williams Lake, Nelson and Victoria.

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CONSUMER TAXATION BRANCH

Issued: September 1986
Revised: June 1990

No. 072

SOCIAL SERVICE TAX ACT

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LUMP SUM OR FIXED PRICE CONTRACTS

Under lump sum or fixed price contracts to improve real property, the contractors are the consumers of all tangible personal property used or consumed in carrying out the terms of the contract. The contractors are therefore required to pay tax on their purchase of such materials. This includes building materials, machinery and other tangible personal property which, upon installation, qualify as improvements to real property. The contractor is also required to pay tax on all machinery, tools and other equipment used to carry out the contract.

Note: Revisions to previous content have been identified by a bar (|).

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Social service tax does not apply to the charge to customers for a lump sum contract because the customer is purchasing real property.

Contractors who undertake only lump sum contracts do not qualify as vendors under the Social Service Tax Act, and are not required to be registered with the Consumer Taxation Branch.

TIME AND MATERIAL OR COST PLUS CONTRACTS

Where a contract to improve real property is structured as a time and material or cost plus contract, with the value of the time (labour) and the value of the materials separately stated or accounted for, tax will apply as follows.

If, under the terms of the contract, title to the materials does not pass to the customer until full completion of the contract, tax applies as outlined above for a lump sum or fixed price contract.

If, under the terms of the contract, title to the materials passes to the customer prior to their installation or incorporation into real property, then tax is payable by the customer on the charge for the materials. The contractor is not required to pay tax on his cost of the materials. The charge for time (labour) is not subject to tax. Contractors who regularly enter into such contracts should be registered as vendors with the Consumer Taxation Branch.

CONTRACTORS AS VENDORS

Contractors are also considered to be vendors and are required to be registered with the Consumer Taxation Branch when:

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installed by the supplier. Where sold on a lump sum installed basis, tax
applies to the total charge to the customer. Charges for installation,
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NON-RESIDENT CONTRACTORS

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Tax also applies to machinery, equipment, tools, instruments and any other items brought into the province and used or consumed in the course of carrying out the terms of the contract, regardless of whether it is a lump sum contract or a time and material contract. The application of tax depends upon the item used and the duration of the task being undertaken. Non-resident contractors should obtain a copy of Bulletin No. 098, "Equipment Brought into the Province for Temporary Use", which is available from all Consumer Taxation Branch and Government Agents Branch offices.

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CONSUMER TAXATION BRANCH

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Revised: February 1993

No. 072

SOCIAL SERVICE TAX ACT

CONTRACTORS AND SUBCONTRACTORS

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Persons requiring more detailed information on the application of tax to their specific contracts should contact their local Consumer Taxation Branch office.

CONTRACTORS

For the purposes of this bulletin, all persons who undertake for others the construction, repair, or improvement of real property are considered contractors. This includes persons who undertake the construction of buildings as well as persons who supply and install tangible personal property which becomes an improvement to real property when installed. Examples of items that qualify as improvements to real property are provided at the end of this bulletin.

LUMP SUM OR FIXED PRICE CONTRACTS

Under lump sum or fixed price contracts to improve real property, the contractors are the consumers of all tangible personal property used or consumed in carrying out the terms of the contract. The contractors are therefore required to pay tax on their purchase of such materials. This includes building materials, machinery, and other tangible personal property which, upon installation, qualify as improvements to real property. The contractor is also required to pay tax on all machinery, tools, and other equipment used to carry out the contract.

Social service tax does not apply to the charge to customers for a lump sum contract because the customer is purchasing real property. Contractors who undertake only lump sum contracts do not qualify as vendors under the Social Service Tax Act, and are not required to be registered with the Consumer Taxation Branch.

Note: Revisions to previous content have been identified by a bar (|).

TIME AND MATERIAL OR COST-PLUS CONTRACTS

Where a contract to improve real property is structured as a time and material or cost-plus contract, with the value of the time (labour) and the value of the materials separately stated or accounted for, tax will apply as follows.

If, under the terms of the contract, title to the materials does not pass to the customer until full completion of the contract, tax applies as outlined above for a lump sum or fixed price contract.

If, under the terms of the contract, title to the materials passes to the customer prior to their installation or incorporation into real property, then tax is payable by the customer on the charge for the materials. Tax must be collected on the full charge to the customer, not including federal GST. The charge for time (labour) is not subject to the tax. The contractor is not required to pay tax on his cost of the materials.

Contractors who regularly enter into such contracts should be registered as vendors with the Consumer Taxation Branch. They may then quote their registration number to their suppliers to acquire the tangible personal property without payment of tax. Contractors who only occasionally enter into such contracts should obtain Certificates of Exemption from the Consumer Taxation Branch and provide completed certificates to their suppliers. Alternatively, they may pay tax on their purchase price of the tangible personal property and then apply for a refund of tax paid on materials subsequently sold to their customers under a time and material contract.

CONTRACTORS AS VENDORS

Contractors are also considered to be vendors and are required to be registered with the Consumer Taxation Branch when:

- ° they supply but do not install tangible personal property which becomes an improvement to real property; or
- ° they supply and install tangible personal property which does not qualify as improvements to real property.

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers. Installation charges which are separately stated on the customer's invoice are not subject to the tax.

ENERGY SAVING MATERIALS AND EQUIPMENT

Under the Social Service Tax Act, prescribed materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain a copy of Bulletin No. 011, "Exemption for Material and Equipment Used to Conserve Energy", available from all Consumer Taxation Branch and Government Agents Branch offices.

CUSTOMER QUALIFIES FOR TAX EXEMPTION

Some customers, such as farmers, native Indians, and federal government ministries, may be eligible for exemption from tax on purchases of some or all of the tangible personal property being incorporated into real property. Where such customers enter into real property contracts, however, they may only obtain the benefit of the tax exemption if they are the actual purchasers of the tangible personal property that becomes real property upon installation.

Under a lump sum or fixed price contract, the contractors are the purchasers and consumers of all tangible personal property used in carrying out the terms of the contract. Any exemption for which the customer may otherwise be eligible is not transferable to the contractor, even though the tax paid by the contractor is included in the lump sum amount specified in the contract.

For the customer to obtain the benefit of the exemption, the contract must be structured as a time and material or cost-plus contract. Under such a contract, the customer is the purchaser and user of material incorporated into the real property provided that:

- ° the value of the time (labour) and the value of material are separately stated or accounted for in the contract; and
- ° under the terms of the contract, title to the material passes from the contractor to the customer before installation or incorporation into real property.

Under such a time and material contract, the contractor may purchase the material without payment of tax on the basis that it is acquired for resale. The contractor is then responsible for collecting the applicable tax on resale to the customer. If the customer is eligible for exemption on some or all of the tangible personal property, the contractor is not required to collect tax provided that all conditions for the specific exemption being claimed are met.

When making an exempt sale, it is the contractor's responsibility to ensure that the sale meets all of the conditions for that specific exemption. If the contractor fails to do so, the contractor may be held liable for the tax that should have been collected on that sale. Therefore, when dealing with a customer who is claiming an exemption, the contractor should contact the Consumer Taxation Branch to ensure that the conditions of the sale meet the requirements for exemption.

NON-RESIDENT CONTRACTORS

Under a lump sum contract, non-resident contractors working in British Columbia are required to pay tax on their total cost of all material brought into this province to be incorporated into real property. This includes the cost of the material, out-of-province fabrication costs, freight, federal sales tax, customs charges, brokerage fees, and any other costs and expenses that would normally be allocated to such material.

Tax also applies to machinery, equipment, tools, instruments and any other items brought into the province and used or consumed in the course of carrying out the terms of the contract, regardless of whether it is a lump sum contract or a time and material contract. The application of tax depends upon the item used and the duration of the task being undertaken. Non-resident contractors should obtain a copy of Bulletin No. 098, "Equipment Brought into the Province for Temporary Use", which is available from all Consumer Taxation Branch and Government Agents Branch offices.

ITEMS QUALIFYING AS IMPROVEMENTS TO REAL PROPERTY

The following items are considered to be improvements to real property when they are permanently affixed by the contractor to the premises where they are intended to remain. This is not an all inclusive list.

Air conditioning	Awnings
Artwork permanently affixed to, and part of, a building	Built-in booths, cabinets, counters, shelves, stoves, dishwashers, and similar items
Burglar and security alarm systems	Ceilings
Chairlifts	Conveyer systems that are not within a manufacturing or production process
Docks	Dry kilns
Drapery tracks and rails	Fire alarm and detection devices
Elevators and escalators	Furnaces and duct work
Floor coverings, tiles, linoleum, wall to wall carpeting	Hand rails
Heating systems	Island units (e.g. kitchens, supermarkets)
Lighting systems and fixtures	Partition walls
Plumbing fixtures and pipes	Scatter antennae
Sinks and sink counters	Sprinkler systems embedded in the ground or affixed to a building
Vacuum cleaning systems attached to the building (not hoses and accessories)	Walk in freezers and coolers
Wiring, electrical	

Please note that if any of the items above are sold without installation, they are subject to tax on the total price paid by the purchaser.

ITEMS WHICH DO NOT QUALIFY AS IMPROVEMENTS TO REAL PROPERTY

The following do not qualify as improvements to real property even when installed by the supplier. Where sold on a lump sum installed basis, tax applies to the total charge to the customer. Charges for installation, service, or financing, if separately indicated in the original sales contract agreed to by the purchaser, are not subject to the tax. Please note that this is not an all inclusive list.

Aerials, radio and television	Boilers used in production or processing of goods
Compressors	Draperies
Cranes and hoists that run on rails	Ice machines to make ice for resale
Generators	Production machinery and equipment
Lockers: gym, school, rental	

FOR FURTHER INFORMATION

This bulletin contains general information and is provided for convenience and guidance. If interpretation problems occur, please refer to the legislation or contact your nearest Consumer Taxation Branch office. Branch offices are located in Vancouver, Nanaimo, Campbell River, Chilliwack, Penticton, Kamloops, Kelowna, Prince George, Terrace, Vernon, Cranbrook, Dawson Creek, Williams Lake, Nelson, and Victoria.

References: Social Service Tax Act, Sections 1, 2(4), 3, 4(1)(x); Regulation 3.20, 4.

Consumer Taxation Branch

Bulletin

Issued: September 1986 Revised: June 1994

Bulletin 072

Contractors and Subcontractors

Social Service Tax Act

This bulletin provides general guidelines on the application of social service tax for persons who enter into contracts for the construction, repair, or improvement of real property. This includes persons who supply and install furnaces, plumbing, sprinkler systems, bridges, electrical wiring, paving, roofing, floor coverings, or other items which become permanently affixed to real property.

Persons requiring more detailed information on the application of tax to their specific contracts should contact their local Consumer Taxation Branch office.

Definitions

Contractors

For the purposes of this bulletin, all persons who undertake for others the construction, repair, or improvement of real property are considered contractors. This includes persons who undertake the construction of buildings, as well as persons who supply and install tangible personal property which becomes an improvement to real property when installed. Examples of items that qualify as improvements to real property are provided at the end of this bulletin.

Taxable Services

Any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish, or maintain tangible personal property. Social service tax applies to purchases of these services

Application of Tax to Contracts to Improve Real Property

Lump Sum or Fixed Price Contracts

Under lump sum or fixed price contracts to improve real property, the contractors are the consumers of all tangible personal property used or consumed in carrying out the terms of the contract. The contractors are therefore required to pay tax on their purchase of such materials. This includes building materials, machinery, and other tangible personal property which, upon installation, qualify as improvements to

Note: Revisions to previous content (February 1993) have been identified by a bar (|).



BRITISH
COLUMBIA

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real property. The contractor is also required to pay tax on all machinery, tools, and other equipment used to carry out the contract.

Social service tax does not apply to the charge to customers for a lump sum contract because the customer is purchasing real property. Contractors who undertake only lump sum contracts do not qualify as vendors under the *Social Service Tax Act*, and are not required to be registered with the Consumer Taxation Branch.

Time and Material or Cost-Plus Contracts

Where a contract to improve real property is structured as a time and material or cost-plus contract, with the value of the time (labour) and the value of the materials separately stated or accounted for, tax will apply as follows.

If, under the terms of the contract, title to the materials does not pass to the customer until full completion of the contract, tax applies as outlined above for a lump sum or fixed price contract.

If, under the terms of the contract, title to the materials passes to the customer prior to their installation or incorporation into real property, then tax is payable by the customer on the charge for the materials. Tax must be collected on the full charge to the customer, not including federal GST. The charge for time (labour) is not subject to the tax. Contractors are not required to pay tax on their cost of the materials.

Contractors who regularly enter into such contracts should be registered as vendors with the Consumer Taxation Branch. They may then quote their registration number to their suppliers to acquire the tangible personal property without payment of tax.

Contractors who only occasionally enter into such contracts should obtain Certificates of Exemption (FIN 453) from the Consumer Taxation Branch and provide completed certificates to their suppliers. Alternatively, they may pay tax on their purchase price of the tangible personal property and then apply for a refund of tax paid on materials subsequently sold to their customers under a time and material contract.

Taxable Services

Real Property

Services provided to real property, such as constructing, renovating, or restoring real property are not subject to tax. The Act imposes tax on tangible personal property and specified services, not on real property such as land and buildings. Examples of services to real property that are not subject to tax are: house painting or wall papering; roofing, plumbing, and electrical work; and repairing built-in appliances, furnaces, and water heaters.

**Tangible Personal
Property that Becomes
Real Property**

Services provided to install tangible personal property that will become real property on installation are specifically exempt from the tax. Examples of such exempt services include installing wall-to-wall carpeting, windows, lighting fixtures, hot water heaters, and built-in appliances.

When repair, maintenance, and other labour services are provided to tangible personal property that became real property upon installation, the services are performed with respect to real property. Therefore, such services are not subject to the tax.

When such items are removed from the real property and transported to another location for repair, they lose their identity as real property. As a result, tax applies to the charge for the repair. Charges for removal and re-installation are not subject to the tax if such charges are separately stated on the sales invoice.

Fixtures

Taxable services provided to machinery and equipment that qualify as fixtures, as defined in the Act, have been specifically exempted from the tax. For more information on fixtures, please refer to Bulletin 078, "Application of Tax to Fixtures". For further information on taxable services provided to fixtures, please refer to Bulletin 018, "Taxable Services".

Energy Saving Materials and Equipment**Exemption from Tax**

Under the *Social Service Tax Act*, prescribed materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain Bulletin 011, "Exemption for Material and Equipment Used to Conserve Energy", available from all Consumer Taxation Branch and Government Agents offices.

Customers Eligible for an Exemption**Qualifying for an
Exemption**

Some customers, such as farmers, native Indians, and federal government ministries, may be eligible for exemption from tax on purchases of some or all of the tangible personal property being incorporated into real property. Where such customers enter into real property contracts, however, they may only obtain the benefit of the tax exemption if they are the actual purchasers of the tangible personal property that becomes real property upon installation.

Under a lump sum or fixed price contract, the contractors are the purchasers and consumers of all tangible personal property used in carrying out the terms of the contract. Any exemption for which the customer may otherwise be eligible is not transferable to the contractor, even though the tax paid by the contractor is included in the lump sum amount specified in the contract.

For the customer to obtain the benefit of the exemption, the contract must be structured as a time and material or cost-plus contract. Under such a contract, the customer is the purchaser and user of material incorporated into the real property provided that:

- the value of the time (labour) and the value of material are separately stated or accounted for in the contract; and
- under the terms of the contract, title to the material passes from the contractor to the customer before installation or incorporation into real property.

Under such a time and material contract, the contractor may purchase the material without payment of tax on the basis that it is acquired for resale. The contractor is then responsible for collecting the applicable tax on resale to the customer. If the customer is eligible for exemption on some or all of the tangible personal property, the contractor is not required to collect tax provided that all conditions for the specific exemption being claimed are met.

Substantiating Exempt Sales

When making an exempt sale, it is the contractor's responsibility to ensure that the sale meets all of the conditions for that specific exemption. If the contractor fails to do so, the contractor may be held liable for the tax that should have been collected on that sale. Therefore, when dealing with a customer who is claiming an exemption, the contractor should contact the Consumer Taxation Branch to ensure that the conditions of the sale meet the requirements for exemption.

Application of Tax to Non-Resident Contractors

Materials Brought into the Province

Under a lump sum contract, non-resident contractors working in British Columbia are required to pay tax on their total cost of all material brought into this province to be incorporated into real property. This includes the cost of the material, out-of-province fabrication costs, freight, customs charges, brokerage fees, and any other costs and expenses that would normally be allocated to such material, but not including the federal Goods and Services Tax (GST).

Machinery and Equipment Brought into the Province

Tax also applies to machinery and equipment brought into the province and used or consumed in the course of carrying out the terms of the contract, regardless of whether it is a lump sum contract or a time and material contract. The application of tax depends upon the item used and the duration of the task being undertaken. Non-resident contractors should obtain a copy of Bulletin 098, "Equipment Brought into the Province for Temporary Use", which is available from all Consumer Taxation Branch and Government Agents offices.

Registration Requirements for Contractors

Contractors who must Register as Vendors

Contractors are considered to be vendors and are required to register with the Consumer Taxation Branch when:

- they supply but do not install tangible personal property which becomes an improvement to real property;
- they supply and install tangible personal property which does not qualify as an improvement to real property; or
- they regularly enter into time and material or cost-plus contracts where title to the material passes to the customer prior to their installation or incorporation into real property.

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers.

Contractors who do not have to Register as Vendors

Contractors are not required to be registered as vendors with the Consumer Taxation Branch when:

- they only enter into lump sum or fixed price contracts to improve real property; or
- they only occasionally enter into time and material or cost-plus contracts.

Contractors who only occasionally enter into cost-plus contracts must collect tax from their customers on the charges for material. They should contact the Consumer Taxation Branch for forms and information on remitting the tax due.

How to Register

If you are not registered, you can obtain an Application for Registration as a Vendor Pursuant to the *Social Service Tax Act* form (FIN 418) from your nearest Consumer Taxation Branch or Government Agents office. Upon receipt of a completed application,

the Consumer Taxation Branch will assign a registration number and forward to the applicant a Certificate of Registration and Information about procedures for reporting and remitting the tax collected.

Items Qualifying as Improvements to Real Property

The following items are considered to be improvements to real property when they are permanently affixed by the contractor to the premises where they are intended to remain. This is not an all-inclusive list.

Air conditioning	Floor coverings, tiles, linoleum, wall-to-wall carpeting
Artwork permanently affixed to, and part of, a building	Furnaces and duct work
Awnings	Hand rails
Built-in booths, cabinets, counters, shelves, stoves, dishwashers, and similar items	Heating systems
Burglar and security alarm systems	Island units (e.g. kitchens, supermarkets)
Ceilings	Lighting systems and fixtures
Chairlifts	Partition walls
Conveyer systems that are not within a manufacturing or production process	Plumbing fixtures and pipes
Docks	Retaining walls
Drapery tracks and rails	Scatter antennae
Dry kilns	Sinks and sink counters
Elevators and escalators	Sprinkler systems embedded in the ground or affixed to a building
1 Fences	Vacuum cleaning systems attached to a building (not hoses and accessories)
Fire alarm and detection devices	Walk in freezers and coolers
	Wiring, electrical

Please note that if any of the items above are sold without installation, they are subject to tax on the total price paid by the purchaser.

Items Which do not Qualify as Improvements to Real Property

The following do not qualify as improvements to real property even when installed by the supplier. Where sold on a lump sum installed basis, tax applies to the total charge to the customer. Charges for financing, if separately indicated in the original sales contract agreed to by the purchaser, are not subject to the tax. Please note that this is not an all-inclusive list.

Aerials: radio and television	Cranes and hoists that run on rails
Boilers used in production or processing of goods	Generators
Compressors	Ice machines to make ice for resale
	Lockers: gym, school, rental

Further Information

This bulletin contains general information and is provided for convenience and guidance. If interpretation problems occur, please refer to the legislation or contact your nearest Consumer Taxation Branch office. Offices are located in Vancouver, Nanaimo, Campbell River, Chilliwack, Penticton, Kamloops, Vernon, Kelowna, Prince George, Terrace, Cranbrook, Dawson Creek, Williams Lake, Nelson, and Victoria.

References: *Social Service Tax Act*, Sections 1, 2.04, 2(4), 3, 4(1)(x);
Regulation 2.45, 2.46, 2.47, 3.20, 4.

Was this bulletin useful? Please [CLICK HERE](#) or the **SURVEY** button at the end of the bulletin to let us know.

Contractors and Subcontractors Improvements to Realty

Social Service Tax Act

Please view this bulletin in conjunction
with Budget Bulletin 2004

Effective February 19, 2003, the production machinery and equipment exemption available to manufacturers and other qualifying persons was expanded to include circumstances under which the qualifying items become an improvement to realty once installed, and are acquired under a lump-sum contract. Details of this exemption are provided in Part 5 of this bulletin. There is no change to the application of tax where qualifying production machinery and equipment is installed under a time and materials contract.

This bulletin provides general guidelines on the application of social service tax for persons who enter into contracts for the construction, repair, or improvement of realty. This includes contractors who construct buildings and other structures; who supply and install parts of the building, such as lighting, plumbing, wiring, air conditioning; or who supply and install production machinery and equipment that qualifies as an improvement to realty on installation.

This bulletin cancels and replaces the previous version issued June 1994.

The information in this bulletin is provided for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and regulations can be found on the web at www.rev.gov.bc.ca

IN THIS ISSUE...

- **Definitions**
- **What is an improvement to realty?**
- **Contracts to improve realty**
- **Contracts that are not improvements to realty**
- **Customers eligible for an exemption**
- **Exemptions available to contractors**
- **Non-resident contractors**
- **Registration requirements**
- **Items that qualify as improvements to realty**
- **Items that do not qualify as improvements to realty**

DEFINITIONS

CONTRACTORS

For the purposes of this bulletin, contractors are persons who enter into contracts under which they construct buildings or similar structures that become part of the realty, or supply and install tangible personal property (certain types of machinery and equipment) that becomes an improvement to realty on installation.

SUBCONTRACTORS

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. All tax applications outlined in this bulletin apply equally to both contractors and subcontractors. As used in this bulletin, the term "contractor" includes subcontractors.

WHAT IS AN IMPROVEMENT TO REALTY?

GENERAL CRITERIA

Under the *Social Service Tax Act*, tangible personal property must meet the following two criteria to be considered an improvement to realty on installation.

- On installation, it must become a fixture at common law. This means it must be substantially affixed to the realty where it is intended to remain (such as being firmly bolted to the floor or ceiling, embedded in a concrete pad, or built into the walls of a building), and the attachment must be for the purpose of improving and becoming part of the realty, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
- It must be the type of fixture excluded from the statutory definition of tangible personal property. This means that it must fall within one of the following two categories outlined below. Specific examples of items that fall within these categories are provided on page 6 of this bulletin.

MORE INFO: Bulletin SST 078, *Fixtures*.

A) Part of a Building or Land

Tangible personal property is considered to be an improvement to realty if, on installation, it becomes an integral part of a building, structure, or land; it is installed for the better use of the building, structure or land; and it is installed at a location where it is intended to remain. Tangible personal property in this category includes:

- lumber, concrete, steel, glass, insulation and other construction materials used to erect a building, make patios, porches, driveways and similar permanent structures; and
- machinery, equipment or apparatus that is installed in or attached to a building, structure or land for the purposes of:
 - heating, air conditioning or lighting a building or structure, or
 - plumbing and sewage disposal for a building or structure, or
 - lifting persons or freight within a building or structure by elevator or escalator.

B) Machinery and Equipment

Machinery, equipment or apparatus that qualifies as a fixture at common law and is used directly in

the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property or in the provision of a service is also considered an improvement to realty if it meets all of the following criteria:

- it is of such a size that it must be constructed on the site where it is to be used,
- by its nature or design, it would normally be expected to remain on the site at which it is constructed for the useful life of the machinery, equipment or apparatus,
- it does not run on rails or tracks, or does not otherwise move around on or from the site at which it was constructed, and
- it cannot be moved from the site at which it is constructed without
 - dismantling the machinery, equipment or apparatus, or
 - dismantling or causing substantial damage to the building or structure in which it is installed or to which it is attached.

Specific examples of machinery, equipment and apparatus that fall within this category are provided on page 6 of this bulletin.

Please Note: Only some of the machinery and equipment that falls within this category will qualify for the production machinery and equipment exemption discussed later in this bulletin.

CONTRACTS TO IMPROVE REALTY

LUMP-SUM OR FIXED-PRICE CONTRACTS

Under a lump-sum or fixed-price contract, there is a single charge for the tangible personal property and the labour supplied under the terms of the contract. Under such contracts, the contractor is considered to be the consumer of all items that, on installation, become an improvement to realty. Therefore, *unless an exemption outlined in this bulletin applies*, contractors are required to pay tax on their purchases of all materials, machinery and equipment acquired and installed under a lump-sum contract, including any equipment and tools owned or leased by the contractor and used in carrying out the terms of the contract.

Social service tax does not apply to the charge to customers for a lump-sum contract because the customer is purchasing an improvement to realty which is not subject to tax under the Act.

Contractors who undertake only lump-sum contracts to improve realty are not required to register as vendors under the *Social Service Tax Act* because they pay tax on their purchases as consumers and are not required to collect tax on such contracts.

TIME AND MATERIAL OR COST-PLUS CONTRACTS

Under a time and material or cost-plus contract, the charge for labour and the charge for the supply of tangible personal property are separately stated or accounted for in the contract. Under such contracts, the contractor is considered to be selling the tangible personal property to the customer before installation. Therefore, even if the tangible personal property becomes an improvement to realty on installation, the contractor is required to collect tax from the customer on the total charge for the tangible personal property.

Where the tangible personal property becomes an improvement to realty on installation, the labour charge is not subject to tax. This is because installation charges for improvements to realty are specifically excluded from the definition of a taxable service. However, if the tangible personal property installed under the contract does not qualify as an improvement to realty, the labour charges may also be subject to tax.

MORE INFO: Bulletin SST 018, *Taxable Services*.

Contractors who regularly undertake time and material contracts are required to register as vendors under the *Social Service Tax Act*, and to collect and remit tax on all taxable sales. They may then purchase tangible personal property sold under the contract without payment of tax by quoting their registration number to their supplier. Please refer to page 5 of this bulletin for registration information.

Contractors who only occasionally enter into such contracts are not required to be registered. They may obtain tangible personal property purchased for resale without payment of tax by providing their supplier with a completed *Certificate of Exemption* (FIN 453).

MIXED CONTRACTS

Some lump-sum contracts include both the supply and installation of tangible personal property that becomes an improvement to realty on installation, and tangible personal property that does not qualify as an improvement to realty.

In such cases, contractors must ensure that the charges for improvements to realty are separately stated. This is because the contractor is

required to pay tax on the purchase of tangible personal property that becomes an improvement to realty, and to collect tax from the customer on the sale of the tangible personal property that does not become an improvement to realty, as outlined above under "Time and Material or Cost-Plus Contracts".

Contractors who do not collect and remit tax on the charge to their customer for the tangible personal property that is not an improvement to realty may be liable for an assessment equal to the amount that should have been collected, plus penalty and interest charges.

CONTRACTS THAT ARE NOT IMPROVEMENTS TO REALTY

Contractors who supply and install machinery and equipment and other tangible personal property that does not qualify as an improvement to realty are the sellers of the items installed. As such, they are required to collect tax from their customers.

The application of tax to such contracts is the same as outlined above for "Time and Material Contracts". However, the application of tax to the labour portion of the contract will depend on the nature of the item being installed. For information on the labour portion of the contract, please refer to

MORE INFO: Bulletin SST 018, *Taxable Services*.

Contractors who regularly engage in such contracts are required to be registered as a vendor under the *Social Service Tax Act*. Please refer to page 5 of this bulletin for registration information.

CUSTOMERS ELIGIBLE FOR AN EXEMPTION

EXEMPTIONS NOT TRANSFERABLE TO THE CONTRACTOR

Farmers, aquaculturists, First Nations purchasers, federal government ministries and manufacturers are eligible for exemption on the purchase or lease of qualifying tangible personal property. With the exception of the production machinery and equipment exemption discussed below, the exemption available to the customer is not transferable to the contractor who installs such items under a lump sum contract. The customer can only obtain the exemption if the items are supplied and installed under a time and materials contract, and all criteria for exemption on that sale are met.

MORE INFO: Bulletin SST 023, *Bona Fide Farmers*; Bulletin SST 050, *Bona Fide Aquaculturists*; and Bulletin SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

CUSTOMERS ELIGIBLE FOR THE PRODUCTION MACHINERY AND EQUIPMENT EXEMPTION

Persons involved in manufacturing, including logging and mineral, oil and natural gas production and exploration, are eligible for exemption on purchases or leases of qualifying production machinery and equipment.

Effective February 19, 2003, this exemption is expanded to allow a contractor, who has entered into a lump-sum contract with a person eligible for this exemption, to claim the exemption on qualifying machinery, equipment and parts that become improvements to realty on installation. This exemption applies only if all of the conditions outlined in this part of the bulletin are met.

There is no change to the application of tax where production machinery and equipment is installed under a time and material contract, or where the production machinery and equipment remain tangible personal property on installation. Under these contracts, the contractor is the seller of the production machinery and equipment. The customer may obtain exemption by providing the contractor with a completed *Certificate of Exemption* (FIN 453/M).

MORE INFO: Bulletin SST 054, *Manufacturers*

CRITERIA FOR OBTAINING EXEMPTION UNDER A LUMP-SUM CONTRACT

Contractors may only obtain the exemption if both of the following criteria are met.

- The machinery, equipment or parts are acquired by the contractor to carry out a lump-sum or fixed-price contract to improve realty as described in this bulletin.
- The contractor's customer has provided to the contractor a completed *Certificate of Exemption - Production Machinery and Equipment* (FIN 453/M), certifying that the customer:
 - would be eligible to receive the exemption if they were to purchase the machinery, equipment or parts directly; and
 - the machinery, equipment or parts, once installed, will be used for an exempt purpose.

If the contractor holds a registration under the Act, the contractor may claim the exemption on the specified production machinery, equipment or parts by quoting its registration number to the supplier. To substantiate non-payment of tax, the contractor must retain the completed certificate obtained from the customer.

If the contractor does not hold a registration under the Act, the contractor may claim the exemption by completing the contractor portion of the certificate provided by the customer. The contractor may then obtain the exemption on its purchases by providing this completed certificate to its suppliers. Both the supplier and the contractor must retain a copy of the certificate to substantiate the non-payment of tax on those purchases.

LIABILITY IF THE EXEMPTION IS INCORRECTLY CLAIMED

Where a contractor has a signed certificate from the customer claiming the exemption and, after completion of the contract, it is determined that the customer or the items installed did not qualify for the exemption, *the customer* (not the contractor) may be liable for a penalty equal to the tax that was not paid by the contractor, plus penalty and interest on that amount.

If the contractor claims an exemption but does not obtain a signed certificate from the customer, *the contractor* may be liable for an assessment of the tax that should have been paid, plus penalty and interest charges.

EFFECTIVE DATE OF THE EXEMPTION

Provided the contractor obtains a certification from the customer, the exemption applies to qualifying production machinery, equipment and parts *purchased by the contractor on or after February 19, 2003.*

The following scenarios provide a guide for purchases occurring immediately before and after the exemption comes into effect.

- The contract is entered into on or after February 19, 2003, and all qualifying items are purchased on or after that date – the exemption applies for all purchases of eligible machinery and equipment.
- The contract is entered into before February 19, 2003, and all qualifying items are purchased on or after that date – exemption applies.

- The contract spans the period before and after the effective date, and qualifying items are purchased both before and after the effective date. Only purchases that take place on or after February 19, 2003 qualify for exemption. Purchases that took place before February 19, 2003, were subject to tax under the provisions in the Act at the time of purchase. Therefore, tax was properly due from the contractor on those purchases, and the tax is not refundable.
- The qualifying items were ordered before February 19, 2003, but delivered and invoiced after that date – exemption applies.
- The contractor paid a deposit before February 19, 2003, but accepts delivery and makes full payment after that date - exemption applies.
- The contractor ordered and paid for the items before February 19, 2003, but they are not delivered until after that date - exemption does not apply.
- Progress payments are made on the qualifying items both before and after the effective date - exemption applies only to progress payments made on or after February 19, 2003.

Please Note: A contractor cannot cancel the sale of qualifying production machinery, equipment or parts that took place before February 19, 2003, and then repurchase these items in order to obtain the advantage of the exemption. Under the Act, if the contractor returns the items to the seller, obtains a refund of the tax, and the items are subsequently repurchased by the contractor, an individual related to the contractor, or an associated corporation of the contractor, the contractor must pay tax equal to the tax that was refunded.

EXEMPTIONS AVAILABLE TO CONTRACTORS

PRODUCTION MACHINERY AND EQUIPMENT EXEMPTION

Contractors who manufacture the tangible personal property that they subsequently install for the customer (e.g., cabinet makers) may qualify for exemption on their purchase or lease of production machinery and equipment used to manufacture their product. To determine eligibility for this exemption, contractors must refer to Bulletin SST 054, *Manufacturers*.

Where a contractor qualifies as a manufacturer, the exemption applies only to machinery and equipment used at the manufacturing site. Where the manufacturing occurs at the construction site, the exemption only applies if the manufacturing occurs at a location on the construction site other than the installation site. If some of the same tools and equipment are used both at the manufacturing site and the installation site, only tools used over 50% at the manufacturing site are eligible for exemption.

EXEMPTION FOR ENERGY SAVING MATERIALS AND EQUIPMENT

Under the *Social Service Tax Act*, prescribed materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain Bulletin SST 011, *Exemption for Material and Equipment Used to Conserve Energy*.

WORK-RELATED SAFETY EQUIPMENT

Social service tax does not apply to work-related safety equipment designed to be worn by a worker. **MORE INFO:** Bulletin SST 002, *Exemption for Safety Equipment*.

NON-RESIDENT CONTRACTORS

MATERIALS BROUGHT INTO THE PROVINCE

Under a lump-sum contract, non-resident contractors working in British Columbia are required to pay tax on their total cost of all material brought into this province to be incorporated into real property, unless an exemption outlined in this bulletin applies. This includes the cost of the material, out-of-province fabrication costs, freight, customs charges, brokerage fees, and any other costs and expenses that would normally be allocated to such material, but not including the federal goods and services tax (GST).

MACHINERY AND EQUIPMENT BROUGHT INTO THE PROVINCE FOR OWN USE

Tax also applies to machinery and equipment brought into the province and used or consumed by the contractor in the course of carrying out the terms of a contract, regardless of whether it is a lump-sum contract or a time and material contract. The application of tax depends upon the item used and the duration of the task being undertaken. Non-

resident contractors should obtain a copy of Bulletin SST 098, *Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

REGISTRATION REQUIREMENTS

CONTRACTORS WHO MUST REGISTER AS VENDORS

Contractors are considered to be vendors and are required to register with the Consumer Taxation Branch when:

- they supply but do not install tangible personal property which becomes an improvement to real property;
- they supply and install tangible personal property which does not qualify as an improvement to real property; or
- they regularly enter into mixed, time and material or cost-plus contracts where title to the material passes to the customer prior to their installation or incorporation into real property.

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers.

CONTRACTORS WHO DO NOT NEED TO REGISTER AS VENDORS

Contractors are not required to be registered as vendors with the Consumer Taxation Branch when:

- they **only** enter into lump-sum or fixed-price contracts to improve real property; or
- they only occasionally enter into mixed, time and material or cost-plus contracts.

Contractors who only occasionally enter into these types of contracts must collect tax from their customers on the charges for material. They should contact the Consumer Taxation Branch for forms and information on remitting the tax due.

HOW TO REGISTER

If you are not registered, you can obtain an *Application for Registration as a Vendor Pursuant to the Social Service Tax Act* form (FIN 418) from your nearest Consumer Taxation Branch or Government Agents office or by calling the number provided at the end of this bulletin.

You can also register online at our Web site at www.rev.gov.bc.ca/ctb

Upon receipt of a completed application, the

Consumer Taxation Branch will assign a registration number and forward to the applicant a *Certificate of Registration* and information about procedures for reporting and remitting the tax collected.

ITEMS THAT QUALIFY AS IMPROVEMENTS TO REALTY

The following items are considered to be improvements to realty when the contractor permanently affixes them to the premises where they are intended to remain. This is not an all-inclusive list.

Please Note: If any of these items are sold without installation, they are subject to tax on the total price paid by the purchaser.

Only some of these items may qualify for the production machinery and equipment exemption. For confirmation, refer to Bulletin SST 054, *Manufacturers*.

- Air conditioning systems
- Artwork permanently affixed to, and part of a building
- Awnings
- Boilers used to service a building (heat, electricity for lighting only)
- Built-in booths, cabinets, counters, shelves, stoves, dishwashers, and similar items
- Burglar and security alarm systems (only if permanently built into, and substantially attached to, real property)
- Coal preparation plant
- Carpeting, wall-to-wall
- Ceilings
- Chairlifts
- Compressors used in natural gas pipelines
- Chlorine Dioxide Generators
- Docks
- Drapery tracks and rails
- Dry kilns
- Elevators and escalators
- Fences
- Fibre-optic telecommunication systems
- Fire alarm and detection devices
- Floor coverings, tiles, linoleum, wall-to-wall carpeting

- Furnaces and duct work
- Glass installed in buildings
- Greenhouses (excluding portable types)
- Hand rails
- Heating systems
- Island units (e.g. kitchens, supermarkets)
- Lighting systems and fixtures
- Partition walls
- Plumbing fixtures and pipes
- Pulp Mills: Black liquor evaporating plant, black liquor oxidization plant, black liquor storage tanks, block conveyor, and chlorine dioxide generators
- Retaining walls
- Scatter antennae
- Saw mills: waste conveyors, green chains, storage bins, kickers (part of conveyor), drop gate, landing decks, sewage, wastewater and treatment systems, septic tanks, when installed in real property
- Sinks and sink counters
- Sprinkler systems embedded in the ground or affixed to a building
- Vacuum cleaning systems attached to a building (excluding hoses and accessories)
- Venetian blinds
- Walk in freezers and coolers
- Wiring, electrical

ITEMS THAT *DO NOT QUALIFY* AS IMPROVEMENTS TO REALTY

The following items do not qualify as improvements to realty, even when installed by the supplier. These contracts constitute the supply and installation of tangible personal property. If supply and installation are sold for a single price, tax applies to the total charge to the customer.

This is not an all-inclusive list.

- Aerials: radio and television
- Boilers used in production or processing of goods
- Burners (except beehive burners)
- Compressors (except as listed in the section above)
- Concrete dividers, pre-formed (resting on their own weight)
- Cranes and hoists that run on rails (the installation of the rails, however, is an improvement to real property)
- Drapes
- Generators
- Ice machines to make ice for resale
- Lockers: gym, school, rental
- Log scaling systems

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Help Us Help You.
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References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 76, 77, 92; Regulation 2.21, 2.37, 2.45, 2.46, 2.47, 2.52, 3.20, 4; Bill 6, *Budget Measures Implementation Act*, 2003

Contractors and Subcontractors Improvements to Realty

Social Service Tax Act

Effective February 19, 2003, the production machinery and equipment exemption available to manufacturers and other qualifying persons was expanded to include circumstances under which the qualifying items become an improvement to realty once installed, and are acquired under a lump-sum contract. Details of this exemption are provided in Part 5 of this bulletin. There is no change to the application of tax where qualifying production machinery and equipment is installed under a time and materials contract.

This bulletin provides general guidelines on the application of social service tax for persons who enter into contracts for the construction, repair, or improvement of realty. This includes contractors who construct buildings and other structures; who supply and install parts of the building, such as lighting, plumbing, wiring, air conditioning; or who supply and install production machinery and equipment that qualifies as an improvement to realty on installation.

This bulletin cancels and replaces the previous version issued June 1994.

The information in this bulletin is provided for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and regulations can be found on the web at www.sbr.gov.bc.ca

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- **Definitions**
- **What is an improvement to realty?**
- **Contracts to improve realty**
- **Contracts that are not improvements to realty**
- **Customers eligible for an exemption**
- **Exemptions available to contractors**
- **Non-resident contractors**
- **Registration requirements**
- **Items that qualify as improvements to realty**
- **Items that do not qualify as improvements to realty**

DEFINITIONS

CONTRACTORS

For the purposes of this bulletin, contractors are persons who enter into contracts under which they construct buildings or similar structures that become part of the realty, or supply and install tangible personal property (certain types of machinery and equipment) that becomes an improvement to realty on installation.

SUBCONTRACTORS

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. All tax applications outlined in this bulletin apply equally to both contractors and subcontractors. As used in this bulletin, the term "contractor" includes subcontractors.

WHAT IS AN IMPROVEMENT TO REALTY?

GENERAL CRITERIA

Under the *Social Service Tax Act*, tangible personal property must meet the following two criteria to be considered an improvement to realty on installation.

- On installation, it must become a fixture at common law. This means it must be substantially affixed to the realty where it is intended to remain (such as being firmly bolted to the floor or ceiling, embedded in a concrete pad, or built into the walls of a building), and the attachment must be for the purpose of improving and becoming part of the realty, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
- It must be the type of fixture excluded from the statutory definition of tangible personal property. This means that it must fall within one of the following two categories outlined below. Specific examples of items that fall within these categories are provided on page 6 of this bulletin.

MORE INFO: Bulletin SST 078, *Fixtures*.

A) Part of a Building or Land

Tangible personal property is considered to be an improvement to realty if, on installation, it becomes an integral part of a building, structure, or land; it is installed for the better use of the building, structure or land; and it is installed at a location where it is intended to remain. Tangible personal property in this category includes:

- lumber, concrete, steel, glass, insulation and other construction materials used to erect a building, make patios, porches, driveways and similar permanent structures; and
- machinery, equipment or apparatus that is installed in or attached to a building, structure or land for the purposes of:
 - heating, air conditioning or lighting a building or structure, or
 - plumbing and sewage disposal for a building or structure, or
 - lifting persons or freight within a building or structure by elevator or escalator.

B) Machinery and Equipment

Machinery, equipment or apparatus that qualifies as a fixture at common law and is used directly in

the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property or in the provision of a service is also considered an improvement to realty if it meets all of the following criteria:

- it is of such a size that it must be constructed on the site where it is to be used,
- by its nature or design, it would normally be expected to remain on the site at which it is constructed for the useful life of the machinery, equipment or apparatus,
- it does not run on rails or tracks, or does not otherwise move around on or from the site at which it was constructed, and
- it cannot be moved from the site at which it is constructed without
 - dismantling the machinery, equipment or apparatus, or
 - dismantling or causing substantial damage to the building or structure in which it is installed or to which it is attached.

Specific examples of machinery, equipment and apparatus that fall within this category are provided on page 6 of this bulletin.

Please Note: Only some of the machinery and equipment that falls within this category will qualify for the production machinery and equipment exemption discussed later in this bulletin.

CONTRACTS TO IMPROVE REALTY

LUMP-SUM OR FIXED-PRICE CONTRACTS

Under a lump-sum or fixed-price contract, there is a single charge for the tangible personal property and the labour supplied under the terms of the contract. Under such contracts, the contractor is considered to be the consumer of all items that, on installation, become an improvement to realty. Therefore, *unless an exemption outlined in this bulletin applies*, contractors are required to pay tax on their purchases of all materials, machinery and equipment acquired and installed under a lump-sum contract, including any equipment and tools owned or leased by the contractor and used in carrying out the terms of the contract.

Social service tax does not apply to the charge to customers for a lump-sum contract because the customer is purchasing an improvement to realty which is not subject to tax under the Act.

Contractors who undertake only lump-sum contracts to improve realty are not required to register as vendors under the *Social Service Tax Act* because they pay tax on their purchases as consumers and are not required to collect tax on such contracts.

TIME AND MATERIAL OR COST-PLUS CONTRACTS

Under a time and material or cost-plus contract, the charge for labour and the charge for the supply of tangible personal property are separately stated or accounted for in the contract. Under such contracts, the contractor is considered to be selling the tangible personal property to the customer before installation. Therefore, even if the tangible personal property becomes an improvement to realty on installation, the contractor is required to collect tax from the customer on the total charge for the tangible personal property.

Where the tangible personal property becomes an improvement to realty on installation, the labour charge is not subject to tax. This is because installation charges for improvements to realty are specifically excluded from the definition of a taxable service. However, if the tangible personal property installed under the contract does not qualify as an improvement to realty, the labour charges may also be subject to tax.

MORE INFO: Bulletin SST 018, *Taxable Services*.

Contractors who regularly undertake time and material contracts are required to register as vendors under the *Social Service Tax Act*, and to collect and remit tax on all taxable sales. They may then purchase tangible personal property sold under the contract without payment of tax by quoting their registration number to their supplier. Please refer to page 5 of this bulletin for registration information.

Contractors who only occasionally enter into such contracts are not required to be registered. They may obtain tangible personal property purchased for resale without payment of tax by providing their supplier with a completed *Certificate of Exemption* (FIN 453).

MIXED CONTRACTS

Some lump-sum contracts include both the supply and installation of tangible personal property that becomes an improvement to realty on installation, and tangible personal property that does not qualify as an improvement to realty.

In such cases, contractors must ensure that the charges for improvements to realty are separately stated. This is because the contractor is

required to pay tax on the purchase of tangible personal property that becomes an improvement to realty, and to collect tax from the customer on the sale of the tangible personal property that does not become an improvement to realty, as outlined above under "Time and Material or Cost-Plus Contracts".

Contractors who do not collect and remit tax on the charge to their customer for the tangible personal property that is not an improvement to realty may be liable for an assessment equal to the amount that should have been collected, plus penalty and interest charges.

CONTRACTS THAT ARE NOT IMPROVEMENTS TO REALTY

Contractors who supply and install machinery and equipment and other tangible personal property that does not qualify as an improvement to realty are the sellers of the items installed. As such, they are required to collect tax from their customers.

The application of tax to such contracts is the same as outlined above for "Time and Material Contracts". However, the application of tax to the labour portion of the contract will depend on the nature of the item being installed. For information on the labour portion of the contract, please refer to

MORE INFO: Bulletin SST 018, *Taxable Services*.

Contractors who regularly engage in such contracts are required to be registered as a vendor under the *Social Service Tax Act*. Please refer to page 5 of this bulletin for registration information.

CUSTOMERS ELIGIBLE FOR AN EXEMPTION

EXEMPTIONS NOT TRANSFERABLE TO THE CONTRACTOR

Farmers, aquaculturists, First Nations purchasers, federal government ministries and manufacturers are eligible for exemption on the purchase or lease of qualifying tangible personal property. With the exception of the production machinery and equipment exemption discussed below, the exemption available to the customer is not transferable to the contractor who installs such items under a lump sum contract. The customer can only obtain the exemption if the items are supplied and installed under a time and materials contract, and all criteria for exemption on that sale are met.

MORE INFO: Bulletin SST 023, *Bona Fide Farmers*; Bulletin SST 050, *Bona Fide Aquaculturists*; and Bulletin SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

CUSTOMERS ELIGIBLE FOR THE PRODUCTION MACHINERY AND EQUIPMENT EXEMPTION

Persons involved in manufacturing, including logging and mineral, oil and natural gas production and exploration, are eligible for exemption on purchases or leases of qualifying production machinery and equipment.

Effective February 19, 2003, this exemption is expanded to allow a contractor, who has entered into a lump-sum contract with a person eligible for this exemption, to claim the exemption on qualifying machinery, equipment and parts that become improvements to realty on installation. This exemption applies only if all of the conditions outlined in this part of the bulletin are met.

There is no change to the application of tax where production machinery and equipment is installed under a time and material contract, or where the production machinery and equipment remain tangible personal property on installation. Under these contracts, the contractor is the seller of the production machinery and equipment. The customer may obtain exemption by providing the contractor with a completed *Certificate of Exemption* (FIN 453/M).

MORE INFO: Bulletin SST 054, *Manufacturers*

CRITERIA FOR OBTAINING EXEMPTION UNDER A LUMP-SUM CONTRACT

Contractors may only obtain the exemption if both of the following criteria are met.

- The machinery, equipment or parts are acquired by the contractor to carry out a lump-sum or fixed-price contract to improve realty as described in this bulletin.
- The contractor's customer has provided to the contractor a completed *Certificate of Exemption - Production Machinery and Equipment* (FIN 453/M), certifying that the customer:
 - would be eligible to receive the exemption if they were to purchase the machinery, equipment or parts directly; and
 - the machinery, equipment or parts, once installed, will be used for an exempt purpose.

If the contractor holds a registration under the Act, the contractor may claim the exemption on the specified production machinery, equipment or parts by quoting its registration number to the supplier. To substantiate non-payment of tax, the contractor must retain the completed certificate obtained from the customer.

If the contractor does not hold a registration under the Act, the contractor may claim the exemption by completing the contractor portion of the certificate provided by the customer. The contractor may then obtain the exemption on its purchases by providing this completed certificate to its suppliers. Both the supplier and the contractor must retain a copy of the certificate to substantiate the non-payment of tax on those purchases.

LIABILITY IF THE EXEMPTION IS INCORRECTLY CLAIMED

Where a contractor has a signed certificate from the customer claiming the exemption and, after completion of the contract, it is determined that the customer or the items installed did not qualify for the exemption, *the customer* (not the contractor) may be liable for a penalty equal to the tax that was not paid by the contractor, plus penalty and interest on that amount.

If the contractor claims an exemption but does not obtain a signed certificate from the customer, *the contractor* may be liable for an assessment of the tax that should have been paid, plus penalty and interest charges.

EFFECTIVE DATE OF THE EXEMPTION

Provided the contractor obtains a certification from the customer, the exemption applies to qualifying production machinery, equipment and parts *purchased by the contractor on or after February 19, 2003.*

The following scenarios provide a guide for purchases occurring immediately before and after the exemption comes into effect.

- The contract is entered into on or after February 19, 2003, and all qualifying items are purchased on or after that date – the exemption applies for all purchases of eligible machinery and equipment.
- The contract is entered into before February 19, 2003, and all qualifying items are purchased on or after that date – exemption applies.

- The contract spans the period before and after the effective date, and qualifying items are purchased both before and after the effective date. Only purchases that take place on or after February 19, 2003 qualify for exemption. Purchases that took place before February 19, 2003, were subject to tax under the provisions in the Act at the time of purchase. Therefore, tax was properly due from the contractor on those purchases, and the tax is not refundable.
- The qualifying items were ordered before February 19, 2003, but delivered and invoiced after that date – exemption applies.
- The contractor paid a deposit before February 19, 2003, but accepts delivery and makes full payment after that date - exemption applies.
- The contractor ordered and paid for the items before February 19, 2003, but they are not delivered until after that date - exemption does not apply.
- Progress payments are made on the qualifying items both before and after the effective date - exemption applies only to progress payments made on or after February 19, 2003.

Please Note: A contractor cannot cancel the sale of qualifying production machinery, equipment or parts that took place before February 19, 2003, and then repurchase these items in order to obtain the advantage of the exemption. Under the Act, if the contractor returns the items to the seller, obtains a refund of the tax, and the items are subsequently repurchased by the contractor, an individual related to the contractor, or an associated corporation of the contractor, the contractor must pay tax equal to the tax that was refunded.

EXEMPTIONS AVAILABLE TO CONTRACTORS

PRODUCTION MACHINERY AND EQUIPMENT EXEMPTION

Contractors who manufacture the tangible personal property that they subsequently install for the customer (e.g., cabinet makers) may qualify for exemption on their purchase or lease of production machinery and equipment used to manufacture their product. To determine eligibility for this exemption, contractors must refer to Bulletin SST 054, *Manufacturers*.

Where a contractor qualifies as a manufacturer, the exemption applies only to machinery and equipment used at the manufacturing site. Where the manufacturing occurs at the construction site, the exemption only applies if the manufacturing occurs at a location on the construction site other than the installation site. If some of the same tools and equipment are used both at the manufacturing site and the installation site, only tools used over 50% at the manufacturing site are eligible for exemption.

EXEMPTION FOR ENERGY SAVING MATERIALS AND EQUIPMENT

Under the *Social Service Tax Act*, prescribed materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain Bulletin SST 011, *Exemption for Material and Equipment Used to Conserve Energy*.

WORK-RELATED SAFETY EQUIPMENT

Social service tax does not apply to work-related safety equipment designed to be worn by a worker. **MORE INFO:** Bulletin SST 002, *Exemption for Safety Equipment*.

NON-RESIDENT CONTRACTORS

MATERIALS BROUGHT INTO THE PROVINCE

Under a lump-sum contract, non-resident contractors working in British Columbia are required to pay tax on their total cost of all material brought into this province to be incorporated into real property, unless an exemption outlined in this bulletin applies. This includes the cost of the material, out-of-province fabrication costs, freight, customs charges, brokerage fees, and any other costs and expenses that would normally be allocated to such material, but not including the federal goods and services tax (GST).

MACHINERY AND EQUIPMENT BROUGHT INTO THE PROVINCE FOR OWN USE

Tax also applies to machinery and equipment brought into the province and used or consumed by the contractor in the course of carrying out the terms of a contract, regardless of whether it is a lump-sum contract or a time and material contract. The application of tax depends upon the item used and the duration of the task being undertaken. Non-

resident contractors should obtain a copy of Bulletin SST 098, *Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

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CONTRACTORS WHO MUST REGISTER AS VENDORS

Contractors are considered to be vendors and are required to register with the Consumer Taxation Branch when:

- they supply but do not install tangible personal property which becomes an improvement to real property;
- they supply and install tangible personal property which does not qualify as an improvement to real property; or
- they regularly enter into mixed, time and material or cost-plus contracts where title to the material passes to the customer prior to their installation or incorporation into real property.

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers.

CONTRACTORS WHO DO NOT NEED TO REGISTER AS VENDORS

Contractors are not required to be registered as vendors with the Consumer Taxation Branch when:

- they only enter into lump-sum or fixed-price contracts to improve real property; or
- they only occasionally enter into mixed, time and material or cost-plus contracts.

Contractors who only occasionally enter into these types of contracts must collect tax from their customers on the charges for material. They should contact the Consumer Taxation Branch for forms and information on remitting the tax due.

HOW TO REGISTER

If you are not registered, you can obtain an *Application for Registration as a Vendor Pursuant to the Social Service Tax Act* form (FIN 418) from your nearest Consumer Taxation Branch or Government Agents office or by calling the number provided at the end of this bulletin.

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ITEMS THAT QUALIFY AS IMPROVEMENTS TO REALTY

The following items are considered to be improvements to realty when the contractor permanently affixes them to the premises where they are intended to remain. This is not an all-inclusive list.

Please Note: If any of these items are sold without installation, they are subject to tax on the total price paid by the purchaser.

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- Awnings
- Boilers used to service a building (heat, electricity for lighting only)
- Built-in booths, cabinets, counters, shelves, stoves, dishwashers, and similar items
- Burglar and security alarm systems (only if permanently built into, and substantially attached to, real property)
- Coal preparation plant
- Carpeting, wall-to-wall
- Ceilings
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Contractors and Subcontractors Improvements to Realty

Social Service Tax Act

Update: Budget 2006

Production machinery and equipment exemption expanded for manufacturers. See Bulletin SST 054, *Manufacturers* for details.

This bulletin provides general guidelines on the application of social service tax for persons who enter into contracts for the construction, repair, or improvement of realty. This includes contractors who construct buildings and other structures; who supply and install parts of the building, such as lighting, plumbing, wiring, air conditioning; or who supply and install production machinery and equipment that qualifies as an improvement to realty on installation.

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For the purposes of this bulletin, contractors are persons who enter into contracts under which they construct buildings or similar structures that become part of the realty, or supply and install

tangible personal property (certain types of machinery and equipment) that becomes an improvement to realty on installation.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. All tax applications outlined in this bulletin apply equally to both contractors and subcontractors. As used in this bulletin, the term "contractor" includes subcontractors.

WHAT IS AN IMPROVEMENT TO REALTY?

General Criteria

Under the *Social Service Tax Act*, tangible personal property must meet the following two criteria to be considered an improvement to realty on installation.

- On installation, it must become a fixture at common law. This means it must be substantially affixed to the realty where it is intended to remain (such as being firmly bolted to the floor or ceiling, embedded in a concrete pad, or built into the walls of a building), and the attachment must be for the purpose of improving and becoming part of the realty, rather than for the convenient or

safe operation of the machinery, or the security of the machinery.

- It must be the type of fixture excluded from the statutory definition of tangible personal property. This means that it must fall within one of the following two categories outlined below. Specific examples of items that fall within these categories are provided on page 6 of this bulletin.

More Info: Bulletin SST 078, *Fixtures*

A) Part of a Building or Land

Tangible personal property is considered to be an improvement to realty if, on installation, it becomes an integral part of a building, structure, or land; it is installed for the better use of the building, structure or land; and it is installed at a location where it is intended to remain. Tangible personal property in this category includes:

- lumber, concrete, steel, glass, insulation and other construction materials used to erect a building, make patios, porches, driveways and similar permanent structures; and
- machinery, equipment or apparatus that is installed in or attached to a building, structure or land for the purposes of:
 - heating, air conditioning or lighting a building or structure, or
 - plumbing and sewage disposal for a building or structure, or
 - lifting persons or freight within a building or structure by elevator or escalator.

B) Machinery and Equipment

Machinery, equipment or apparatus that qualifies as a fixture at common law and is used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property or in the provision of a service is also considered an improvement to realty if it meets all of the following criteria:

- it is of such a size that it must be constructed on the site where it is to be used,
- by its nature or design, it would normally be expected to remain on the site at which it is constructed for the useful life of the machinery, equipment or apparatus,
- it does not run on rails or tracks, or does not otherwise move around on or from the site at which it was constructed, and
- it cannot be moved from the site at which it is constructed without

- dismantling the machinery, equipment or apparatus, or
- dismantling or causing substantial damage to the building or structure in which it is installed or to which it is attached.

Specific examples of machinery, equipment and apparatus that fall within this category are provided on page 6 of this bulletin.

Please Note: Only some of the machinery and equipment that falls within this category will qualify for the production machinery and equipment exemption discussed later in this bulletin.

CONTRACTS TO IMPROVE REALTY

Lump-Sum or Fixed-Price Contracts

Under a lump-sum or fixed-price contract, there is a single charge for the tangible personal property and the labour supplied under the terms of the contract. Under such contracts, the contractor is considered to be the consumer of all items that, on installation, become an improvement to realty. Therefore, *unless an exemption outlined in this bulletin applies*, contractors are required to pay tax on their purchases of all materials, machinery and equipment acquired and installed under a lump-sum contract, including any equipment and tools owned or leased by the contractor and used in carrying out the terms of the contract.

Social service tax does not apply to the charge to customers for a lump-sum contract because the customer is purchasing an improvement to realty which is not subject to tax under the Act.

Contractors who undertake only lump-sum contracts to improve realty are not required to register as vendors under the *Social Service Tax Act* because they pay tax on their purchases as consumers and are not required to collect tax on such contracts.

Time and Material or Cost-Plus Contracts

Under a time and material or cost-plus contract, the charge for labour and the charge for the supply of tangible personal property are separately stated or accounted for in the contract. Under such contracts, the contractor is considered to be selling the tangible personal property to the customer before installation. Therefore, even if the tangible personal property becomes an improvement to realty on installation, the contractor is required to

collect tax from the customer on the total charge for the tangible personal property.

Where the tangible personal property becomes an improvement to realty on installation, the labour charge is not subject to tax. This is because installation charges for improvements to realty are specifically excluded from the definition of a taxable service. However, if the tangible personal property installed under the contract does not qualify as an improvement to realty, the labour charges may also be subject to tax.

More Info: Bulletin SST 018, *Taxable Services*

Contractors who regularly undertake time and material contracts are required to register as vendors under the *Social Service Tax Act*, and to collect and remit tax on all taxable sales. They may then purchase tangible personal property sold under the contract without payment of tax by quoting their registration number to their supplier. Please refer to page 5 of this bulletin for registration information.

Contractors who only occasionally enter into such contracts are not required to be registered. They may obtain tangible personal property purchased for resale without payment of tax by providing their supplier with a completed *Certificate of Exemption* (FIN 453).

Mixed Contracts

Some lump-sum contracts include both the supply and installation of tangible personal property that becomes an improvement to realty on installation, and tangible personal property that does not qualify as an improvement to realty.

In such cases, contractors must ensure that the charges for improvements to realty are separately stated. This is because the contractor is required to pay tax on the purchase of tangible personal property that becomes an improvement to realty, and to collect tax from the customer on the sale of the tangible personal property that does not become an improvement to realty, as outlined above under "Time and Material or Cost-Plus Contracts".

Contractors who do not collect and remit tax on the charge to their customer for the tangible personal property that is not an improvement to realty may be liable for an assessment equal to the amount that should have been collected, plus penalty and interest charges.

CONTRACTS THAT ARE NOT IMPROVEMENTS TO REALTY

Contractors who supply and install machinery and equipment and other tangible personal property that does not qualify as an improvement to realty are the sellers of the items installed. As such, they are required to collect tax from their customers.

The application of tax to such contracts is the same as outlined above for "Time and Material Contracts". However, the application of tax to the labour portion of the contract will depend on the nature of the item being installed. For information on the labour portion of the contract, please refer to Bulletin SST 018, *Taxable Services*.

Contractors who regularly engage in such contracts are required to be registered as a vendor under the *Social Service Tax Act*. Please refer to page 5 of this bulletin for registration information.

CUSTOMERS ELIGIBLE FOR AN EXEMPTION

Exemptions Not Transferable to the Contractor

Farmers, aquaculturists, First Nations purchasers, federal government ministries and manufacturers are eligible for exemption on the purchase or lease of qualifying tangible personal property. With the exception of the production machinery and equipment exemption discussed below, the exemption available to the customer is not transferable to the contractor who installs such items under a lump sum contract. The customer can only obtain the exemption if the items are supplied and installed under a time and materials contract, and all criteria for exemption on that sale are met.

More Info: Bulletin SST 023, *Bona Fide Farmers*; Bulletin SST 050, *Bona Fide Aquaculturists*; and Bulletin SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

Customers Eligible for the Production Machinery and Equipment Exemption

Persons involved in manufacturing, including logging and mineral, oil and natural gas production and exploration, are eligible for exemption on purchases or leases of qualifying production machinery and equipment.

Effective February 19, 2003, this exemption is expanded to allow a contractor, who has entered into a lump-sum contract with a person eligible for this exemption, to claim the exemption on qualifying machinery, equipment and parts that become improvements to realty on installation. This exemption applies only if all of the conditions outlined in this part of the bulletin are met.

There is no change to the application of tax where production machinery and equipment is installed under a time and material contract, or where the production machinery and equipment remain tangible personal property on installation. Under these contracts, the contractor is the seller of the production machinery and equipment. The customer may obtain exemption by providing the contractor with a completed *Certificate of Exemption* (FIN 453/M).

More Info: Bulletin SST 054, *Manufacturers*

Criteria for Obtaining Exemption Under a Lump-Sum Contract

Contractors may only obtain the exemption if both of the following criteria are met.

- The machinery, equipment or parts are acquired by the contractor to carry out a lump-sum or fixed-price contract to improve realty as described in this bulletin.
- The contractor's customer has provided to the contractor a completed *Certificate of Exemption - Production Machinery and Equipment* (FIN 453/M), certifying that the customer:
 - would be eligible to receive the exemption if they were to purchase the machinery, equipment or parts directly; and
 - the machinery, equipment or parts, once installed, will be used for an exempt purpose.

If the contractor holds a registration under the Act, the contractor may claim the exemption on the specified production machinery, equipment or parts by quoting its registration number to the supplier. To substantiate non-payment of tax, the contractor must retain the completed certificate obtained from the customer.

If the contractor does not hold a registration under the Act, the contractor may claim the exemption by completing the contractor portion of the certificate provided by the customer. The contractor may then obtain the exemption on its purchases by providing this completed certificate to its suppliers. Both the supplier and the contractor must retain a copy of the certificate to substantiate the non-payment of tax on those purchases.

Liability if the Exemption is Incorrectly Claimed

Where a contractor has a signed certificate from the customer claiming the exemption and, after completion of the contract, it is determined that the customer or the items installed did not qualify for the exemption, *the customer* (not the contractor) may be liable for a penalty equal to the tax that was not paid by the contractor, plus penalty and interest on that amount.

If the contractor claims an exemption but does not obtain a signed certificate from the customer, *the contractor* may be liable for an assessment of the tax that should have been paid, plus penalty and interest charges.

Effective Date of the Exemption

Provided the contractor obtains a certification from the customer, the exemption applies to qualifying production machinery, equipment and parts *purchased by the contractor on or after February 19, 2003.*

The following scenarios provide a guide for purchases occurring immediately before and after the exemption comes into effect.

- The contract is entered into on or after February 19, 2003, and all qualifying items are purchased on or after that date – the exemption applies for all purchases of eligible machinery and equipment.
- The contract is entered into before February 19, 2003, and all qualifying items are purchased on or after that date – exemption applies.
- The contract spans the period before and after the effective date, and qualifying items are purchased both before and after the effective date. Only purchases that take place on or after February 19, 2003 qualify for exemption. Purchases that took place before February 19, 2003, were subject to tax under the provisions in the Act at the time of purchase. Therefore, tax was properly due from the contractor on those purchases, and the tax is not refundable.
- The qualifying items were ordered before February 19, 2003, but delivered and invoiced after that date – exemption applies.
- The contractor paid a deposit before February 19, 2003, but accepts delivery

and makes full payment after that date - exemption applies.

- The contractor ordered and paid for the items before February 19, 2003, but they are not delivered until after that date - exemption does not apply.
- Progress payments are made on the qualifying items both before and after the effective date - exemption applies only to progress payments made on or after February 19, 2003.

Please Note: A contractor cannot cancel the sale of qualifying production machinery, equipment or parts that took place before February 19, 2003, and then repurchase these items in order to obtain the advantage of the exemption. Under the Act, if the contractor returns the items to the seller, obtains a refund of the tax, and the items are subsequently repurchased by the contractor, an individual related to the contractor, or an associated corporation of the contractor, the contractor must pay tax equal to the tax that was refunded.

EXEMPTIONS AVAILABLE TO CONTRACTORS

Production Machinery and Equipment Exemption

Contractors who manufacture tangible personal property that they then install may qualify for the manufacturers' production machinery and equipment exemption. See Bulletin SST 054, *Manufacturers for details*.

Exemption for Energy Saving Materials and Equipment

Under the *Social Service Tax Act*, prescribed materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain Bulletin SST 011, *Exemption for Material and Equipment Used to Conserve Energy*.

Work-Related Safety Equipment

Social service tax does not apply to work-related safety equipment designed to be worn by a worker.

More Info: Bulletin SST 002, *Exemption for Safety Equipment*

NON-RESIDENT CONTRACTORS

Materials Brought into the Province

Under a lump-sum contract, non-resident contractors working in British Columbia are required to pay tax on their total cost of all material brought into this province to be incorporated into real property, unless an exemption outlined in this bulletin applies. This includes the cost of the material, out-of-province fabrication costs, freight, customs charges, brokerage fees, and any other costs and expenses that would normally be allocated to such material, but not including the federal goods and services tax (GST).

Machinery and Equipment Brought into the Province for Own Use

Tax also applies to machinery and equipment brought into the province and used or consumed by the contractor in the course of carrying out the terms of a contract, regardless of whether it is a lump-sum contract or a time and material contract. The application of tax depends upon the item used and the duration of the task being undertaken.

Non-resident contractors should obtain a copy of **Bulletin SST 098, *Equipment Brought into the Province for Temporary Use (1/3 Formula)***.

REGISTRATION REQUIREMENTS

Contractors Who Must Register as Vendors

Contractors are considered to be vendors and are required to register with the Consumer Taxation Branch when:

- they supply but do not install tangible personal property which becomes an improvement to real property;
- they supply and install tangible personal property which does not qualify as an improvement to real property; or
- they regularly enter into mixed, time and material or cost-plus contracts where title to the material passes to the customer prior to their installation or incorporation into real property.

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers.

Contractors Who Do Not Need to Register as Vendors

Contractors are not required to be registered as vendors with the Consumer Taxation Branch when:

- they **only** enter into lump-sum or fixed-price contracts to improve real property; or
- they only occasionally enter into mixed, time and material or cost-plus contracts.

Contractors who only occasionally enter into these types of contracts must collect tax from their customers on the charges for material. They should contact the Consumer Taxation Branch for forms and information on remitting the tax due.

How to Register

If you are not registered, you can obtain an *Application for Registration as a Vendor* form (FIN 418) from your nearest Consumer Taxation Branch or Service BC-Government Agents office or by calling the number provided at the end of this bulletin.

You can also register online at:
www.sbr.gov.bc.ca/ctb

Upon receipt of a completed application, the Consumer Taxation Branch will assign a registration number and forward to the applicant a *Certificate of Registration* and information about procedures for reporting and remitting the tax collected.

ITEMS THAT QUALIFY AS IMPROVEMENTS TO REALTY

The following items are considered to be improvements to realty when the contractor permanently affixes them to the premises where they are intended to remain. This is not an all-inclusive list.

Please Note: If any of these items are sold without installation, they are subject to tax on the total price paid by the purchaser.

Only some of these items may qualify for the production machinery and equipment exemption. For confirmation, refer to **Bulletin SST 054, Manufacturers.**

- Air conditioning systems
- Artwork permanently affixed to, and part of a building
- Awnings
- Boilers used to service a building (heat, electricity for lighting only)
- Built-in booths, cabinets, counters, shelves, stoves, dishwashers, and similar items
- Burglar and security alarm systems (only if permanently built into, and substantially attached to, real property)
- Coal preparation plant
- Carpeting, wall-to-wall
- Ceilings
- Chairlifts
- Compressors used in natural gas pipelines
- Chlorine Dioxide Generators
- Docks
- Drapery tracks and rails
- Dry kilns
- Elevators and escalators
- Fences
- Fibre-optic telecommunication systems
- Fire alarm and detection devices
- Floor coverings, tiles, linoleum, wall-to-wall carpeting
- Furnaces and duct work
- Glass installed in buildings
- Greenhouses (excluding portable types)
- Hand rails
- Heating systems
- Island units (e.g. kitchens, supermarkets)
- Lighting systems and fixtures
- Partition walls
- Plumbing fixtures and pipes
- Pulp Mills: Black liquor evaporating plant, black liquor oxidization plant, black liquor storage tanks, block conveyor, and chlorine dioxide generators
- Retaining walls
- Scatter antennae
- Saw mills: waste conveyors, green chains,

storage bins, kickers (part of conveyor), drop gate, landing decks, sewage, wastewater and treatment systems, septic tanks, when installed in real property

- Sinks and sink counters
- Sprinkler systems embedded in the ground or affixed to a building
- Vacuum cleaning systems attached to a building (excluding hoses and accessories)
- Venetian blinds
- Walk in freezers and coolers
- Wiring, electrical

ITEMS THAT *DO NOT QUALIFY AS IMPROVEMENTS TO REALTY*

The following items do not qualify as improvements to realty, even when installed by the supplier. These contracts constitute the supply and installation of tangible personal property. If supply and installation are sold for a single price, tax applies to the total charge to the customer.

This is not an all-inclusive list.

- Aerials: radio and television
- Boilers used in production or processing of goods
- Burners (except beehive burners)
- Compressors (except as listed in the section above)
- Concrete dividers, pre-formed (resting on their own weight)
- Cranes and hoists that run on rails (the installation of the rails, however, is an improvement to real property)
- Drapes
- Generators
- Ice machines to make ice for resale
- Lockers: gym, school, rental
- Log scaling systems
- Process tanks (of a size that allows them

NEED MORE INFO?

This bulletin is provided for convenience and guidance. If you still have questions call us at 604 660-4524 in Vancouver or toll-free at 1 877 388-4440 elsewhere in Canada or refer to the legislation.

Information is also on the web at www.gov.bc.ca/sbr While there, you can subscribe to our free electronic update service.

to be transported in one piece to site)

- Security systems not permanently attached or built into real property
- Zinc roasters

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 76, 77, 92; Regulation 2.21, 2.37, 2.45, 2.46, 2.47, 2.52, 3.20, 4; Bill 6, *Budget Measures Implementation Act*, 2003

Contractors and Subcontractors Improvements to Realty

Social Service Tax Act

Effective February 19, 2003, the production machinery and equipment exemption available to manufacturers and other qualifying persons was expanded to include circumstances under which the qualifying items become an improvement to realty once installed, and are acquired under a lump-sum contract. Details of this exemption are provided in Part 5 of this bulletin. There is no change to the application of tax where qualifying production machinery and equipment is installed under a time and materials contract.

This bulletin provides general guidelines on the application of social service tax for persons who enter into contracts for the construction, repair, or improvement of realty. This includes contractors who construct buildings and other structures; who supply and install parts of the building, such as lighting, plumbing, wiring, air conditioning; or who supply and install production machinery and equipment that qualifies as an improvement to realty on installation.

This bulletin cancels and replaces the previous version issued June 1994.

IN THIS ISSUE...

- ***PART 1 – Definitions***
- ***PART 2 – What is an improvement to realty?***
- ***PART 3 – Contracts to improve realty***
- ***PART 4 – Contracts that are not improvements to realty***
- ***PART 5 – Customers eligible for an exemption***
- ***PART 6 – Exemptions available to contractors***
- ***PART 7 – Non-resident contractors***
- ***PART 8 – Registration requirements***
- ***PART 9 – Items that qualify as improvements to realty***
- ***PART 10 – Items that do not qualify as improvements to realty***

PART 1 – DEFINITIONS

CONTRACTORS

For the purposes of this bulletin, contractors are persons who enter into contracts under which they construct buildings or similar structures that become part of the realty, or supply and install tangible personal property (certain types of machinery and equipment) that becomes an improvement to realty on installation.

SUBCONTRACTORS

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. All tax applications outlined in this bulletin apply equally to both contractors and subcontractors. As used in this bulletin, the term "contractor" includes subcontractors.

PART 2 – WHAT IS AN IMPROVEMENT TO REALTY?

GENERAL CRITERIA

Under the *Social Service Tax Act*, tangible personal property must meet the following two criteria to be considered an improvement to realty on installation.

- On installation, it must become a fixture at common law. This means it must be substantially affixed to the realty where it is intended to remain (such as being firmly bolted to the floor or ceiling, embedded in a concrete pad, or built into the walls of a building), and ☐ the attachment must be for the purpose of improving and becoming part of the realty, rather than for the convenient or safe operation of the machinery, or the security of the machinery. For more information on what qualifies as a fixture, see Consumer Taxation Branch Bulletin 078, *Fixtures*.
- It must be the type of fixture excluded from the statutory definition of tangible personal property. This means that it must fall within one of the following two categories outlined below. Specific examples of items that fall within these categories are provided in Part 9 of this bulletin.

A) Part of a Building or Land

Tangible personal property is considered to be an improvement to realty if, on installation, it becomes an integral part of a building, structure, or land; it is installed for the better use of the building, structure or land; and it is installed at a location where it is intended to remain. Tangible personal property in this category includes:

- lumber, concrete, steel, glass, insulation and other construction materials used to erect a building, make patios, porches, driveways and similar permanent structures; and
- machinery, equipment or apparatus that is installed in or attached to a building, structure or land for the purposes of:
 - heating, air conditioning or lighting a building or structure, or
 - plumbing and sewage disposal for a building or structure, or
 - lifting persons or freight within a building or structure by elevator or escalator.

B) Machinery and Equipment

Machinery, equipment or apparatus that qualifies as a fixture at common law and is used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property or in the provision of a service is also considered an improvement to realty if it meets all of the following criteria:

- it is of such a size that it must be constructed on the site where it is to be used,
- by its nature or design, it would normally be expected to remain on the site at which it is constructed for the useful life of the machinery, equipment or apparatus,
- it does not run on rails or tracks, or does not otherwise move around on or from the site at which it was constructed, and
- it cannot be moved from the site at which it is constructed without
 - dismantling the machinery, equipment or apparatus, or
 - dismantling or causing substantial damage to the building or structure in which it is installed or to which it is attached.

Specific examples of machinery, equipment and apparatus that fall within this category are provided in Part 9 of this bulletin.

Please Note: Only some of the machinery and equipment that falls within this category will qualify for the production machinery and equipment exemption discussed later in this bulletin.

PART 3 – CONTRACTS TO IMPROVE REALTY

LUMP-SUM OR FIXED-PRICE CONTRACTS

Under a lump-sum or fixed-price contract, there is a single charge for the tangible personal property and the labour supplied under the terms of the contract. Under such contracts, the contractor is considered to be the consumer of all items that, on installation, become an improvement to realty. Therefore, *unless an exemption outlined in this bulletin applies*, contractors are required to pay tax on their

purchases of all materials, machinery and equipment acquired and installed under a lump-sum contract, including any equipment and tools owned or leased by the contractor and used in carrying out the terms of the contract.

Social service tax does not apply to the charge to customers for a lump-sum contract because the customer is purchasing an improvement to realty which is not subject to tax under the Act.

Contractors who undertake only lump-sum contracts to improve realty are not required to register as vendors under the *Social Service Tax Act* because they pay tax on their purchases as consumers and are not required to collect tax on such contracts.

TIME AND MATERIAL OR COST-PLUS CONTRACTS

Under a time and material or cost-plus contract, the charge for labour and the charge for the supply of tangible personal property are separately stated or accounted for in the contract. Under such contracts, the contractor is considered to be selling the tangible personal property to the customer before installation. Therefore, even if the tangible personal property becomes an improvement to realty on installation, the contractor is required to collect tax from the customer on the total charge for the tangible personal property.

Where the tangible personal property becomes an improvement to realty on installation, the labour charge is not subject to tax. This is because installation charges for improvements to realty are specifically excluded from the definition of a taxable service. However, if the tangible personal property installed under the contract does not qualify as an improvement to realty, the labour charges may also be subject to tax. To determine if the labour charge is taxable, contractors should refer to Consumer Taxation Branch Bulletin 018, *Taxable Services*.

Contractors who regularly undertake time and material contracts are required to register as vendors under the *Social Service Tax Act*, and to collect and remit tax on all taxable sales. They may then purchase tangible personal property sold under the contract without payment of tax by quoting their registration number to their supplier. Please refer to Part 8 of this bulletin for registration information.

Contractors who only occasionally enter into such contracts are not required to be registered.

Contractors and Subcontractors

They may obtain tangible personal property purchased for resale without payment of tax by providing their supplier with a completed *Certificate of Exemption* (FIN 453).

MIXED CONTRACTS

Some lump-sum contracts include both the supply and installation of tangible personal property that becomes an improvement to realty on installation, and tangible personal property that does not qualify as an improvement to realty.

In such cases, contractors must ensure that the charges for improvements to realty are separately stated. This is because the contractor is required to pay tax on the purchase of tangible personal property that becomes an improvement to realty, and to collect tax from the customer on the sale of the tangible personal property that does not become an improvement to realty, as outlined above under "Time and Material or Cost-Plus Contracts".

Contractors who do not collect and remit tax on the charge to their customer for the tangible personal property that is not an improvement to realty may be liable for an assessment equal to the amount that should have been collected, plus penalty and interest charges.

PART 4 – CONTRACTS THAT ARE NOT IMPROVEMENTS TO REALTY

Contractors who supply and install machinery and equipment and other tangible personal property that does not qualify as an improvement to realty are the sellers of the items installed. As such, they are required to collect tax from their customers.

The application of tax to such contracts is the same as outlined above for "Time and Material Contracts". However, the application of tax to the labour portion of the contract will depend on the nature of the item being installed. For information on the labour portion of the contract, please refer to Consumer Taxation Branch Bulletin 018, *Taxable Services*.

Contractors who regularly engage in such contracts are required to be registered as a vendor under the *Social Service Tax Act*. Please refer to Part 8 of this bulletin for registration information.

PART 5 – CUSTOMERS ELIGIBLE FOR AN EXEMPTION

EXEMPTIONS NOT TRANSFERABLE TO THE CONTRACTOR

Farmers, aquaculturists, First Nations purchasers, federal government ministries and manufacturers are eligible for exemption on the purchase or lease of qualifying tangible personal property. With the exception of the production machinery and equipment exemption discussed below, the exemption available to the customer is not transferable to the contractor who installs such items under a lump sum contract. The customer can only obtain the exemption if the items are supplied and installed under a time and materials contract, and all criteria for exemption on that sale are met.

MORE INFO: Consumer Taxation Branch Bulletin 023, *Bona Fide Farmers*; Bulletin 050, *Bona Fide Aquaculturists*; and Bulletin 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

CUSTOMERS ELIGIBLE FOR THE PRODUCTION MACHINERY AND EQUIPMENT EXEMPTION

Persons involved in manufacturing, including logging and mineral, oil and natural gas production and exploration, are eligible for exemption on purchases or leases of qualifying production machinery and equipment.

Effective February 19, 2003, this exemption is expanded to allow a contractor, who has entered into a lump-sum contract with a person eligible for this exemption, to claim the exemption on qualifying machinery, equipment and parts that become improvements to realty on installation. This exemption applies only if all of the conditions outlined in this part of the bulletin are met.

There is no change to the application of tax where production machinery and equipment is installed under a time and material contract, or where the production machinery and equipment remain tangible personal property on installation. Under these contracts, the contractor is the seller of the production machinery and equipment. The customer may obtain exemption by providing the contractor with a completed *Certificate of Exemption* (FIN 453/M).

MORE INFO: Consumer Taxation Branch Bulletin 054, *Manufacturers*

Contractors and Subcontractors

CRITERIA FOR OBTAINING EXEMPTION UNDER A LUMP-SUM CONTRACT

Contractors may only obtain the exemption if both of the following criteria are met.

- The machinery, equipment or parts are acquired by the contractor to carry out a lump-sum or fixed-price contract to improve realty as described in this bulletin.
- The contractor's customer has provided to the contractor a completed *Certificate of Exemption - Production Machinery and Equipment* (FIN 453/M), certifying that the customer:
 - would be eligible to receive the exemption if they were to purchase the machinery, equipment or parts directly; and
 - the machinery, equipment or parts, once installed, will be used for an exempt purpose.

If the contractor holds a registration under the Act, the contractor may claim the exemption on the specified production machinery, equipment or parts by quoting its registration number to the supplier. To substantiate non-payment of tax, the contractor must retain the completed certificate obtained from the customer.

If the contractor does not hold a registration under the Act, the contractor may claim the exemption by completing the contractor portion of the certificate provided by the customer. The contractor may then obtain the exemption on its purchases by providing this completed certificate to its suppliers. Both the supplier and the contractor must retain a copy of the certificate to substantiate the non-payment of tax on those purchases.

LIABILITY IF THE EXEMPTION IS INCORRECTLY CLAIMED

Where a contractor has a signed certificate from the customer claiming the exemption and, after completion of the contract, it is determined that the customer or the items installed did not qualify for the exemption, *the customer* (not the contractor) may be liable for a penalty equal to the tax that was not paid by the contractor, plus penalty and interest on that amount.

If the contractor claims an exemption but does not obtain a signed certificate from the customer, *the contractor* may be liable for an assessment of the tax that should have been paid, plus penalty and interest charges.

EFFECTIVE DATE OF THE EXEMPTION

Provided the contractor obtains a certification from the customer, the exemption applies to qualifying production machinery, equipment and parts *purchased by the contractor on or after February 19, 2003.*

The following scenarios provide a guide for purchases occurring immediately before and after the exemption comes into effect.

- The contract is entered into on or after February 19, 2003, and all qualifying items are purchased on or after that date – the exemption applies for all purchases of eligible machinery and equipment.
- The contract is entered into before February 19, 2003, and all qualifying items are purchased on or after that date – exemption applies.
- The contract spans the period before and after the effective date, and qualifying items are purchased both before and after the effective date. Only purchases that take place on or after February 19, 2003 qualify for exemption. Purchases that took place before February 19, 2003, were subject to tax under the provisions in the Act at the time of purchase. Therefore, tax was properly due from the contractor on those purchases, and the tax is not refundable.
- The qualifying items were ordered before February 19, 2003, but delivered and invoiced after that date – exemption applies.
- The contractor paid a deposit before February 19, 2003, but accepts delivery and makes full payment after that date – exemption applies.
- The contractor ordered and paid for the items before February 19, 2003, but they are not delivered until after that date – exemption does not apply.
- Progress payments are made on the qualifying items both before and after the effective date – exemption applies only to progress payments made on or after February 19, 2003.

Please Note: A contractor cannot cancel the sale of qualifying production machinery, equipment or parts that took place before February 19, 2003, and then repurchase these

Contractors and Subcontractors

items in order to obtain the advantage of the exemption. Under the Act, if the contractor returns the items to the seller, obtains a refund of the tax, and the items are subsequently re-purchased by the contractor, an individual related to the contractor, or an associated corporation of the contractor, the contractor must pay tax equal to the tax that was refunded.

PART 6 – EXEMPTIONS AVAILABLE TO CONTRACTORS

PRODUCTION MACHINERY AND EQUIPMENT EXEMPTION

Contractors who manufacture the tangible personal property that they subsequently install for the customer (e.g., cabinet makers) may qualify for exemption on their purchase or lease of production machinery and equipment used to manufacture their product. To determine eligibility for this exemption, contractors must refer to Consumer Taxation Branch Bulletin 054, *Manufacturers*.

Where a contractor qualifies as a manufacturer, the exemption applies only to machinery and equipment used at the manufacturing site. Where the manufacturing occurs at the construction site, the exemption only applies if the manufacturing occurs at a location on the construction site other than the installation site. If some of the same tools and equipment are used both at the manufacturing site and the installation site, only tools used over 50% at the manufacturing site are eligible for exemption.

EXEMPTION FOR ENERGY SAVING MATERIALS AND EQUIPMENT

Under the *Social Service Tax Act*, prescribed materials and equipment used directly or indirectly for the conservation of energy are exempt from the tax. Persons engaged in the supply and installation of such items may wish to obtain Consumer Taxation Branch Bulletin 011, *Exemption for Material and Equipment Used to Conserve Energy*.

WORK-RELATED SAFETY EQUIPMENT

Social service tax does not apply to work-related safety equipment designed to be worn by a worker. For more information about safety equipment specifically exempted under the Act, please refer to Consumer Taxation Branch Bulletin 002, *Exemption for Safety Equipment*.

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PART 7 – NON-RESIDENT CONTRACTORS

MATERIALS BROUGHT INTO THE PROVINCE

Under a lump-sum contract, non-resident contractors working in British Columbia are required to pay tax on their total cost of all material brought into this province to be incorporated into real property, unless an exemption outlined in this bulletin applies. This includes the cost of the material, out-of-province fabrication costs, freight, customs charges, brokerage fees, and any other costs and expenses that would normally be allocated to such material, but not including the federal goods and services tax (GST).

MACHINERY AND EQUIPMENT BROUGHT INTO THE PROVINCE FOR OWN USE

Tax also applies to machinery and equipment brought into the province and used or consumed by the contractor in the course of carrying out the terms of a contract, regardless of whether it is a lump-sum contract or a time and material contract. The application of tax depends upon the item used and the duration of the task being undertaken. Non-resident contractors should obtain a copy of Consumer Taxation Branch Bulletin 098, *Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

PART 8 – REGISTRATION REQUIREMENTS

CONTRACTORS WHO MUST REGISTER AS VENDORS

Contractors are considered to be vendors and are required to register with the Consumer Taxation Branch when:

- they supply but do not install tangible personal property which becomes an improvement to real property;
- they supply and install tangible personal property which does not qualify as an improvement to real property; or

- they regularly enter into mixed, time and material or cost-plus contracts where title to the material passes to the customer prior to their installation or incorporation into real property.

Unless the item sold is specifically exempted under the Act, such vendors are required to collect tax on the total amount charged to their customers.

CONTRACTORS WHO DO NOT NEED TO REGISTER AS VENDORS

Contractors are not required to be registered as vendors with the Consumer Taxation Branch when:

- they only enter into lump-sum or fixed-price contracts to improve real property; or
- they only occasionally enter into mixed, time and material or cost-plus contracts.

Contractors who only occasionally enter into these types of contracts must collect tax from their customers on the charges for material. They should contact the Consumer Taxation Branch for forms and information on remitting the tax due.

HOW TO REGISTER

If you are not registered, you can obtain an *Application for Registration as a Vendor Pursuant to the Social Service Tax Act* form (FIN 418) from your nearest Consumer Taxation Branch or Government Agents office or by calling the number provided at the end of this bulletin.

You can also register online at our Web site at www.rev.gov.bc.ca/ctb

Upon receipt of a completed application, the Consumer Taxation Branch will assign a registration number and forward to the applicant a *Certificate of Registration* and information about procedures for reporting and remitting the tax collected.

PART 9 – ITEMS THAT QUALIFY AS IMPROVEMENTS TO REALTY

The following items are considered to be improvements to realty when the contractor permanently affixes them to the premises where they are intended to remain. This is not an all-inclusive list.

Please Note: If any of these items are sold without installation, they are subject to tax on the total price paid by the purchaser.

Only some of these items may qualify for the production machinery and equipment exemption. For confirmation, refer to Consumer Taxation Branch Bulletin 054, *Manufacturers*.

- Air conditioning systems
- Artwork permanently affixed to, and part of a building
- Awnings
- Boilers used to service a building (heat, electricity for lighting only)
- Built-in booths, cabinets, counters, shelves, stoves, dishwashers, and similar items
- Burglar and security alarm systems (only if permanently built into, and substantially attached to, real property)
- Coal preparation plant
- Carpeting, wall-to-wall
- Ceilings
- Chairlifts
- Compressors used in natural gas pipelines
- Chlorine Dioxide Generators
- Docks
- Drapery tracks and rails
- Dry kilns
- Elevators and escalators
- Fences
- Fibre-optic telecommunication systems
- Fire alarm and detection devices
- Floor coverings, tiles, linoleum, wall-to-wall carpeting
- Furnaces and duct work
- Glass installed in buildings
- Greenhouses (excluding portable types)
- Hand rails
- Heating systems
- Island units (e.g. kitchens, supermarkets)
- Lighting systems and fixtures
- Partition walls
- Plumbing fixtures and pipes
- Pulp Mills: Black liquor evaporating plant, black liquor oxidization plant, black liquor storage tanks, block conveyor, and chlorine dioxide generators
- Retaining walls
- Scatter antennae
- Saw mills: waste conveyors, green chains, storage bins, kickers (part of conveyor), drop gate, landing decks, sewage, wastewater and treatment systems, septic tanks, when installed in real property
- Sinks and sink counters
- Sprinkler systems embedded in the ground or affixed to a building
- Vacuum cleaning systems attached to a building (excluding hoses and accessories)
- Venetian blinds
- Walk in freezers and coolers
- Wiring, electrical

PART 10 – ITEMS THAT *DO NOT* QUALIFY AS IMPROVEMENTS TO REALTY

The following items do not qualify as improvements to realty, even when installed by the supplier. These contracts constitute the supply and installation of tangible personal property. If supply and installation are sold for a single price, tax applies to the total charge to the customer.

This is not an all-inclusive list.

- Aerials: radio and television
- Boilers used in production or processing of goods
- Burners (except beehive burners)
- Compressors (except as listed in the section above)
- Concrete dividers, pre-formed (resting on their own weight)
- Cranes and hoists that run on rails (the installation of the rails, however, is an improvement to real property)
- Drapes
- Generators

- Ice machines to make ice for resale
- Lockers: gym, school, rental
- Log scaling systems
- Process tanks (of a size that allows them to be transported in one piece to site)
- Security systems not permanently attached or built into real property
- Zinc roasters

NEED MORE INFO?

This bulletin is provided for convenience and guidance. If interpretation problems occur, please refer to the legislation or call the Customer Service & Information Branch at 604 660-4524 in Vancouver or toll-free at 1 877 388-4440 elsewhere in Canada.

Information and forms are also on the Web at www.rev.gov.bc.ca/ctb. While there, you can subscribe to our free electronic update service and be automatically notified every time a bulletin is revised that may affect your business.

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 76, 77, 92; Regulation 2.21, 2.37, 2.45, 2.46, 2.47, 2.52, 3.20, 4; Bill 6, *Budget Measures Implementation Act*, 2003

Real Property Contractors

Social Service Tax Act

Are you in the construction industry?

Do you supply and install goods that become real property?

This bulletin provides specific tax information to help real property contractors 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

If you construct buildings, or supply and install goods that become improvements to real property, you are a real property contractor. This includes contractors and trade subcontractors in the construction industry, as well as other businesses that make improvements to real property.

Here are some examples of real property contractors.

- Bricklayers
- Cabinet installers
- Carpenters
- Carpet layers
- Drywall installers
- Excavators
- Electricians
- Fence builders
- Foundation contractors
- Framing contractors
- Glass and glazing contractors
- Heating system installers
- Home builders
- Kitchen installers
- Landscapers
- Masonry contractors
- Mechanical contractors
- Painters
- Pavers
- Plumbers
- Roofers
- Sheet metal contractors
- Siding contractors
- Sundeck builders
- Window installers

To understand how PST applies to your business, there are two important questions that you need to consider.

1. Do you install goods that become improvements to real property?

Real property is land and any items permanently attached to land (buildings and structures). Goods that become permanently attached to the land or buildings are called improvements to real property on installation.

Improvements to real property includes integral parts of buildings or land, such as windows, doors and driveways. It also includes very large machinery or equipment that is constructed on site, such as machinery used in sawmills, pulp mills or other industrial locations.

For more details on real property, see the section below, Improvements to Real Property.

2. Do you have a lump sum or a time and materials contract?

The way you structure your contract determines whether you pay PST, or you charge your customers PST on the goods that become improvements to real property on installation.

The general rules for real property contracts are as follows.

Type of real property contract:	Who pays the PST:
Lump sum or fixed-price contracts	Contractor pays PST on the goods.
Time and materials contracts	Customer pays PST on the goods but not on the labour.
Services to existing real property	Neither contractor nor customer pays PST as services to real property are exempt.

Please note: there are some exceptions to the general rules. For more details on contracts, see the section below, Real Property Contracts.

Improvements to Real Property

It can be difficult to distinguish tangible personal property from fixtures or improvements to real property. The rules regarding real property are based on common-law principles and court decisions which add considerable complexity. **While we have set out guidelines and examples for you below, if you are unsure how tax applies, please contact us. We will provide you with an answer that applies to your particular situation.**

Tangible Personal Property

Tangible personal property is personal property that you can see, weigh, measure, or touch, or that is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Retail sales or leases of tangible personal property are taxable, unless there is a specific exemption. As a general rule, if the tangible personal property is taxable when purchased, services provided to the tangible personal property are also taxable (these services are taxable as the tangible personal property is not an improvement to real property).

Fixtures

While fixtures may be commonly understood by contractors to mean items, such as lighting, bathroom and plumbing fixtures, for PST purposes, fixtures has a specific definition in the legislation. Fixtures include certain machinery, equipment or apparatus that is used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property, or in the provision of a service.

Sales or leases of fixtures are taxable but services to fixtures are exempt. For a detailed explanation and the criteria for fixtures, please see **Bulletin SST 078, Fixtures**.

Real Property

Real property is land and any items permanently attached to land (buildings and structures). It also includes tangible personal property that is installed for the purpose of improving and becoming permanently part of the land or a building. Once installed, the tangible personal property becomes an improvement to real property.

There is no PST on sales or leases of real property or on services to real property. However, the tangible personal property that becomes an improvement to real property on installation is taxable to either the contractor or the customer. Who pays the PST depends on the type of contract. For more details, please see the section below, Real Property Contracts.

General Criteria for Improvements to Real Property

There are two basic categories of improvements to real property. The criteria for each category is detailed below.

Category 1 – Integral parts of buildings or land

This includes tangible personal property that, on installation, becomes an integral part of a building, structure or land. This includes items, such as heating, air conditioning, lighting or sewage disposal equipment for a building, and elevators and escalators.

To become an integral part of a building, structure or land, the tangible personal property must meet all of the following criteria.

Criteria

1. The tangible personal property is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.
3. The tangible personal property is installed for the better use of the building, structure or land.
4. The tangible personal property is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 1 – Integral Parts of Buildings or Land. If any of the items are sold without installation, they are tangible personal property.

- Aircraft hangar doors
- Air conditioning systems (does not include portable or window units)
- Air ventilation systems
- Alarm systems (only if permanently attached to real property; not including removable components, such as sensors, video cameras, computers)
- Altar railings (built-in)
- Artwork permanently attached to and part of a building (includes statues, fountains, murals, decorative wall panels)
- Asphalt roads
- Awnings
- Baseboards
- Bins (built-in)
- Bleachers (folding and attached to gym walls)
- Blinds, venetian

- Bridges
- Boilers used to service a building (for heat, electricity or lighting only)
- Booths (built-in)
- Cabinets and counters (built-in)
- Cablevision cables, cable connectors, wall plate (not including cable to the television, unless there is no wall plate)
- Carpeting (wall-to-wall and attached to the floor)
- Ceilings
- Church pews, pew fronts, altar rails, organ and chancel screens
- Closet organizers (built-in)
- Construction materials (once installed), such as lumber, concrete, glass, and insulation, that are used to construct a building or other permanent structure
- Conveyors, elevators
- Dishwashers (built-in)
- Docks, permanently attached to pilings that are sunk into the seabed (includes floating docks and floating breakwaters)
- Doors, door frames and door locks
- Drapery tracks and rails (but not including the drapes)
- Driveways (e.g. asphalt or concrete)
- Elevators and escalators
- Eaves troughs
- Fences (does not include temporary fences or fences that rest upon the ground on their own weight)
- Fibre-optic telecommunications systems (includes buried fibre optic cable and access points to install or maintain the cable, and above ground wire and poles to connect users; does not include computers to manage the system)
- Fire alarm and detection devices (built-in)
- Fire hydrants
- Fireplaces (does not include electric fireplaces that plug in to electrical outlets)
- Flooring (e.g. tile, linoleum, wall-to-wall carpeting, hardwood)

- Foundations
- Furnaces and duct work
- Garage doors
- Gas fireplaces, stoves and heaters (must be attached to the gas line and an outside venting system)
- Glass installed in buildings
- Greenhouses (except portable types)
- Hand rails
- Hardwood floors
- Heating systems
- Heat pumps
- Hot water heaters
- Hot tubs (permanently attached to the land or buildings; does not include hot tubs that can be readily dismantled and removed)
- Houseboats (must be permanently moored and hooked up to utilities and must not be self-propelled)
- Irrigation systems
- Island units (e.g. kitchen islands, supermarket islands)
- Kitchen countertops
- Landscaping materials (e.g. plants, trees, shrubs, underground sprinklers, irrigation lines, retaining walls but not including potted plants)
- Lighting systems and light fixtures (permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps)
- Mirrors (permanently attached)
- Moldings and baseboards
- Partition walls
- Plumbing fixtures and pipes
- Pools and spas plumbed into water supply (above ground must be enclosed by a permanent deck; does not include above ground pools or spas that can be readily dismantled and removed)
- Rail sidings, rail spurs

- Range hoods
- Restaurant booths, stools (attached to floor)
- Retaining walls
- Roads (e.g. asphalt or concrete)
- Roofs
- Scatter antennae
- Security systems (only if permanently attached to real property; not including removable components, such as sensors, video cameras, computers)
- Sewage disposal equipment
- Shelves (built into walls)
- Signs, either directly bolted to concrete bases embedded in the ground, or affixed to poles or pylons which are bolted to concrete bases embedded in the ground (e.g. canopy, cube, twin pole and flag mount pylon signs)
- Signs, mounted on walls of buildings (e.g. fascia or neon signs)
- Sinks and sink counters
- Sprinkler systems (embedded in the ground or affixed to a building)
- Stairs
- Stools (restaurant stools attached to the floor)
- Swimming pools (in-ground)
- Telecommunications towers
- Vacuum cleaner systems (built-in; does not include plug-in hoses and attachments)
- Venetian blinds
- Water meters
- Water treatment systems (built-in)
- Windows (including screens)
- Wiring (built into walls)

Category 2 - Very large machinery and equipment

This includes machinery or equipment that is constructed on site because of its size, such as machinery used in sawmills, pulp mills or other industrial locations. The machinery or equipment is used in specific business processes that include

manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmitting or distributing tangible personal property, or delivering a service. Machinery or equipment that runs on rails or tracks, or moves around on, or from, the site it was constructed does not qualify.

The machinery and equipment must meet all of the following criteria to qualify.

Criteria

1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
3. The machinery or equipment is constructed on site because of its size.
4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.
5. The machinery or equipment cannot be moved from the site without:
 - dismantling the machinery or equipment, or
 - dismantling or causing substantial damage to the building in which it is installed or attached.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 2 – Very Large Machinery and Equipment. If any of the items are sold without installation, they are tangible personal property.

- Aerial tramways (does not include tramway cars)
- Alpine slides (does not include the cars that go down the slide)
- Automotive spray booths
- Chairlifts (includes steel towers, gearboxes, motors and engines bolted to concrete, cables and chairs)
- Coolers (walk-in)
- Compressors used in natural gas pipelines

- Dry kilns
- Gas distribution systems consisting of underground mainlines, distribution pipes, etc.
- Ice-making equipment used in cold storage plants or curling and skating rinks (does not include ice resurfacing machines or equipment used to make ice for sale)
- Paint spray booths (including ventilation systems)
- Pulp mills (black liquor evaporating plant, black liquor oxidation plant, black liquor storage tanks, block conveyor and chlorine dioxide generators)
- Refrigeration systems (including freon refrigerant)
- Saw mills (waste conveyors, green chains, storage bins, kickers [part of conveyor], drop gate, landing decks, sewage, wastewater and treatment systems and septic tanks when installed in real property, walkways and platforms for access to machinery)
- Tanks, process (must be of a size that cannot be transported in one piece and are assembled on the site)
- Walk-in freezers and coolers

Improvements to Real Property Summary

The following table provides a quick reference guide to the general criteria that are described in the previous section, Improvements to Real Property.

Category	Criteria:	Examples:
Integral parts of buildings or land	1. Tangible personal property (i.e. goods) that is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ■ Building materials (once installed) to construct buildings, such as lumber, concrete, steel, glass and insulation ■ Windows and doors ■ Flooring, such as tiles, linoleum, wall-to-wall carpeting, hardwood floors ■ In-ground swimming pools ■ Furnaces and duct work
	2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.	
	3. The tangible personal property is installed for the better use of the building, structure or land.	
	4. The tangible personal property is permanently installed at a location where it is intended to remain.	
Very large machinery and equipment	1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ■ Automotive spray booths ■ Pulp mills: chlorine dioxide generators ■ Saw mills: waste conveyors ■ Walk-in freezers and coolers
	2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.	
	3. The machinery or equipment is constructed on site because of its size.	
	4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.	
	5. The machinery or equipment cannot be moved from the site without: <ul style="list-style-type: none"> ■ dismantling the machinery or equipment, or ■ dismantling or causing substantial damage to the building in which it is installed or attached. 	

Real Property Contracts

How PST applies to real property contracts depends on whether the contractor uses its own materials to improve the customer's property, or the contractor improves the customer's property using materials that the contractor has sold to the customer. In most cases, this depends on whether the contract is for a lump sum or is a time and materials contract.

If a contractor or customer is uncertain about how PST applies to their contract, they should contact us. We will provide an answer that applies to the particular situation.

Lump Sum or Fixed-Price Contracts

These are contracts where a single charge is made for the tangible personal property and labour services supplied under the contract.

With this type of contract, the customer is not purchasing tangible personal property, but is purchasing an improvement to its real property. The contractor is therefore the last purchaser of the tangible personal property and must pay tax on all materials and equipment used to fulfill the contract.

A contract may contain a provision transferring ownership of the materials to the customer to ensure that the customer maintains a security interest in the property in case the contractor goes bankrupt. If the contract is for a lump sum, this type of provision will not change the contract into a contract for the sale of tangible personal property.

A customer may request a breakdown in the price of the lump sum contract between the materials and the labour without changing the nature of the contract. Where the contract remains a single fixed-price contract for the delivery of a completed improvement to real property, a breakdown in costs for materials and labour may be provided to the customer for information only. To avoid misunderstanding, the contractor should include a statement on the invoice that explains that the breakdown of the price is for information only and does not indicate that the parties intend that the contract involve a sale of tangible personal property.

Indicators of a lump sum contract

- The contract price is for a single fixed amount for completion of described work. The contract does not consider separate charges for materials and labour (although the price may be adjusted for changes, extra work etc.).

- The contract and invoice do not break down the contract price into separate amounts for materials, equipment and labour supplied.
- The contractor is to deliver a completed improvement to real property.
- The payment schedule is based on a percentage of the lump sum price.

Time and Materials or Cost-Plus Contracts

These are contracts where the charges for the supply of tangible personal property and labour services are separately identified and accounted for in the contract.

When a contract is structured this way, the general rule is that the contractor has sold the tangible personal property to the customer before it becomes installed as an improvement to real property (see below for exceptions to the general rule). Therefore, the customer must pay tax on all materials and equipment purchased. The contractor charges the customer PST on the sale price of all tangible personal property supplied under the contract.

Indicators of a time and materials contract

- The contract price separately identifies and prices the materials, equipment and labour services.
- The invoice has a breakdown with separate charges for materials, equipment and labour.
- According to the contract or invoice, the customer is charged PST on the materials.

Exceptions to the general rule

There are some exceptions to the general rule where a time and materials contract may not involve a sale of tangible personal property. These circumstances are discussed below. If a time and materials contract does not involve a sale of tangible personal property, the contractor is therefore the last purchaser of the tangible personal property and must pay tax on all materials and equipment used to fulfill the contract.

How to determine if a time and materials contract does not involve a sale of tangible personal property

The critical question is whether or not the contractor has sold the materials as materials prior to their installation and incorporation into real property. The general rule is that a time and materials contract does involve a sale. However, there are exceptions when there are contrary indications included in the contract. Some of the relevant considerations are set out below.

Indicators that the contract does not involve a sale of tangible personal property

- The contractor may retain any surplus materials once the installation is complete.
- The materials remain the property of the contractor and ownership of the materials does not transfer to the customer until after the installation is complete. This does not include a situation where the purpose of a contractual provision is for the contractor to maintain a security interest in the materials.
- The contract indicates that the contractor is liable for all sales taxes.

Indicators that the contract does involve a sale of tangible personal property

- According to the contract or invoice, the customer is charged PST on the materials.
- Ownership of the materials transfers to the customer upon delivery to the site, and before installation.
- The contractor is liable to the customer for any damage to materials or equipment supplied and intended to be incorporated into the improvement to real property.
- Any surplus materials are the property of the customer.
- The customer keeps the materials in the event the contract is cancelled.
- The contract indicates that the property is to remain as tangible personal property.

Lump Sum Contracts Involving Both Tangible Personal Property and Real Property

A contractor may have a lump sum contract that includes both the supply and installation of goods that remain tangible personal property, and goods that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- the contractor pays PST on the portion of the goods that relates to improvements to real property, and

- the contractor charges the customer PST on the portion of the goods that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, the contractor does not charge PST to the customer for services or repairs.

If the contractor installs repair parts for a real property improvement while providing a service, the parts are taxable to either the contractor or the customer depending on the type of contract. Tax is applied to the repair parts as explained in the above sections, Lump Sum or Fixed-Price Contracts, and Time and Materials Contracts or Cost-Plus Contracts. If the contractor installs the parts under a lump sum contract, the contractor pays PST on the parts. If the contractor installs the parts under a time and materials contract, the general rule is that the contractor charges the customer PST on the parts but not on the labour to install them.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If a subcontractor has a lump sum contract with a contractor, the subcontractor pays PST. If a subcontractor has a time and materials contract with a contractor, the subcontractor charges the contractor PST on the goods but not on the labour.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts. However, there may be exceptions to the general rules. For details on the exceptions, see the section above, Exceptions to the General Rule.

If the good is:	And your contract is:	The following person pays the PST:
Improvement to real property or fixture	Lump sum / fixed price	Contractor pays on materials
	Time and materials	Customer pays on materials but not labour (time)
	Service / repair (time) only	No PST is payable on services to improvements to real property or fixtures If repair parts installed: Contractor pays on parts for lump sum contracts Customer pays on parts for time and materials contracts
Tangible personal property (i.e. goods)	Supply / materials only	Customer pays on purchase price of materials
	Service / repair (time) only	Customer pays on purchase price of taxable services (including parts and labour)

Sales

When to Charge PST

You charge PST on the retail sale or lease of goods, such as:

- supply-only sales of goods (excluding installation),
- goods sold under time and materials contracts (see section above, Real Property Contracts), and
- supply and installation of goods that do not become improvements to real property (i.e. they remain tangible personal property after installation, such as drapes, gym lockers, Murphy wall-beds, wireless security systems etc.).

If you regularly sell taxable goods or services in British Columbia, you need to register and receive a PST registration number. If you are not required to register, you are still responsible for collecting and remitting PST if you occasionally make taxable sales. You self-assess the PST due using a *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller Not Registered* form (FIN 428). This form is available from the ministry or any Service BC-Government Agent office. You will also find it on our website at www.sbr.gov.bc.ca/ctb/forms.htm

If you are located outside British Columbia and make taxable sales in British Columbia, you may be required to register. For more details, and to see if you need to register, please see *Bulletins SST 044, Do You Need to Register as a Vendor?* and *SST 074, Out-of-Province Sellers*,

When Not to Charge PST

You do not charge PST on the following:

- lump sum contracts to improve real property (see section above, Real Property Contracts),
- services to real property, such as installation or labour charges (see section above, Real Property Contracts), and
- sales to exempt customers under time and materials contracts, such as sales to First Nations, farmers, manufacturers, diplomats and federal government departments.

Please note: each of these customers must meet specific criteria to qualify for exemption. See the list of bulletins below for details.

Sales to Exempt Customers

Some of your customers may be eligible for a PST exemption. Some examples of eligible customers include First Nations, farmers, manufacturers, diplomats and federal government departments.

If you structure your contract with an exempt customer as a time and materials contract, you purchase the materials without paying PST by providing your PST registration number to your supplier.

You do not charge your customers PST as long as they meet all the criteria for the exemption. To show why you did not charge PST, keep a copy of the supporting documentation from your customers, such as a certificate of exemption or an identity card.

If you structure your contract as a lump sum contract, you pay PST on the materials. This is because, under lump sum contracts, you are the final purchaser of the materials. You are not reselling the materials because your customers are purchasing them after you have installed them into real property. The only exception is when you supply and install production machinery and equipment under specific conditions. In this case, you may claim an exemption using the *Certificate of Exemption: Production Machinery and Equipment* form (FIN 453/M). For more information, please see *Bulletin SST 054, Manufacturers*.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, Manufacturers

SST 023, Bona Fide Farmers

SST 046, Exemption for Indians and Indian Bands

SST 034, Procedures for Making Exempt Sales or Leases to Indians and Indian Bands

GEN 007, Exemption for Members of the Diplomatic and Consular Corps

GEN 006, Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators

Purchases

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,
- free promotional items,
- computer hardware and software (unless custom software),
- supplies that do not become part of the goods you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

If your 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 customers under time and materials contracts, or supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

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

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

General Exemptions Common to Contractors

Energy saving materials and equipment

You do not pay PST on specified materials and equipment used for energy conservation purposes, such as weather stripping and multi-glazed windows and doors. For more details, please see *Bulletin SST 011, Exemption for Material and Equipment Used to Conserve Energy*.

Work-related safety equipment

You do not pay PST on certain safety equipment designed to be worn by a worker. For more details, please see *Bulletin SST 002, Exemption for Safety Equipment*.

Production Machinery and Equipment Exemption

Manufacturing contractors

If you are a manufacturer of goods (e.g. a cabinet maker), you may qualify for an exemption on your purchases of the machinery and equipment used to manufacture your product.

Installing machinery and equipment for manufacturers

If you enter into a lump sum contract with a manufacturer, you may be eligible for an exemption on the machinery or equipment that becomes an improvement to real property on installation.

Please note: there are specific criteria to qualify for the production machinery and equipment exemption. For details, and to see if you qualify for the exemption, please see *Bulletin SST 054, Manufacturers*.

Goods Brought Into British Columbia

When you purchase taxable goods from outside British Columbia for use in this province, you pay PST on them.

If the seller does not charge you PST at the time of the sale, you self-assess the PST due using a *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller not Registered under the Social Service Tax Act* form (FIN 428) at the time you bring or ship the goods into British Columbia.

You pay PST on the total amount that you paid to bring the goods into British Columbia, including any charges for transportation, customs, excise and any other costs, except the goods and services tax (GST).

Goods for Permanent Use in British Columbia

If you bring equipment, vehicles or other taxable goods into the province for permanent use, you pay PST on the depreciated value of each item using the depreciation schedule below. Items can be depreciated up to 50% of their purchase price.

- Motor vehicles, including all self-propelled equipment and trailers, 30% per year (2.5% for each month).
- Aircraft, 25% per year (2.0833% for each month).
- Vessels, 15% per year (1.25% for each month).
- Railway rolling stock, 10% per year (0.833% for each month).
- Other equipment, furniture and fixtures, 20% per year (1.667% for each month).

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

Goods for Temporary Use

If you bring taxable goods into the province for less than six days, you do *not* pay PST (except leased goods – see the section below, Leased Goods). The six days may be consecutive or spread out over a number of weeks or months.

If you bring taxable goods into the province for temporary use only – 6 days or more in a 12-month period – to perform a specific task related to your contract, and then take the goods back out of the province, you may qualify to pay PST using the temporary use formula. The temporary use formula allows you to pay PST on one-third of the value of the goods for each 12-month period that the goods are in the province. For details, and to see if you qualify for the temporary use formula, please see *Bulletin SST 098, Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

Leased Goods

Unlike purchased goods, you pay PST on taxable leased goods even if they are brought into the province for less than six days. For leased goods, you pay PST based on the time you have the goods in the province and your lease term, e.g. weekly or monthly. For more details, please see *Bulletin SST 098, Equipment Brought into the Province for Temporary Use (1/3 Formula)*.



Need more info?

Construction Industry website: www.sbr.gov.bc.ca/ctb/Construction.htm

Telephone (Vancouver): 604 660-4524

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 on our website at www.sbr.gov.bc.ca/ctb

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 76, 77 and 92, and Regulations 2.21, 2.37, 2.45, 2.46, 2.47, 2.52 and 3.20.

Real Property Contractors

Social Service Tax Act

Are you in the construction industry?

Do you supply and install goods that become real property?

This bulletin provides specific tax information to help real property contractors 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

If you construct buildings, or supply and install goods that become improvements to real property, you are a real property contractor. This includes contractors and trade subcontractors in the construction industry, as well as other businesses that make improvements to real property.

Here are some examples of real property contractors.

- Bricklayers
- Cabinet installers
- Carpenters
- Carpet layers
- Drywall installers
- Excavators
- Electricians
- Fence builders
- Foundation contractors
- Framing contractors
- Glass and glazing contractors
- Heating system installers
- Home builders
- Kitchen installers
- Landscapers
- Masonry contractors
- Mechanical contractors
- Painters
- Pavers
- Plumbers
- Roofers
- Sheet metal contractors
- Siding contractors
- Sundeck builders
- Window installers

To understand how PST applies to your business, there are two important questions that you need to consider.

1. Do you install goods that become improvements to real property?

Real property is land and any items permanently attached to land (buildings and structures). Goods that become permanently attached to the land or buildings are called improvements to real property on installation.

Improvements to real property includes integral parts of buildings or land, such as windows, doors and driveways. It also includes very large machinery or equipment that is constructed on site, such as machinery used in sawmills, pulp mills or other industrial locations.

For more details on real property, see the section below, Improvements to Real Property.

2. Do you have a lump sum or a time and materials contract?

The way you structure your contract determines whether you pay PST, or you charge your customers PST on the goods that become improvements to real property on installation.

The general rules for real property contracts are as follows.

Type of real property contract:	Who pays the PST:
Lump sum or fixed-price contracts	Contractor pays PST on the goods.
Time and materials contracts	Customer pays PST on the goods but not on the labour.
Services to existing real property	Neither contractor nor customer pays PST as services to real property are exempt.

Please note: there are some exceptions to the general rules. For more details on contracts, see the section below, Real Property Contracts.

Improvements to Real Property

It can be difficult to distinguish tangible personal property from fixtures or improvements to real property. The rules regarding real property are based on common-law principles and court decisions which add considerable complexity. **While we have set out guidelines and examples for you below, if you are unsure how tax applies, please contact us. We will provide you with an answer that applies to your particular situation.**

Tangible Personal Property

Tangible personal property is personal property that you can see, weigh, measure, or touch, or that is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Retail sales or leases of tangible personal property are taxable, unless there is a specific exemption. As a general rule, if the tangible personal property is taxable when purchased, services provided to the tangible personal property are also taxable (these services are taxable as the tangible personal property is not an improvement to real property).

Fixtures

While fixtures may be commonly understood by contractors to mean items, such as lighting, bathroom and plumbing fixtures, for PST purposes, fixtures has a specific definition in the legislation. Fixtures include certain machinery, equipment or apparatus that is used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property, or in the provision of a service.

Sales or leases of fixtures are taxable but services to fixtures are exempt. For a detailed explanation and the criteria for fixtures, please see **Bulletin SST 078, Fixtures**.

Real Property

Real property is land and any items permanently attached to land (buildings and structures). It also includes tangible personal property that is installed for the purpose of improving and becoming permanently part of the land or a building. Once installed, the tangible personal property becomes an improvement to real property.

There is no PST on sales or leases of real property or on services to real property. However, the tangible personal property that becomes an improvement to real property on installation is taxable to either the contractor or the customer. Who pays the PST depends on the type of contract. For more details, please see the section below, Real Property Contracts.

General Criteria for Improvements to Real Property

There are two basic categories of improvements to real property. The criteria for each category is detailed below.

Category 1 – Integral parts of buildings or land

This includes tangible personal property that, on installation, becomes an integral part of a building, structure or land. This includes items, such as heating, air conditioning, lighting or sewage disposal equipment for a building, and elevators and escalators.

To become an integral part of a building, structure or land, the tangible personal property must meet all of the following criteria.

Criteria

1. The tangible personal property is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.
3. The tangible personal property is installed for the better use of the building, structure or land.
4. The tangible personal property is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 1 – Integral Parts of Buildings or Land. If any of the items are sold without installation, they are tangible personal property.

- Aircraft hangar doors
- Air conditioning systems (does not include portable or window units)
- Air ventilation systems
- Alarm systems (only if permanently attached to real property; not including removable components, such as sensors, video cameras, computers)
- Altar railings (built-in)
- Artwork permanently attached to and part of a building (includes statues, fountains, murals, decorative wall panels)
- Asphalt roads
- Awnings
- Baseboards
- Bins (built-in)
- Bleachers (folding and attached to gym walls)
- Blinds, venetian

- Bridges
- Boilers used to service a building (for heat, electricity or lighting only)
- Booths (built-in)
- Cabinets and counters (built-in)
- Cablevision cables, cable connectors, wall plate (not including cable to the television, unless there is no wall plate)
- Carpeting (wall-to-wall and attached to the floor)
- Ceilings
- Church pews, pew fronts, altar rails, organ and chancel screens
- Closet organizers (built-in)
- Construction materials (once installed), such as lumber, concrete, glass, and insulation, that are used to construct a building or other permanent structure
- Conveyors, elevators
- Dishwashers (built-in)
- Docks, permanently attached to pilings that are sunk into the seabed (includes floating docks and floating breakwaters)
- Doors, door frames and door locks
- Drapery tracks and rails (but not including the drapes)
- Driveways (e.g. asphalt or concrete)
- Elevators and escalators
- Eaves troughs
- Fences (does not include temporary fences or fences that rest upon the ground on their own weight)
- Fibre-optic telecommunications systems (includes buried fibre optic cable and access points to install or maintain the cable, and above ground wire and poles to connect users; does not include computers to manage the system)
- Fire alarm and detection devices (built-in)
- Fire hydrants
- Fireplaces (does not include electric fireplaces that plug in to electrical outlets)
- Flooring (e.g. tile, linoleum, wall-to-wall carpeting, hardwood)

- Foundations
- Furnaces and duct work
- Garage doors
- Gas fireplaces, stoves and heaters (must be attached to the gas line and an outside venting system)
- Glass installed in buildings
- Greenhouses (except portable types)
- Hand rails
- Hardwood floors
- Heating systems
- Heat pumps
- Hot water heaters
- Hot tubs (permanently attached to the land or buildings; does not include hot tubs that can be readily dismantled and removed)
- Houseboats (must be permanently moored and hooked up to utilities and must not be self-propelled)
- Irrigation systems
- Island units (e.g. kitchen islands, supermarket islands)
- Kitchen countertops
- Landscaping materials (e.g. plants, trees, shrubs, underground sprinklers, irrigation lines, retaining walls but not including potted plants)
- Lighting systems and light fixtures (permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps)
- Mirrors (permanently attached)
- Moldings and baseboards
- Partition walls
- Plumbing fixtures and pipes
- Pools and spas plumbed into water supply (above ground must be enclosed by a permanent deck; does not include above ground pools or spas that can be readily dismantled and removed)
- Rail sidings, rail spurs

- Range hoods
- Restaurant booths, stools (attached to floor)
- Retaining walls
- Roads (e.g. asphalt or concrete)
- Roofs
- Scatter antennae
- Security systems (only if permanently attached to real property; not including removable components, such as sensors, video cameras, computers)
- Sewage disposal equipment
- Shelves (built into walls)
- Signs, either directly bolted to concrete bases embedded in the ground, or affixed to poles or pylons which are bolted to concrete bases embedded in the ground (e.g. canopy, cube, twin pole and flag mount pylon signs)
- Signs, mounted on walls of buildings (e.g. fascia or neon signs)
- Sinks and sink counters
- Sprinkler systems (embedded in the ground or affixed to a building)
- Stairs
- Stools (restaurant stools attached to the floor)
- Swimming pools (in-ground)
- Telecommunications towers
- Vacuum cleaner systems (built-in; does not include plug-in hoses and attachments)
- Venetian blinds
- Water meters
- Water treatment systems (built-in)
- Windows (including screens)
- Wiring (built into walls)

Category 2 - Very large machinery and equipment

This includes machinery or equipment that is constructed on site because of its size, such as machinery used in sawmills, pulp mills or other industrial locations. The machinery or equipment is used in specific business processes that include

manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmitting or distributing tangible personal property, or delivering a service. Machinery or equipment that runs on rails or tracks, or moves around on, or from, the site it was constructed does not qualify.

The machinery and equipment must meet all of the following criteria to qualify.

Criteria

1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
3. The machinery or equipment is constructed on site because of its size.
4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.
5. The machinery or equipment cannot be moved from the site without:
 - dismantling the machinery or equipment, or
 - dismantling or causing substantial damage to the building in which it is installed or attached.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 2 – Very Large Machinery and Equipment. If any of the items are sold without installation, they are tangible personal property.

- Aerial tramways (does not include tramway cars)
- Alpine slides (does not include the cars that go down the slide)
- Automotive spray booths
- Chairlifts (includes steel towers, gearboxes, motors and engines bolted to concrete, cables and chairs)
- Coolers (walk-in)
- Compressors used in natural gas pipelines

- Dry kilns
- Gas distribution systems consisting of underground mainlines, distribution pipes, etc.
- Ice-making equipment used in cold storage plants or curling and skating rinks (does not include ice resurfacing machines or equipment used to make ice for sale)
- Paint spray booths (including ventilation systems)
- Pulp mills (black liquor evaporating plant, black liquor oxidation plant, black liquor storage tanks, block conveyor and chlorine dioxide generators)
- Refrigeration systems (including freon refrigerant)
- Saw mills (waste conveyors, green chains, storage bins, kickers [part of conveyor], drop gate, landing decks, sewage, wastewater and treatment systems and septic tanks when installed in real property, walkways and platforms for access to machinery)
- Tanks, process (must be of a size that cannot be transported in one piece and are assembled on the site)
- Walk-in freezers and coolers

Improvements to Real Property Summary

The following table provides a quick reference guide to the general criteria that are described in the previous section, Improvements to Real Property.

Category	Criteria:	Examples:
Integral parts of buildings or land	1. Tangible personal property (i.e. goods) that is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Building materials (once installed) to construct buildings, such as lumber, concrete, steel, glass and insulation ▪ Windows and doors ▪ Flooring, such as tiles, linoleum, wall-to-wall carpeting, hardwood floors ▪ In-ground swimming pools ▪ Furnaces and duct work
	2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.	
	3. The tangible personal property is installed for the better use of the building, structure or land.	
	4. The tangible personal property is permanently installed at a location where it is intended to remain.	
Very large machinery and equipment	1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Automotive spray booths ▪ Pulp mills: chlorine dioxide generators ▪ Saw mills: waste conveyors ▪ Walk-in freezers and coolers
	2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.	
	3. The machinery or equipment is constructed on site because of its size.	
	4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.	
	5. The machinery or equipment cannot be moved from the site without: <ul style="list-style-type: none"> ▪ dismantling the machinery or equipment, or ▪ dismantling or causing substantial damage to the building in which it is installed or attached. 	

Real Property Contracts

How PST applies to real property contracts depends on whether the contractor uses its own materials to improve the customer's property, or the contractor improves the customer's property using materials that the contractor has sold to the customer. In most cases, this depends on whether the contract is for a lump sum or is a time and materials contract.

If a contractor or customer is uncertain about how PST applies to their contract, they should contact us. We will provide an answer that applies to the particular situation.

Lump Sum or Fixed-Price Contracts

These are contracts where a single charge is made for the tangible personal property and labour services supplied under the contract.

With this type of contract, the customer is not purchasing tangible personal property, but is purchasing an improvement to its real property. The contractor is therefore the last purchaser of the tangible personal property and must pay tax on all materials and equipment used to fulfill the contract.

A contract may contain a provision transferring ownership of the materials to the customer to ensure that the customer maintains a security interest in the property in case the contractor goes bankrupt. If the contract is for a lump sum, this type of provision will not change the contract into a contract for the sale of tangible personal property.

A customer may request a breakdown in the price of the lump sum contract between the materials and the labour without changing the nature of the contract. Where the contract remains a single fixed-price contract for the delivery of a completed improvement to real property, a breakdown in costs for materials and labour may be provided to the customer for information only. To avoid misunderstanding, the contractor should include a statement on the invoice that explains that the breakdown of the price is for information only and does not indicate that the parties intend that the contract involve a sale of tangible personal property.

Indicators of a lump sum contract

- The contract price is for a single fixed amount for completion of described work. The contract does not consider separate charges for materials and labour (although the price may be adjusted for changes, extra work etc.).

- The contract and invoice do not break down the contract price into separate amounts for materials, equipment and labour supplied.
- The contractor is to deliver a completed improvement to real property.
- The payment schedule is based on a percentage of the lump sum price.

Time and Materials or Cost-Plus Contracts

These are contracts where the charges for the supply of tangible personal property and labour services are separately identified and accounted for in the contract.

When a contract is structured this way, the general rule is that the contractor has sold the tangible personal property to the customer before it becomes installed as an improvement to real property (see below for exceptions to the general rule). Therefore, the customer must pay tax on all materials and equipment purchased. The contractor charges the customer PST on the sale price of all tangible personal property supplied under the contract.

Indicators of a time and materials contract

- The contract price separately identifies and prices the materials, equipment and labour services.
- The invoice has a breakdown with separate charges for materials, equipment and labour.
- According to the contract or invoice, the customer is charged PST on the materials.

Exceptions to the general rule

There are some exceptions to the general rule where a time and materials contract may not involve a sale of tangible personal property. These circumstances are discussed below. If a time and materials contract does not involve a sale of tangible personal property, the contractor is therefore the last purchaser of the tangible personal property and must pay tax on all materials and equipment used to fulfill the contract.

How to determine if a time and materials contract does not involve a sale of tangible personal property

The critical question is whether or not the contractor has sold the materials as materials prior to their installation and incorporation into real property. The general rule is that a time and materials contract does involve a sale. However, there are exceptions when there are contrary indications included in the contract. Some of the relevant considerations are set out below.

Indicators that the contract does not involve a sale of tangible personal property

- The contractor may retain any surplus materials once the installation is complete.
- The materials remain the property of the contractor and ownership of the materials does not transfer to the customer until after the installation is complete. This does not include a situation where the purpose of a contractual provision is for the contractor to maintain a security interest in the materials.
- The contract indicates that the contractor is liable for all sales taxes.

Indicators that the contract does involve a sale of tangible personal property

- According to the contract or invoice, the customer is charged PST on the materials.
- Ownership of the materials transfers to the customer upon delivery to the site, and before installation.
- The contractor is liable to the customer for any damage to materials or equipment supplied and intended to be incorporated into the improvement to real property.
- Any surplus materials are the property of the customer.
- The customer keeps the materials in the event the contract is cancelled.
- The contract indicates that the property is to remain as tangible personal property.

Lump Sum Contracts Involving Both Tangible Personal Property and Real Property

A contractor may have a lump sum contract that includes both the supply and installation of goods that remain tangible personal property, and goods that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- the contractor pays PST on the portion of the goods that relates to improvements to real property, and

- the contractor charges the customer PST on the portion of the goods that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, the contractor does not charge PST to the customer for services or repairs.

If the contractor installs repair parts for a real property improvement while providing a service, the parts are taxable to either the contractor or the customer depending on the type of contract. Tax is applied to the repair parts as explained in the above sections, Lump Sum or Fixed-Price Contracts, and Time and Materials Contracts or Cost-Plus Contracts. If the contractor installs the parts under a lump sum contract, the contractor pays PST on the parts. If the contractor installs the parts under a time and materials contract, the general rule is that the contractor charges the customer PST on the parts but not on the labour to install them.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If a subcontractor has a lump sum contract with a contractor, the subcontractor pays PST. If a subcontractor has a time and materials contract with a contractor, the subcontractor charges the contractor PST on the goods but not on the labour.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts. However, there may be exceptions to the general rules. For details on the exceptions, see the section above, Exceptions to the General Rule.

If the good is:	And your contract is:	The following person pays the PST:
Improvement to real property or fixture	Lump sum / fixed price	Contractor pays on materials
	Time and materials	Customer pays on materials but not labour (time)
	Service / repair (time) only	No PST is payable on services to improvements to real property or fixtures If repair parts installed: Contractor pays on parts for lump sum contracts Customer pays on parts for time and materials contracts
Tangible personal property (i.e. goods)	Supply / materials only	Customer pays on purchase price of materials
	Service / repair (time) only	Customer pays on purchase price of taxable services (including parts and labour)

Sales

When to Charge PST

You charge PST on the retail sale or lease of goods, such as:

- supply-only sales of goods (excluding installation),
- goods sold under time and materials contracts (see section above, Real Property Contracts), and
- supply and installation of goods that do not become improvements to real property (i.e. they remain tangible personal property after installation, such as drapes, gym lockers, Murphy wall-beds, wireless security systems etc.).

If you regularly sell taxable goods or services in British Columbia, you need to register and receive a PST registration number. If you are not required to register, you are still responsible for collecting and remitting PST if you occasionally make taxable sales. You self-assess the PST due using a *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller Not Registered* form (FIN 428). This form is available from the ministry or any Service BC-Government Agent office. You will also find it on our website at www.sbr.gov.bc.ca/ctb/forms.htm

If you are located outside British Columbia and make taxable sales in British Columbia, you may be required to register. For more details, and to see if you need to register, please see *Bulletins SST 044, Do You Need to Register as a Vendor?* and *SST 074, Out-of-Province Sellers*,

When Not to Charge PST

You do not charge PST on the following:

- lump sum contracts to improve real property (see section above, Real Property Contracts),
- services to real property, such as installation or labour charges (see section above, Real Property Contracts), and
- sales to exempt customers under time and materials contracts, such as sales to First Nations, farmers, manufacturers, diplomats and federal government departments.

Please note: each of these customers must meet specific criteria to qualify for exemption. See the list of bulletins below for details.

Sales to Exempt Customers

Some of your customers may be eligible for a PST exemption. Some examples of eligible customers include First Nations, farmers, manufacturers, diplomats and federal government departments.

If you structure your contract with an exempt customer as a time and materials contract, you purchase the materials without paying PST by providing your PST registration number to your supplier.

You do not charge your customers PST as long as they meet all the criteria for the exemption. To show why you did not charge PST, keep a copy of the supporting documentation from your customers, such as a certificate of exemption or an identity card.

If you structure your contract as a lump sum contract, you pay PST on the materials. This is because, under lump sum contracts, you are the final purchaser of the materials. You are not reselling the materials because your customers are purchasing them after you have installed them into real property. The only exception is when you supply and install production machinery and equipment under specific conditions. In this case, you may claim an exemption using the *Certificate of Exemption: Production Machinery and Equipment* form (FIN 453/M). For more information, please see *Bulletin SST 054, Manufacturers*.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, Manufacturers

SST 023, Bona Fide Farmers

SST 046, Exemption for Indians and Indian Bands

SST 034, Procedures for Making Exempt Sales or Leases to Indians and Indian Bands

GEN 007, Exemption for Members of the Diplomatic and Consular Corps

GEN 006, Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators

Purchases

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,
- free promotional items,
- computer hardware and software (unless custom software),
- supplies that do not become part of the goods you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

If your 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 customers under time and materials contracts, or supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

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

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

General Exemptions Common to Contractors

Energy saving materials and equipment

You do not pay PST on specified materials and equipment used for energy conservation purposes, such as certain windows, doors (including side panels), and skylights, as well as weather stripping and caulking materials designed to prevent heat loss from a building. For more details, please see **Bulletin SST 011, *Exemption for Material and Equipment Used to Conserve Energy***.

Work-related safety equipment

You do not pay PST on certain safety equipment designed to be worn by a worker. For more details, please see **Bulletin SST 002, *Exemption for Safety Equipment***.

Production Machinery and Equipment Exemption

Manufacturing contractors

If you are a manufacturer of goods (e.g. a cabinet maker), you may qualify for an exemption on your purchases of the machinery and equipment used to manufacture your product.

Installing machinery and equipment for manufacturers

If you enter into a lump sum contract with a manufacturer, you may be eligible for an exemption on the machinery or equipment that becomes an improvement to real property on installation.

Please note: there are specific criteria to qualify for the production machinery and equipment exemption. For details, and to see if you qualify for the exemption, please see **Bulletin SST 054, *Manufacturers***.

Goods Brought Into British Columbia

When you purchase taxable goods from outside British Columbia for use in this province, you pay PST on them.

If the seller does not charge you PST at the time of the sale, you self-assess the PST due using a *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller not Registered under the Social Service Tax Act* form (FIN 428) at the time you bring or ship the goods into British Columbia.

You pay PST on the total amount that you paid to bring the goods into British Columbia, including any charges for transportation, customs, excise and any other costs, except the goods and services tax (GST).

Goods for Permanent Use in British Columbia

If you bring equipment, vehicles or other taxable goods into the province for permanent use, you pay PST on the depreciated value of each item using the depreciation schedule below. Items can be depreciated up to 50% of their purchase price.

- Motor vehicles, including all self-propelled equipment and trailers, 30% per year (2.5% for each month).
- Aircraft, 25% per year (2.0833% for each month).
- Vessels, 15% per year (1.25% for each month).
- Railway rolling stock, 10% per year (0.833% for each month).
- Other equipment, furniture and fixtures, 20% per year (1.667% for each month).

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

Goods for Temporary Use

If you bring taxable goods into the province for less than six days, you do *not* pay PST (except leased goods – see the section below, Leased Goods). The six days may be consecutive or spread out over a number of weeks or months.

If you bring taxable goods into the province for temporary use only – 6 days or more in a 12-month period – to perform a specific task related to your contract, and then take the goods back out of the province, you may qualify to pay PST using the temporary use formula. The temporary use formula allows you to pay PST on one-third of the value of the goods for each 12-month period that the goods are in the province. For details, and to see if you qualify for the temporary use formula, please see **Bulletin SST 098, Equipment Brought into the Province for Temporary Use (1/3 Formula)**.

Leased Goods

Unlike purchased goods, you pay PST on taxable leased goods even if they are brought into the province for less than six days. For leased goods, you pay PST based on the time you have the goods in the province and your lease term, e.g. weekly or monthly. For more details, please see **Bulletin SST 098, Equipment Brought into the Province for Temporary Use (1/3 Formula)**.



Need more info?

Construction Industry website: www.sbr.gov.bc.ca/ctb/Construction.htm

Telephone (Vancouver): 604 660-4524

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 on our website at www.sbr.gov.bc.ca/ctb

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 76, 77 and 92, and Regulations 2.21, 2.37, 2.45, 2.46, 2.47, 2.52 and 3.20

Real Property Contractors

Social Service Tax Act

Are you in the construction industry?

Do you supply and install goods that become real property?

This bulletin provides specific tax information to help real property contractors understand how the social service tax, also called the provincial sales tax (PST), applies to their businesses.

Please note: The information about real property contracts in this bulletin only applies until September 30, 2008. Effective October 1, 2008, there will be important changes to the application of PST to real property contracts. For more information, please see the *Notice to Real Property Contractors*.

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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The revision bar (|) identifies changes to the previous version of this bulletin dated June 2007.

Overview

If you construct buildings, or supply and install goods that become improvements to real property, you are a real property contractor. This includes contractors and trade subcontractors in the construction industry, as well as other businesses that make improvements to real property.

Here are some examples of real property contractors.

- Bricklayers
- Cabinet installers
- Carpenters
- Carpet layers
- Drywall installers
- Excavators
- Electricians
- Fence builders
- Foundation contractors
- Framing contractors
- Glass and glazing contractors
- Heating system installers
- Home builders
- Kitchen installers
- Landscapers
- Masonry contractors
- Mechanical contractors
- Painters
- Pavers
- Plumbers
- Roofers
- Sheet metal contractors
- Siding contractors
- Sundeck builders
- Window installers

To understand how PST applies to your business, there are two important questions that you need to consider.

1. Do you install goods that become improvements to real property?

Real property is land and any items permanently attached to land (buildings and structures). Goods that become permanently attached to the land or buildings are called improvements to real property on installation.

Improvements to real property includes integral parts of buildings or land, such as windows, doors and driveways. It also includes very large machinery or equipment that is constructed on site, such as machinery used in sawmills, pulp mills or other industrial locations.

For more details on real property, see the section below, Improvements to Real Property.

2. Do you have a lump sum or a time and materials contract?

The way you structure your contract determines whether you pay PST, or you charge your customers PST on the goods that become improvements to real property on installation.

The general rules for real property contracts are as follows.

Type of real property contract:	Who pays the PST:
Lump sum or fixed-price contracts	Contractor pays PST on the goods.
Time and materials contracts	Customer pays PST on the goods but not on the labour.
Services to existing real property	Neither contractor nor customer pays PST as services to real property are exempt.

Please note: there are some exceptions to the general rules. For more details on contracts, see the section below, Real Property Contracts.

Improvements to Real Property

It can be difficult to distinguish tangible personal property from fixtures or improvements to real property. The rules regarding real property are based on common-law principles and court decisions which add considerable complexity. **While we have set out guidelines and examples for you below, if you are unsure how tax applies, please contact us. We will provide you with an answer that applies to your particular situation.**

Tangible Personal Property

Tangible personal property is personal property that you can see, weigh, measure, or touch, or that is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Retail sales or leases of tangible personal property are taxable, unless there is a specific exemption. As a general rule, if the tangible personal property is taxable when purchased, services provided to the tangible personal property are also

taxable (these services are taxable as the tangible personal property is not an improvement to real property).

Fixtures

While fixtures may be commonly understood by contractors to mean items, such as lighting, bathroom and plumbing fixtures, for PST purposes, fixtures has a specific definition in the legislation. Fixtures include certain machinery, equipment or apparatus that is used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property, or in the provision of a service.

Sales or leases of fixtures are taxable but services to fixtures are exempt. For a detailed explanation and the criteria for fixtures, please see *Bulletin SST 078, Fixtures*.

Real Property

Real property is land and any items permanently attached to land (buildings and structures). It also includes tangible personal property that is installed for the purpose of improving and becoming permanently part of the land or a building. Once installed, the tangible personal property becomes an improvement to real property.

There is no PST on sales or leases of real property or on services to real property. However, the tangible personal property that becomes an improvement to real property on installation is taxable to either the contractor or the customer. Who pays the PST depends on the type of contract. For more details, please see the section below, Real Property Contracts.

General Criteria for Improvements to Real Property

There are two basic categories of improvements to real property. The criteria for each category is detailed below.

Category 1 – Integral parts of buildings or land

This includes tangible personal property that, on installation, becomes an integral part of a building, structure or land. This includes items, such as heating, air conditioning, lighting or sewage disposal equipment for a building, and elevators and escalators.

To become an integral part of a building, structure or land, the tangible personal property must meet all of the following criteria.

Criteria

1. The tangible personal property is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.
3. The tangible personal property is installed for the better use of the building, structure or land.
4. The tangible personal property is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 1 – Integral Parts of Buildings or Land. If any of the items are sold without installation, they are tangible personal property.

- Aircraft hangar doors
- Air conditioning systems (does not include portable or window units)
- Air ventilation systems
- Alarm systems (only if permanently attached to real property; not including removable components, such as sensors, video cameras, computers)
- Altar railings (built-in)
- Artwork permanently attached to and part of a building (includes statues, fountains, murals, decorative wall panels)
- Asphalt roads
- Awnings
- Baseboards
- Bins (built-in)
- Bleachers (folding and attached to gym walls)

- Blinds, venetian
- Bridges
- Boilers used to service a building (for heat, electricity or lighting only)
- Booths (built-in)
- Cabinets and counters (built-in)
- Cablevision cables, cable connectors, wall plate (not including cable to the television, unless there is no wall plate)
- Carpeting (wall-to-wall and attached to the floor)
- Ceilings
- Church pews, pew fronts, altar rails, organ and chancel screens
- Closet organizers (built-in)
- Construction materials (once installed), such as lumber, concrete, glass, and insulation, that are used to construct a building or other permanent structure
- Conveyors, elevators
- Dishwashers (built-in)
- Docks, permanently attached to pilings that are sunk into the seabed (includes floating docks and floating breakwaters)
- Doors, door frames and door locks
- Drapery tracks and rails (but not including the drapes)
- Driveways (e.g. asphalt or concrete)
- Elevators and escalators
- Eaves troughs
- Fences (does not include temporary fences or fences that rest upon the ground on their own weight)
- Fibre-optic telecommunications systems (includes buried fibre optic cable and access points to install or maintain the cable, and above ground wire and poles to connect users; does not include computers to manage the system)
- Fire alarm and detection devices (built-in)
- Fire hydrants

- Fireplaces (does not include electric fireplaces that plug in to electrical outlets)
- Flooring (e.g. tile, linoleum, wall-to-wall carpeting, hardwood)
- Foundations
- Furnaces and duct work
- Garage doors
- Gas fireplaces, stoves and heaters (must be attached to the gas line and an outside venting system)
- Glass installed in buildings
- Greenhouses (except portable types)
- Hand rails
- Hardwood floors
- Heating systems
- Heat pumps
- Hot water heaters
- Hot tubs (permanently attached to the land or buildings; does not include hot tubs that can be readily dismantled and removed)
- Houseboats (must be permanently moored and hooked up to utilities and must not be self-propelled)
- Irrigation systems
- Island units (e.g. kitchen islands, supermarket islands)
- Kitchen countertops
- Landscaping materials (e.g. plants, trees, shrubs, underground sprinklers, irrigation lines, retaining walls but not including potted plants)
- Lighting systems and light fixtures (permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps)
- Mirrors (permanently attached)
- Moldings and baseboards
- Partition walls

- Plumbing fixtures and pipes
- Pools and spas plumbed into water supply (above ground must be enclosed by a permanent deck; does not include above ground pools or spas that can be readily dismantled and removed)
- Rail sidings, rail spurs
- Range hoods
- Restaurant booths, stools (attached to floor)
- Retaining walls
- Roads (e.g. asphalt or concrete)
- Roofs
- Scatter antennae
- Security systems (only if permanently attached to real property; not including removable components, such as sensors, video cameras, computers)
- Sewage disposal equipment
- Shelves (built into walls)
- Signs, either directly bolted to concrete bases embedded in the ground, or affixed to poles or pylons which are bolted to concrete bases embedded in the ground (e.g. canopy, cube, twin pole and flag mount pylon signs)
- Signs, mounted on walls of buildings (e.g. fascia or neon signs)
- Sinks and sink counters
- Sprinkler systems (embedded in the ground or affixed to a building)
- Stairs
- Stools (restaurant stools attached to the floor)
- Swimming pools (in-ground)
- Telecommunications towers
- Vacuum cleaner systems (built-in; does not include plug-in hoses and attachments)
- Venetian blinds
- Water meters

- Water treatment systems (built-in)
- Windows (including screens)
- Wiring (built into walls)

Category 2 - Very large machinery and equipment

This includes machinery or equipment that is constructed on site because of its size, such as machinery used in sawmills, pulp mills or other industrial locations. The machinery or equipment is used in specific business processes that include manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmitting or distributing tangible personal property, or delivering a service. Machinery or equipment that runs on rails or tracks, or moves around on, or from, the site it was constructed does not qualify.

The machinery and equipment must meet all of the following criteria to qualify.

Criteria

1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
3. The machinery or equipment is constructed on site because of its size.
4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.
5. The machinery or equipment cannot be moved from the site without:
 - dismantling the machinery or equipment, or
 - dismantling or causing substantial damage to the building in which it is installed or attached.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 2 – Very Large Machinery and Equipment. If any of the items are sold without installation, they are tangible personal property.

- Aerial tramways (does not include tramway cars)
- Alpine slides (does not include the cars that go down the slide)
- Automotive spray booths
- Chairlifts (includes steel towers, gearboxes, motors and engines bolted to concrete, cables and chairs)
- Coolers (walk-in)
- Compressors used in natural gas pipelines
- Dry kilns
- Gas distribution systems consisting of underground mainlines, distribution pipes, etc.
- Ice-making equipment used in cold storage plants or curling and skating rinks (does not include ice resurfacing machines or equipment used to make ice for sale)
- Paint spray booths (including ventilation systems)
- Pulp mills (black liquor evaporating plant, black liquor oxidation plant, black liquor storage tanks, block conveyor and chlorine dioxide generators)
- Refrigeration systems (including freon refrigerant)
- Saw mills (waste conveyors, green chains, storage bins, kickers [part of conveyor], drop gate, landing decks, sewage, wastewater and treatment systems and septic tanks when installed in real property, walkways and platforms for access to machinery)
- Tanks, process (must be of a size that cannot be transported in one piece and are assembled on the site)
- Walk-in freezers and coolers

Improvements to Real Property Summary

The following table provides a quick reference guide to the general criteria that are described in the previous section, Improvements to Real Property.

Category	Criteria:	Examples:
Integral parts of buildings or land	1. Tangible personal property (i.e. goods) that is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Building materials (once installed) to construct buildings, such as lumber, concrete, steel, glass and insulation ▪ Windows and doors ▪ Flooring, such as tiles, linoleum, wall-to-wall carpeting, hardwood floors ▪ In-ground swimming pools ▪ Furnaces and duct work
	2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.	
	3. The tangible personal property is installed for the better use of the building, structure or land.	
	4. The tangible personal property is permanently installed at a location where it is intended to remain.	
Very large machinery and equipment	1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Automotive spray booths ▪ Pulp mills: chlorine dioxide generators ▪ Saw mills: waste conveyors ▪ Walk-in freezers and coolers
	2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.	
	3. The machinery or equipment is constructed on site because of its size.	
	4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.	
	5. The machinery or equipment cannot be moved from the site without: <ul style="list-style-type: none"> ▪ dismantling the machinery or equipment, or ▪ dismantling or causing substantial damage to the building in which it is installed or attached. 	

Real Property Contracts

How PST applies to real property contracts depends on whether the contractor uses its own materials to improve the customer's property, or the contractor improves the customer's property using materials that the contractor has sold to the customer. In most cases, this depends on whether the contract is for a lump sum or is a time and materials contract.

If a contractor or customer is uncertain about how PST applies to their contract, they should contact us. We will provide an answer that applies to the particular situation.

Lump Sum or Fixed-Price Contracts

These are contracts where a single charge is made for the tangible personal property and labour services supplied under the contract.

With this type of contract, the customer is not purchasing tangible personal property, but is purchasing an improvement to its real property. The contractor is therefore the last purchaser of the tangible personal property and must pay tax on all materials and equipment used to fulfill the contract.

A contract may contain a provision transferring ownership of the materials to the customer to ensure that the customer maintains a security interest in the property in case the contractor goes bankrupt. If the contract is for a lump sum, this type of provision will not change the contract into a contract for the sale of tangible personal property.

A customer may request a breakdown in the price of the lump sum contract between the materials and the labour without changing the nature of the contract. Where the contract remains a single fixed-price contract for the delivery of a completed improvement to real property, a breakdown in costs for materials and labour may be provided to the customer for information only. To avoid misunderstanding, the contractor should include a statement on the invoice that explains that the breakdown of the price is for information only and does not indicate that the parties intend that the contract involve a sale of tangible personal property.

Indicators of a lump sum contract

- The contract price is for a single fixed amount for completion of described work. The contract does not consider separate charges for materials and labour (although the price may be adjusted for changes, extra work etc.).
- The contract and invoice do not break down the contract price into separate amounts for materials, equipment and labour supplied.
- The contractor is to deliver a completed improvement to real property.
- The payment schedule is based on a percentage of the lump sum price.

Time and Materials or Cost-Plus Contracts

These are contracts where the charges for the supply of tangible personal property and labour services are separately identified and accounted for in the contract.

When a contract is structured this way, the general rule is that the contractor has sold the tangible personal property to the customer before it becomes installed as an improvement to real property (see below for exceptions to the general rule). Therefore, the customer must pay tax on all materials and equipment purchased. The contractor charges the customer PST on the sale price of all tangible personal property supplied under the contract.

Indicators of a time and materials contract

- The contract price separately identifies and prices the materials, equipment and labour services.
- The invoice has a breakdown with separate charges for materials, equipment and labour.
- According to the contract or invoice, the customer is charged PST on the materials.

Exceptions to the general rule

There are some exceptions to the general rule where a time and materials contract may not involve a sale of tangible personal property. These circumstances are discussed below. If a time and materials contract does not involve a sale of tangible personal property, the contractor is therefore the last purchaser of the tangible personal property and must pay tax on all materials and equipment used to fulfill the contract.

How to determine if a time and materials contract does not involve a sale of tangible personal property

The critical question is whether or not the contractor has sold the materials as materials prior to their installation and incorporation into real property. The general rule is that a time and materials contract does involve a sale. However, there are exceptions when there are contrary indications included in the contract. Some of the relevant considerations are set out below.

Indicators that the contract does not involve a sale of tangible personal property

- The contractor may retain any surplus materials once the installation is complete.
- The materials remain the property of the contractor and ownership of the materials does not transfer to the customer until after the installation is complete. This does not include a situation where the purpose of a contractual provision is for the contractor to maintain a security interest in the materials.
- The contract indicates that the contractor is liable for all sales taxes.

Indicators that the contract does involve a sale of tangible personal property

- According to the contract or invoice, the customer is charged PST on the materials.
- Ownership of the materials transfers to the customer upon delivery to the site, and before installation.
- The contractor is liable to the customer for any damage to materials or equipment supplied and intended to be incorporated into the improvement to real property.
- Any surplus materials are the property of the customer.
- The customer keeps the materials in the event the contract is cancelled.
- The contract indicates that the property is to remain as tangible personal property.

Lump Sum Contracts Involving Both Tangible Personal Property and Real Property

A contractor may have a lump sum contract that includes both the supply and installation of goods that remain tangible personal property, and goods that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless

and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- the contractor pays PST on the portion of the goods that relates to improvements to real property, and
- the contractor charges the customer PST on the portion of the goods that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, the contractor does not charge PST to the customer for services or repairs.

If the contractor installs repair parts for a real property improvement while providing a service, the parts are taxable to either the contractor or the customer depending on the type of contract. Tax is applied to the repair parts as explained in the above sections, Lump Sum or Fixed-Price Contracts, and Time and Materials Contracts or Cost-Plus Contracts. If the contractor installs the parts under a lump sum contract, the contractor pays PST on the parts. If the contractor installs the parts under a time and materials contract, the general rule is that the contractor charges the customer PST on the parts but not on the labour to install them.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If a subcontractor has a lump sum contract with a contractor, the subcontractor pays PST. If a subcontractor has a time and materials contract with a contractor, the subcontractor charges the contractor PST on the goods but not on the labour.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts. However, there may be exceptions to the general rules. For details on the exceptions, see the section above, Exceptions to the General Rule.

If the good is:	And your contract is:	The following person pays the PST:
Improvement to real property or fixture	Lump sum / fixed price	Contractor pays on materials
	Time and materials	Customer pays on materials but not labour (time)
	Service / repair (time) only	No PST is payable on services to improvements to real property or fixtures If repair parts installed: Contractor pays on parts for lump sum contracts Customer pays on parts for time and materials contracts
Tangible personal property (i.e. goods)	Supply / materials only	Customer pays on purchase price of materials
	Service / repair (time) only	Customer pays on purchase price of taxable services (including parts and labour)

Sales

When to Charge PST

You charge PST on the retail sale or lease of goods, such as:

- supply-only sales of goods (excluding installation),
- goods sold under time and materials contracts (see section above, Real Property Contracts), and
- supply and installation of goods that do not become improvements to real property (i.e. they remain tangible personal property after installation, such as drapes, gym lockers, Murphy wall-beds, wireless security systems etc.).

If you regularly sell taxable goods or services in British Columbia, you need to register and receive a PST registration number. If you are not required to register, you are still responsible for collecting and remitting PST if you occasionally make taxable sales. You self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Seller Not Registered Under the Social Service Tax Act* form (FIN 428S). This form is available from the ministry or any Service BC-Government Agent office. You will also find

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

If you are located outside British Columbia and make taxable sales in British Columbia, you may be required to register. For more details, and to see if you need to register, please see *Bulletins SST 044, Do You Need to Register as a Vendor?* and *SST 074, Out-of-Province Sellers*.

When Not to Charge PST

You do not charge PST on the following:

- lump sum contracts to improve real property (see section above, Real Property Contracts),
- services to real property, such as installation or labour charges (see section above, Real Property Contracts), and
- sales to exempt customers under time and materials contracts, such as sales to First Nations, farmers, manufacturers, diplomats and federal government departments.

Please note: Each of these customers must meet specific criteria to qualify for exemption. See the list of bulletins below for details.

Sales to Exempt Customers

Some of your customers may be eligible for a PST exemption. Some examples of eligible customers include First Nations, farmers, manufacturers, diplomats and federal government departments.

If you structure your contract with an exempt customer as a time and materials contract, you purchase the materials without paying PST by providing your PST registration number to your supplier.

You do not charge your customers PST as long as they meet all the criteria for the exemption. To show why you did not charge PST, keep a copy of the supporting documentation from your customers, such as a certificate of exemption or an identity card.

If you structure your contract as a lump sum contract, you pay PST on the materials. This is because, under lump sum contracts, you are the final purchaser of the materials. You are not reselling the materials because your customers are purchasing them after you have installed them into real property. The only exception is when you supply and install production machinery and equipment under specific conditions. In this case, you may claim an exemption using the

Certificate of Exemption: Production Machinery and Equipment form (FIN 453/M). For more information, please see **Bulletin SST 054, Manufacturers.**

For more information on sales to exempt customers, please see the following bulletins.

SST 054, Manufacturers

SST 023, Bona Fide Farmers

SST 046, Exemption for Indians and Indian Bands

SST 034, Procedures for Making Exempt Sales or Leases to Indians and Indian Bands

GEN 007, Exemption for Members of the Diplomatic and Consular Corps

GEN 006, Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators

Purchases

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,
- free promotional items,
- computer hardware and software (unless custom software),
- supplies that do not become part of the goods you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

If your 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 customers under time and materials contracts, or supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

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

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

General Exemptions Common to Contractors

Energy conservation exemptions

You do not charge PST on the following energy conservation materials and equipment:

- certain materials and equipment that prevent heat loss from a building,
- energy efficient residential furnaces, boilers and heat pumps,
- gas-fired water heaters (including gas-fired storage water heaters and gas-fired instantaneous water heaters) with an energy factor of 0.80 or greater when purchased or leased for residential purposes,
- ENERGY STAR® Qualified residential refrigerators, freezers and clothes washers,
- ENERGY STAR® Qualified windows, doors (including side panels) and skylights,
- insulation designed to prevent heat transfer to, or from, hot water tanks, hot or cold water pipes, and ductwork, and
- prescribed wind, solar and micro-hydro power generating equipment.

As of February 21, 2007, windows, doors and skylights that do not have the ENERGY STAR®¹ designation are taxable. This means that there is no longer an exemption for glass and other materials used to manufacture windows or skylights as the ENERGY STAR® designation is available only for pre-manufactured products. Also, there is no longer an exemption for window walls in high-rise residential and commercial buildings as there are no standards equivalent to ENERGY STAR® for these products.

If you structure the contract with your customer as a time and materials contract, you may purchase glass and other materials (to be incorporated into goods for resale) without paying PST by providing your PST registration number to the supplier. For a time and materials contract, you charge your customer PST on the materials but not on the labour. For more details on contracts, see the section above, Real Property Contracts.

¹ The ENERGY STAR® mark is administered and promoted in Canada by Natural Resources Canada and is registered in Canada by the United States Environmental Protection Agency.

Certificate of Exemption: Production Machinery and Equipment form (FIN 453/M). For more information, please see Bulletin SST 054, Manufacturers.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, Manufacturers

SST 023, Bona Fide Farmers

SST 046, Exemption for Indians and Indian Bands

SST 034, Procedures for Making Exempt Sales or Leases to Indians and Indian Bands

GEN 007, Exemption for Members of the Diplomatic and Consular Corps

GEN 006, Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators

Purchases

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,
- free promotional items,
- computer hardware and software (unless custom software),
- supplies that do not become part of the goods you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

If your 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 customers under time and materials contracts, or supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

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

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

General Exemptions Common to Contractors

Energy conservation exemptions

You do not charge PST on the following energy conservation materials and equipment:

- certain materials and equipment that prevent heat loss from a building,
- energy efficient residential furnaces, boilers and heat pumps,
- gas-fired water heaters (including gas-fired storage water heaters and gas-fired instantaneous water heaters) with an energy factor of 0.80 or greater when purchased or leased for residential purposes,
- ENERGY STAR® Qualified residential refrigerators, freezers and clothes washers,
- ENERGY STAR® Qualified windows, doors (including side panels) and skylights,
- insulation designed to prevent heat transfer to, or from, hot water tanks, hot or cold water pipes, and ductwork, and
- prescribed wind, solar and micro-hydro power generating equipment.

As of February 21, 2007, windows, doors and skylights that do not have the ENERGY STAR®¹ designation are taxable. This means that there is no longer an exemption for glass and other materials used to manufacture windows or skylights as the ENERGY STAR® designation is available only for pre-manufactured products. Also, there is no longer an exemption for window walls in high-rise residential and commercial buildings as there are no standards equivalent to ENERGY STAR® for these products.

If you structure the contract with your customer as a time and materials contract, you may purchase glass and other materials (to be incorporated into goods for resale) without paying PST by providing your PST registration number to the supplier. For a time and materials contract, you charge your customer PST on the materials but not on the labour. For more details on contracts, see the section above, Real Property Contracts.

¹ The ENERGY STAR® mark is administered and promoted in Canada by Natural Resources Canada and is registered in Canada by the United States Environmental Protection Agency.

There is no change to the exemption for replacement parts, such as glass used to repair ENERGY STAR® windows. If you provide repair services, you can purchase replacement parts without paying PST by providing your PST registration number.

For more details on the ENERGY STAR® designation and energy conservation exemptions, please see: www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/energy_conservation_exemptions.htm

Transitional Refunds

Before February 21, 2007, the following products qualified under the previous PST exemption for windows and doors:

- storm windows, storm doors, multi-glazed windows and doors containing multi-glazed windows, and
- glass and other materials purchased to construct multi-glazed windows.

Recognizing that individuals and businesses may have entered into agreements before February 21, 2007 to purchase or supply and install products that qualified under the previous exemption, PST refunds are available for the following agreements:

- lump sum agreements entered into before February 21, 2007 by contractors to supply and install products qualifying under the previous exemption, and purchases of the products are made on or after February 21, 2007, and
- written agreements entered into by individuals or businesses before February 21, 2007 to purchase a specific quantity of products qualifying under the previous exemption, and purchases of the products are made on or after February 21, 2007.

To qualify for the above transitional refunds, applicants must:

- purchase and take delivery of the products between February 21, 2007 and March 31, 2009, inclusive, and
- apply for the refund before April 1, 2010.

Please note: contractors cannot claim a refund if the lump sum agreement allows them to recover the PST from their customers.

To claim a refund, applicants need to provide the following information:

- a completed and signed *Application for Refund* form (FIN 413),
- a copy of the written agreement dated before February 21, 2007,

- For contractors: the lump sum agreement to supply and install products that qualified under the previous exemption.
- For individuals and other businesses: the purchase order, receipt or other written document to purchase a specific quantity of products that qualified under the previous exemption.
- purchase invoices or receipts, dated between February 21, 2007 and March 31, 2009, inclusive, for products that qualified under the previous exemption,
- proof that PST was paid on the purchase invoices or receipts (e.g. cancelled cheques or accounting records), and
- proof that the previously exempt products were delivered to the applicant between February 21, 2007 and March 31, 2009, inclusive.

Applicants should forward their refund claims to:

Ministry of Small Business and Revenue
Refund Section
PO Box 9628 Stn Prov Govt
Victoria BC V8W 9N6

Work-Related Safety Items

Effective February 20, 2008, all work-related safety equipment and protective clothing, designed to be worn by, or attached to, a worker, will be tax exempt if they **meet provincial work safety legislation** and are purchased by an employer, self-employed person, or school boards or similar authority. The definition of work gloves has also been expanded to include all gloves with built-in safety features, such as reinforced thumbs, cuffs or palms designed to protect a worker from physical harm, including traffic safety gloves to enhance visibility.

There are also safety items that are exempt to everyone, such as gas detection monitors, portable fire extinguishers and their refills.

For more detailed information, please see the Safety Equipment and Protective Clothing Industry website at www.sbr.gov.bc.ca/industry_specific/safety/safety.htm

Production Machinery and Equipment Exemption

Manufacturing contractors

If you are a manufacturer of goods (e.g. a cabinet maker), you may qualify for an exemption on your purchases of the machinery and equipment used to manufacture your product.

Installing machinery and equipment for manufacturers

If you enter into a lump sum contract with a manufacturer, you may be eligible for an exemption on the machinery or equipment that becomes an improvement to real property on installation.

Please note: there are specific criteria to qualify for the production machinery and equipment exemption. For details, and to see if you qualify for the exemption, please see *Bulletin SST 054, Manufacturers*.

Goods Brought Into British Columbia

When you purchase taxable goods from outside British Columbia for use in this province, you pay PST on them.

If the seller does not charge you PST at the time of the sale, you self-assess the PST due using a *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act (FIN 428P)* at the time you bring or ship the goods into British Columbia.

You pay PST on the total amount that you paid to bring the goods into British Columbia, including any charges for transportation, customs, excise and any other costs, except the goods and services tax (GST).

Goods for Permanent Use in British Columbia

If you bring equipment, vehicles or other taxable goods into the province for permanent use, you pay PST on the depreciated value of each item using the depreciation schedule below. Items can be depreciated up to 50% of their purchase price.

- Motor vehicles, including all self-propelled equipment and trailers, 30% per year (2.5% for each month).
- Aircraft, 25% per year (2.0833% for each month).
- Vessels, 15% per year (1.25% for each month).
- Railway rolling stock, 10% per year (0.833% for each month).
- Other equipment, furniture and fixtures, 20% per year (1.667% for each month).

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

Goods for Temporary Use

If you bring taxable goods into the province for less than six days, you do *not* pay PST (except leased goods – see the section below, Leased Goods). The six days may be consecutive or spread out over a number of weeks or months.

If you bring taxable goods into the province for temporary use only – 6 days or more in a 12-month period – to perform a specific task related to your contract, and then take the goods back out of the province, you may qualify to pay PST using the temporary use formula. The temporary use formula allows you to pay PST on one-third of the value of the goods for each 12-month period that the goods are in the province. For details, and to see if you qualify for the temporary use formula, please see **Bulletin SST 098, *Equipment Brought into the Province for Temporary Use (1/3 Formula)***.

Leased Goods

Unlike purchased goods, you pay PST on taxable leased goods even if they are brought into the province for less than six days. For leased goods, you pay PST based on the time you have the goods in the province and your lease term, e.g. weekly or monthly. For more details, please see **Bulletin SST 098, *Equipment Brought into the Province for Temporary Use (1/3 Formula)***.



Need more info?

Construction Industry website: www.sbr.gov.bc.ca/industry_specific/construction/construction.htm

Telephone (Vancouver): 604 660-4524

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

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 74(e), 76, 77, 92 and 138(1)(j) - (j.2), and Regulations 2.21, 2.37, 2.45, 2.46, 2.47, 2.52 and 3.20

Real Property Contractors

Social Service Tax Act

Are you in the construction industry?

Do you supply and install materials and equipment that become real property?

This bulletin provides specific tax information to help real property contractors 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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The revision bar (|) identifies changes to the previous version of this bulletin dated February 2008.

Overview

If you construct buildings, or supply and install materials and equipment that become improvements to real property, you are a real property contractor. This includes contractors and trade subcontractors in the construction industry, as well as other businesses that make improvements to real property.

Here are some examples of real property contractors.

- Bricklayers
- Cabinet installers
- Carpenters
- Carpet layers
- Drywallers
- Excavators
- Electricians
- Fence builders
- Foundation contractors
- Framing contractors
- Glass and glazing contractors
- Heating system installers
- Home builders
- Kitchen installers
- Landscapers
- Masonry contractors
- Mechanical contractors
- Painters
- Pavers
- Plumbers
- Roofers
- Sheet metal contractors
- Siding contractors
- Sundeck builders
- Window installers

To understand how PST applies to your contracts, there are two important questions that you need to consider.

1. Do you install materials and equipment that become improvements to real property?

Real property is land and any items permanently attached to land (buildings and structures). Materials and equipment that become permanently attached to the land or buildings on installation are called improvements to real property. Improvements to real property includes integral parts of buildings or land, such as windows, doors and driveways. It also includes very large machinery or equipment that is constructed on site, such as machinery used in sawmills, pulp mills or other industrial locations.

For more details on real property, see the section below, Improvements to Real Property.

2. When did you enter into the contract?

Before October 1, 2008

For real property 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 that you supply and install to complete the contract.

The general rules for real property contracts are as follows.

Type of real property contract:	Who pays the PST:
Lump sum or fixed-price contracts	Contractor pays PST on the materials and equipment
Time and materials contracts	Customer pays PST on the materials and equipment but not on the labour
Services to existing real property	Neither contractor nor customer pays PST, as services to real property are exempt

Please note: there are some exceptions to the general rules. For more information, see the section below, Real Property Contracts – Before October 1, 2008.

On, or after, October 1, 2008

For real property contracts that you enter into on, or after, October 1, 2008, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST. It is important that you read the section below, Real Property Contracts – On, or After, October 1, 2008, for more information.

Improvements to Real Property

It can be difficult to distinguish tangible personal property from fixtures or improvements to real property. The rules regarding real property are based on

common-law principles, which add considerable complexity. While we have set out guidelines and examples for you below, if you are unsure how PST applies, please contact us. We will provide you with an answer that applies to your particular situation.

Tangible Personal Property

Tangible personal property is property that you can see, weigh, measure, or touch, or that is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Retail sales or leases of tangible personal property are taxable, unless there is a specific exemption. As a general rule, if the tangible personal property is taxable when purchased, services provided to the tangible personal property are also taxable (these services are taxable as the tangible personal property is not an improvement to real property).

Fixtures

While fixtures may be commonly understood by contractors to mean items, such as lighting, bathroom and plumbing fixtures, for PST purposes, fixtures has a specific definition in the legislation. Fixtures include certain machinery, equipment or apparatus that are used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property, or in the provision of a service.

Sales or leases of fixtures are taxable but services to fixtures are exempt. For a detailed explanation and the criteria for fixtures, please see **Bulletin SST 078, Fixtures**.

Real Property

Real property is land and any items permanently attached to land (buildings and structures). It also includes tangible personal property that is installed for the purpose of improving and becoming permanently part of the land or a building. Once installed, the tangible personal property becomes an improvement to real property.

There is no PST on sales or leases of real property or on services to real property. However, the tangible personal property that becomes an improvement to real

property on installation is taxable. For more information, please see the following sections in this bulletin:

- Real Property Contracts – Before October 1, 2008
- Real Property Contracts – On, or After, October 1, 2008

General Criteria for Improvements to Real Property

There are two basic categories of improvements to real property. The criteria for each category are detailed below.

Category 1 – Integral parts of buildings or land

This includes tangible personal property that, on installation, becomes an integral part of a building, structure or land. This includes items, such as heating, air conditioning, lighting or sewage disposal equipment for a building, and elevators and escalators.

To become an integral part of a building, structure or land, the tangible personal property must meet all of the following criteria.

Criteria

1. The tangible personal property is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.
3. The tangible personal property is installed for the better use of the building, structure or land.
4. The tangible personal property is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 1 – Integral Parts of Buildings or Land. If any of the items are sold without installation, they are tangible personal property.

- Aircraft hangar doors
- Air conditioning systems – does not include portable or window units

- Air ventilation systems
- Alarm systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Altar railings, built-in
- Antennae, scatter
- Artwork – permanently attached to, and part of, a building (e.g. statues, fountains, murals and decorative wall panels)
- Asphalt roads
- Awnings
- Baseboards
- Bins, built-in
- Bleachers – folding and attached to gym walls
- Blinds, venetian
- Bridges
- Boilers – used to service a building for heat, electricity or lighting only
- Booths, built-in
- Cabinets and counters, built-in
- Cablevision cables, cable connectors, wall plates – does not include cable to the television, unless there is no wall plate
- Carpeting – wall-to-wall and attached to the floor
- Ceilings
- Church pews, pew fronts, altar rails, organ and chancel screens
- Closet organizers, built-in
- Construction materials – once installed that are used to construct a building or other permanent structure (e.g. lumber, concrete, glass, and insulation)
- Conveyors
- Dishwashers, built-in
- Docks – permanently attached to pilings that are sunk into the seabed; includes floating docks and floating breakwaters
- Doors, door frames and door locks
- Drapery tracks and rails – does not include the drapes
- Driveways (e.g. asphalt or concrete)

- Elevators and escalators
- Eaves troughs
- Fences – does not include temporary fences or fences that rest upon the ground on their own weight
- Fibre-optic telecommunications systems – includes buried fibre optic cable and access points to install or maintain the cable, and above-ground wire and poles to connect users; does not include computers to manage the system
- Fire alarm and detection devices, built-in
- Fire hydrants
- Fireplaces – does not include electric fireplaces that plug in to electrical outlets
- Flooring (e.g. tile, linoleum, wall-to-wall carpeting and hardwood)
- Foundations
- Furnaces and duct work
- Garage doors
- Gas fireplaces, stoves and heaters – attached to the gas line and an outside venting system
- Glass – installed in buildings
- Greenhouses – does not include portable types
- Hand rails
- Hardwood floors
- Heating systems
- Heat pumps
- Hot water heaters
- Hot tubs – permanently attached to the land or buildings; does not include hot tubs that can be readily dismantled and removed
- Houseboats – permanently moored and hooked up to utilities; does not include houseboats that are self-propelled
- Irrigation systems
- Island units (e.g. kitchen islands, supermarket islands)
- Kitchen countertops
- Landscaping materials (e.g. plants, trees, shrubs, underground sprinklers, irrigation lines, retaining walls; does not include potted plants)

- Lighting systems and light fixtures – permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps
- Mirrors – permanently attached
- Moldings and baseboards
- Partition walls
- Plumbing fixtures and pipes
- Pools and spas – plumbed into the water supply; above ground must be enclosed by a permanent deck; does not include above ground pools or spas that can be readily dismantled and removed
- Rail sidings and rail spurs
- Range hoods
- Restaurant booths and stools – attached to floor
- Retaining walls
- Roads (e.g. asphalt or concrete)
- Roofs
- Scatter antennae
- Security systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Sewage disposal equipment
- Shelves – built into walls
- Signs – either directly bolted to concrete bases embedded in the ground, or affixed to poles or pylons which are bolted to concrete bases embedded in the ground (e.g. canopy, cube, twin pole and flag mount pylon signs)
- Signs – mounted on walls of buildings (e.g. fascia or neon signs)
- Sinks and sink counters
- Sprinkler systems – embedded in the ground or affixed to a building
- Stairs
- Stools – restaurant stools attached to the floor
- Swimming pools, in-ground
- Telecommunications towers
- Trash compactors
- Vacuum cleaner systems – built-in; does not include plug-in hoses and attachments

- Venetian blinds
- Water meters
- Water treatment systems, built-in
- Windows – includes screens
- Wiring – built into walls

Category 2 - Very large machinery and equipment

This includes machinery or equipment that is constructed on site because of its size, such as machinery used in sawmills, pulp mills or other industrial locations. The machinery or equipment is used in specific business processes that include manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmitting or distributing tangible personal property, or delivering a service. Machinery or equipment that runs on rails or tracks, or moves around on, or from, the site it was constructed does not qualify.

The machinery and equipment must meet all of the following criteria to qualify.

Criteria

1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
3. The machinery or equipment is constructed on site because of its size.
4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.
5. The machinery or equipment cannot be moved from the site without:
 - dismantling the machinery or equipment, or
 - dismantling or causing substantial damage to the building in which it is installed or attached.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section

above, Category 2 – Very Large Machinery and Equipment. If any of the items are sold without installation, they are tangible personal property.

- Aerial tramways – does not include tramway cars
- Alpine slides – does not include the cars that go down the slide
- Automotive spray booths
- Chairlifts – includes steel towers, gearboxes, motors and engines bolted to concrete, cables and chairs
- Coolers, walk-in
- Compressors – used in natural gas pipelines
- Dry kilns
- Freezers, walk-in
- Gas distribution systems – consisting of underground mainlines, distribution pipes, etc.
- Ice-making equipment – used in cold storage plants or curling and skating rinks; does not include ice resurfacing machines or equipment used to make ice for sale
- Paint spray booths – includes ventilation systems
- Pulp mills – includes black liquor evaporating plant, black liquor oxidation plant, black liquor storage tanks, block conveyor and chlorine dioxide generators
- Refrigeration systems – includes freon refrigerant
- Saw mills – includes waste conveyors, green chains, storage bins, kickers (part of conveyor), drop gate, landing decks, sewage, wastewater and treatment systems and septic tanks when installed in real property, walkways and platforms for access to machinery
- Tanks, process – must be of a size that cannot be transported in one piece and are assembled on the site
- Walk-in freezers and coolers

Improvements to Real Property Summary

The following table provides a quick reference guide to the general criteria that are described in the previous section, Improvements to Real Property.

Category	Criteria:	Examples:
Integral parts of buildings or land	1. Tangible personal property that is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Building materials (once installed) to construct buildings, such as lumber, concrete, steel, glass and insulation ▪ Windows and doors ▪ Flooring, such as tiles, linoleum, wall-to-wall carpeting, hardwood floors ▪ In-ground swimming pools ▪ Furnaces and duct work
	2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.	
	3. The tangible personal property is installed for the better use of the building, structure or land.	
	4. The tangible personal property is permanently installed at a location where it is intended to remain.	
Very large machinery and equipment	1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Automotive spray booths ▪ Pulp mills: chlorine dioxide generators ▪ Saw mills: waste conveyors ▪ Walk-in freezers and coolers
	2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.	
	3. The machinery or equipment is constructed on site because of its size.	
	4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.	
	5. The machinery or equipment cannot be moved from the site without: <ul style="list-style-type: none"> ▪ dismantling the machinery or equipment, or ▪ dismantling or causing substantial damage to the building in which it is installed or attached. 	

Real Property Contracts – Before October 1, 2008

For real property contracts that you enter into **before** October 1, 2008, how PST applies depends on whether you use your own materials and equipment to improve the customer's property, or you improve the customer's property using materials and equipment that you have sold to your customer. In most cases, this depends on whether the contract is for a lump sum or a time and materials contract.

If you are uncertain about how PST applies to your contract, please **contact us**. We will provide an answer that applies to your particular situation.

Lump Sum or Fixed-Price Contracts

These are contracts where a single charge is made for the tangible personal property and labour services supplied under the contract.

With this type of contract, your customer is not purchasing tangible personal property, but is purchasing an improvement to real property. Therefore, you are considered the last purchaser of the tangible personal property and must pay PST on all materials and equipment used to fulfill the contract.

A contract may contain a provision transferring ownership of the materials and equipment to the customer. This is to ensure that the customer maintains a security interest in the property in case you go bankrupt. If the contract is a lump sum contract, this type of provision will not change the nature of the contract into a sale of tangible personal property.

Your customer may request a breakdown in the price of the lump sum contract between the materials and the labour without changing the nature of the contract. Where the contract remains a single fixed-price contract for the delivery of a completed improvement to real property, a breakdown in costs for materials and labour may be provided to your customer for information only. To avoid misunderstanding, you should include a statement on the invoice explaining that the breakdown of the price is for information only and does not indicate that the parties intend that the contract involve a sale of tangible personal property.

Indicators of a lump sum contract

- The contract price is for a single fixed amount for completion of described work. The contract does not consider separate charges for materials and labour (although the price may be adjusted for changes, extra work etc.).

- The contract and invoice do not break down the contract price into separate amounts for materials, equipment and labour.
- You are to deliver a completed improvement to real property.
- The payment schedule is based on a percentage of the lump sum price.

Time and Materials (Cost-Plus) Contracts

These are contracts where the charges for the supply of tangible personal property and labour services are separately identified and accounted for in the contract.

Indicators of a time and materials contract

- The contract price separately identifies and prices the materials, equipment and labour.
- The invoice has a breakdown with separate charges for materials, equipment and labour.
- According to the contract or invoice, you charged your customer PST on the materials and equipment.

General rule

When a contract is structured this way, the general rule is that you have sold the tangible personal property to your customer before it becomes installed as an improvement to real property (see below for exceptions to the general rule). Therefore, **your customer must pay PST** on all materials and equipment purchased. You charge your customer PST on the sale price of all tangible personal property supplied under the contract.

Exception to the general rule

The exception to the general rule is where a time and materials contract does not involve a sale of tangible personal property. If a time and materials contract does not involve a sale of tangible personal property, you are considered the last purchaser of the tangible personal property and **you must pay PST** on all materials and equipment used to fulfill the contract.

The information below will help you to determine whether or not a time and materials contract involves a sale of tangible personal property, and therefore, whether you or your customer must pay PST.

Indicators that the contract does not involve a sale of tangible personal property

- You retain any surplus materials and equipment once the installation is complete.
- The materials and equipment remain as your property, and ownership of the materials and equipment does not transfer to your customer until after the installation is complete. This does not include a situation where the purpose of a contractual provision is for you to maintain a security interest in the materials and equipment.
- The contract indicates that you are liable for all sales taxes.

Indicators that the contract involves a sale of tangible personal property

- According to the contract or invoice, you charged your customer PST on the materials and equipment.
- Ownership of the materials and equipment transfers to your customer upon delivery to the site, and before installation.
- You are liable to your customer for any damage to materials and equipment supplied and intended to be incorporated into the improvement to real property.
- Any surplus materials and equipment are the property of your customer.
- The customer keeps the materials and equipment in the event the contract is cancelled.
- The contract indicates that the property is to remain as tangible personal property.

Lump Sum Contracts Involving Both Tangible Personal Property and Real Property

You may have a lump sum contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,

- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and labour that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, the parts are taxable to either you or your customer depending on the type of contract, unless an exemption applies. PST applies to the repair parts as explained in the above sections, Lump Sum or Fixed-Price Contracts, and Time and Materials (Cost-Plus) Contracts. If you install the parts under a lump sum contract, you pay PST on the parts. If you install the parts under a time and materials contract, the general rule is that you charge your customer PST on the parts but not on the labour to install them.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If a subcontractor has a lump sum contract with a contractor, the subcontractor pays PST. If a subcontractor has a time and materials contract with a contractor, the subcontractor charges the contractor PST on the materials and equipment but not on the labour.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into before October 1, 2008. However, there is an exception to the general rules. For details on the exception, see the section above, Exception to the general rule, under the section, Time and Materials (Cost-Plus) Contracts.

If the material or equipment is:	And your contract is:	The following person pays the PST:
Improvement to real property or fixture	Lump sum / fixed price	Contractor pays on purchase price of materials and equipment
	Time and materials	Customer pays on sale price of materials and equipment but not labour (time)
	Service / repair (time) only	Neither contractor nor customer pays PST on services to improvements to real property or fixtures If repair parts installed: Contractor pays on parts for lump sum contracts Customer pays on parts for time and materials contracts
Tangible personal property	Supply / materials only	Customer pays on sale price of materials and equipment
	Service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers Before October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of eligible customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments.

If you structure your contract with an exempt customer as a time and materials contract, you purchase the materials and equipment without paying PST by giving your PST registration number to the supplier.

You do not charge PST as long as your customer meets all the criteria for an exemption. To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

If you structure your contract as a lump sum contract, you pay PST on the materials and equipment. This is because, under lump sum contracts, you are considered the final purchaser of the materials and equipment. You are not reselling the materials and equipment because your customers are purchasing them after you have installed them into real property. The only exception is when

you supply and install production machinery and equipment under specific conditions. In this case, you may claim an exemption using the *Certificate of Exemption - Production Machinery and Equipment* form (FIN 453/M). For more information, please see **Bulletin SST 054, Manufacturers**.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, Manufacturers

SST 023, Bona Fide Farmers

SST 046, Exemption for Indians and Indian Bands

SST 034, Procedures for Making Exempt Sales or Leases to Indians and Indian Bands

GEN 007, Exemption for Members of the Diplomatic and Consular Corps

GEN 006, Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators

Real Property Contracts – On, or After, October 1, 2008

Contractor is Responsible for the PST

For real property contracts that you enter into **on, or after**, October 1, 2008, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST.

Customer is Responsible for the PST

For you to charge PST, the written contract or a separate written agreement **must specifically state:**

- the value of the materials and equipment, and
- that the customer is responsible for paying PST on this amount.

For contracts where you charge your customers PST, you purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

If you regularly enter into contracts where your customers pay PST, you need to register as a vendor. For information on how to register as a vendor, please see Bulletin SST 044, *Registering to Collect Provincial Sales Tax (PST)*.

Contracts Involving Both Tangible Personal Property and Real Property

You may have a contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts, PST applies as outlined below.

If the contractor is responsible for the PST:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

If the customer is responsible for the PST:

- if you and your customer have agreed, in writing, that your customer pays the PST on the materials and equipment that become improvements to real property (see box above), you charge your customer PST on:
 - all of the materials and equipment that you supply and install to complete the contract, and
 - the **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, you pay PST on the parts, unless you and your customer have agreed, in writing, (see box above), that your customer pays the PST.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If you are a subcontractor, you pay PST on the materials and equipment that you supply and install to complete the contract, unless you and the contractor agree, in writing (see box above), that the contractor pays the PST.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into on, or after, October 1, 2008.

If the material or equipment is:	And:	The following person pays the PST:
Improvement to real property or fixture	The contract does not specify that the customer pays the PST and/or the value of the materials and equipment	Contractor pays on purchase price of materials and equipment
	You and your customer have agreed, in writing, that your customer pays the PST, and the value of the materials and equipment is specified	Customer pays on sale price of materials and equipment but not labour (time)
	The contract is for service / repair (time) only	Neither contractor nor customer pays on services to improvements to real property or fixtures If repair parts installed: Contractor pays PST on parts unless the contractor and the customer agree, in writing (see box above), that the customer will pay PST
Tangible personal property	The contract is for supply / materials only	Customer pays on sale price of materials and equipment
	The contract is for service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of exempt customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments. There are two ways that you can

claim a PST exemption on materials and equipment that you are installing on behalf of an exempt customer, depending on the contract with your customer (see the beginning of this section, Real Property Contracts – On, or After, October 1, 2008).

1. Customer is responsible for the PST - the contract specifies that your customer pays the PST

You purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

You do not charge your customer PST as long as your customer meets all the criteria for the exemption (for more information, see bulletins listed below). To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

2. Contractor is responsible for the PST - the contract does not specify that the customer pays the PST

You purchase the materials and equipment without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, give the supplier a completed *Certificate of Exemption - Contractors* form (FIN 453/C) completed by the customer (the contractor only completes Part B). **This form will be available shortly.**

For you to qualify for the exemption, your customer must qualify for and meet all the criteria for exemption as if they were purchasing the materials and equipment themselves. For example, for Status Indians to qualify for an exemption on the purchase of goods, title to the goods must pass to the Status Indian at a location on reserve land. Therefore, if your customer is a Status Indian, title to the materials and equipment must pass to you at a location on reserve land to qualify for the exemption.

You must obtain documentation from your customer confirming your customer's eligibility for the exemption. To show why you did not pay PST, keep this supporting documentation and a copy of the completed *Certificate of Exemption - Contractors* form (FIN 453/C) for your records. The bulletins listed at the end of this section provide more information on supporting documentation.

Please note: For contracts that you enter into on, or after, October 1, 2008, you cannot use the *Certificate of Exemption – Production Machinery and Equipment* form (FIN 453/M) to claim an exemption on production machinery and equipment that you supply and install under a real property contract for an eligible manufacturer. Instead, you follow the process described above.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, *Manufacturers*

SST 023, *Bona Fide Farmers*

SST 046, *Exemption for Indians and Indian Bands*

SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

GEN 007, *Exemption for Members of the Diplomatic and Consular Corps*

GEN 006, *Exemption for Members of the Diplomatic and Consular Corps:
Instructions to Vendors and Operators*

Sales

When to Charge PST

You charge PST on the retail sale or lease of goods, such as:

- supply-only sales of materials and equipment (excluding installation),
- materials and equipment sold under time and materials contracts that you enter into **before** October 1, 2008 (see section above, *Real Property Contracts – Before October 1, 2008*),
- materials and equipment sold under real property contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see the section above, *Real Property Contracts – On, or After, October 1, 2008*), and
- supply and installation of materials and equipment that do not become improvements to real property (i.e. they remain tangible personal property after installation, such as drapes, gym lockers, Murphy wall-beds, wireless security systems etc).

If you regularly sell taxable goods or services in British Columbia, you need to register and receive a PST registration number. If you are not required to register, you are still responsible for collecting and remitting PST if you occasionally make taxable sales. You self-assess the PST due using the *Casual Remittance Return For*

Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Seller Not Registered Under the Social Service Tax Act form (FIN 428S). This form is available from the ministry or any Service BC Centre. You will also find it on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm

If you are located outside British Columbia and make taxable sales in British Columbia, you may be required to register. For more information, and to see if you need to register, please see *Bulletins SST 044, Registering to Collect Provincial Sales Tax (PST)* and *SST 074, Out-of-Province Sellers*.

When Not to Charge PST

You do not charge PST on the following:

- materials and equipment installed under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment installed under real property contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- services to real property, such as installation or labour charges,
- sales to exempt customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above – Real Property Contracts Provided to Exempt Customers Before October 1, 2008), and
- sales to exempt customers under real property contracts that you enter into **on, or after**, October 1, 2008 (see section above, Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008).

Purchases

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:

- materials and equipment you purchase to install under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase to install under contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- stationery, furniture and office equipment,

- advertising materials, such as flyers and brochures,
- goods you purchase to give away as free promotions,
- computer hardware and software (unless custom software),
- supplies that do not become part of the materials and equipment you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

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. If you do not have a PST registration number, you self-assess the PST due using a *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered under the Social Service Tax Act* form (FIN 428P). This form is available from the ministry or any Service BC Centre. You will also find it on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm

When Not to Pay PST

You do not pay PST on the following:

- materials and equipment you purchase for resale or lease to your customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase for resale or lease to your customers under contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- materials and equipment that you purchase for resale or lease to your customers under supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

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

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

Purchases for Taxable and Non-Taxable Sales

If you maintain an inventory and you do not know at the time of purchase whether the goods will be taxable or non-taxable, there are three possible ways to pay the PST on your purchases.

1. You maintain separate inventories for taxable sales and non-taxable sales. You pay PST on the purchases for the non-taxable sale inventory and do not pay PST on the purchases for the taxable sale inventory.
2. You pay PST on all your purchases. When you sell taxable goods, you charge your customer PST but you recover the PST paid on your purchase of the goods by claiming a refund from the ministry or taking an internal tax account adjustment. Under certain circumstances, you may take an internal tax account adjustment by deducting the PST paid on the purchase of the goods from the PST you have collected on your sales.
3. You make a reasonable estimate of the portion of the purchases that are for non-taxable sales and you pay PST to the supplier on that portion. You need to reconcile this estimate to your actual usage. If the reconciliation shows you used more goods for taxable purposes than estimated, you self-assess the PST owing on the goods purchased exempt, but used for taxable purposes. If you have a PST registration number, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number, you self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P).

If the reconciliation shows you used more goods for exempt purposes than estimated, you can recover the PST paid on items used for exempt purposes by claiming a refund from the ministry or taking an internal account adjustment.

For more information on when you can take internal tax account adjustments, please see **Bulletin SST 032, Completing the Tax Return Form**. For more information on refunds, please see **Bulletin GEN 008, Refunds of Overpayments of Tax**.

Work-Related Safety Items

Effective February 20, 2008, all work-related safety equipment and protective clothing, designed to be worn by, or attached to, a worker, will be tax exempt if they **meet provincial work safety legislation** and are purchased by an employer, self-employed person, or school board or similar authority. The definition of work gloves has also been expanded to include all gloves with built-in safety features,

such as reinforced thumbs, cuffs or palms designed to protect a worker from physical harm, including traffic safety gloves to enhance visibility.

There are also safety items that are exempt to everyone, such as gas detection monitors, portable fire extinguishers and their refills.

For more information, please see the Safety Equipment and Protective Clothing Industry website at www.sbr.gov.bc.ca/industry_specific/safety/safety.htm

Production Machinery and Equipment Exemption

If you manufacture goods (e.g. cabinets), you may qualify as a manufacturer. If you qualify as a manufacturer, you may purchase equipment used to produce your product without paying PST. For more information, and to see if you qualify for the production machinery and equipment exemption, please see Bulletin SST 054, *Manufacturers*.

General Exemptions Common to Contractors

Energy conservation exemptions

You do not charge PST on the following energy conservation materials and equipment:

- certain materials and equipment that prevent heat loss from a building,
- energy efficient residential furnaces, boilers and heat pumps,
- gas-fired water heaters (including gas-fired storage water heaters and gas fired instantaneous water heaters) with an energy factor of 0.80 or greater when purchased or leased for residential purposes,
- ENERGY STAR®¹ Qualified residential refrigerators, freezers and clothes washers,
- ENERGY STAR® Qualified windows, doors (including side panels) and skylights,
- insulation designed to prevent heat transfer to, or from, hot water tanks, hot or cold water pipes and ductwork, and
- prescribed wind, solar and micro-hydro power generating equipment.

As of February 21, 2007, windows, doors and skylights that do not have the ENERGY STAR® designation are taxable. This means that there is no longer an exemption for glass and other materials used to manufacture windows or

¹ The ENERGY STAR® mark is administered and promoted in Canada by Natural Resources Canada and is registered in Canada by the United States Environmental Protection Agency.

skylights as the ENERGY STAR® designation is available only for pre-manufactured products. Also, there is no longer an exemption for window walls in high-rise residential and commercial buildings as there are no standards equivalent to ENERGY STAR® for these products.

There is no change to the exemption for replacement parts, such as glass used to repair ENERGY STAR® windows. If you provide repair services, you can purchase replacement parts without paying PST by giving your PST registration number to the supplier.

For more details on the ENERGY STAR® designation and energy conservation exemptions, please see: www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/energy_conservation_exemptions.htm

Transitional Refunds

Before February 21, 2007, the following products qualified under the PST exemption for windows and doors:

- storm windows, storm doors, multi-glazed windows and doors containing multi-glazed windows, and
- glass and other materials purchased to construct multi-glazed windows.

Recognizing that individuals and businesses may have entered into agreements before February 21, 2007 to purchase or supply and install products that qualified under the previous exemption, PST refunds are available for the following agreements:

- lump sum agreements entered into before February 21, 2007 by contractors to supply and install products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007, and
- written agreements entered into by individuals or businesses before February 21, 2007 to purchase a specific quantity of products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007.

To qualify for the above transitional refunds, applicants must:

- purchase and take delivery of the products between February 21, 2007 and March 31, 2009, inclusive, and
- apply for the refund before April 1, 2010.

Please note: Contractors cannot claim a refund if the lump sum agreement allows them to recover the PST from their customers.

To claim a refund, you need to provide the following information:

- a completed and signed *Application for Refund* form (FIN 413),
- a copy of the written agreement dated before February 21, 2007,
 - for contractors: the lump sum agreement to supply and install products that qualified under the previous exemption
 - for individuals and other businesses: the purchase order, receipt or other written document to purchase a specific quantity of products that qualified under the previous exemption
- purchase invoices or receipts, dated between February 21, 2007 and March 31, 2009, inclusive, for products that qualified under the previous exemption,
- proof that PST was paid on the purchase invoices or receipts (e.g. cancelled cheques or accounting records), and
- proof that the previously exempt products were delivered to the applicant between February 21, 2007 and March 31, 2009, inclusive.

Send your refund application and supporting documents to:

Consumer Taxation Branch
Refund Section
PO Box 9628 Stn Prov Govt
Victoria BC V8W 9N6

Goods Brought Into British Columbia

Goods or Equipment for Permanent Use

If you purchase taxable goods or equipment from an out-of-province supplier, or bring taxable goods or equipment into British Columbia for permanent use, you pay PST on the full value of the goods or equipment as outlined below.

The value of **new** goods or equipment you bring into the province is the total purchase price. The purchase price includes charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

The value of **used** goods or equipment you bring into the province is the greater of the depreciated value or 50% of the purchase price. You also include charges for transportation, customs, excise and any other costs that you pay before you use the

equipment in British Columbia, except the goods and services tax (GST). Calculate the depreciated value using the depreciation rates shown below.

- Motor vehicles, including all self-propelled equipment and trailers, 30% per year (2.5% for each month).
- Aircraft, 25% per year (2.0833% for each month).
- Vessels, 15% per year (1.25% for each month).
- Railway rolling stock, 10% per year (0.8333% for each month).
- Other equipment, furniture and fixtures, 20% per year (1.667% for each month).

The value of goods that you manufacture or process outside of the province is the total direct manufacturing costs of the goods, including costs for materials, labour, fabrication, supplies, utilities, packaging and any other direct costs. You also include charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

However, you do not include services, such as design and engineering services, that are provided by third-parties, as long as they are not directly involved in the manufacturing or processing of the goods, and they perform the services outside of the province prior to the goods being brought into the province.

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

Goods or Equipment for Temporary Use

If you bring taxable goods or equipment into the province for temporary use, you may qualify to pay the PST due using the temporary use formula. The temporary use formula, also known as the one-third formula, allows you to pay PST on one-third of the value of the equipment for each 12-month period the equipment is in the province for **6 days or more**. Equipment brought into the province for 5 days or less during each 12-month period is not taxable.

If you bring leased goods into the province for temporary use to perform a specific task related to your contract, you pay PST based on the time you have the goods in the province. The 5-day exemption does not apply to leased equipment.

For more information, please see *Bulletin SST 098, Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

Remitting the PST

If you have a PST registration number and the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number and the supplier does not charge you PST, you self-assess the PST due using a *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P) at the time you bring or ship the goods into British Columbia.



Need more info?

Construction Industry website: www.sbr.gov.bc.ca/industry_specific/construction/construction.htm

Telephone (Vancouver): 604 660-4524

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

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 74(e), 76, 77, 92 and 138(1)(j) - (j.2), and Regulations 2.21, 2.37, 2.45, 2.46, 2.47, 2.52 and 3.20; Bill 2, *Budget Measures Implementation Act*, 2008

Real Property Contractors

Social Service Tax Act

Are you in the construction industry?

Do you supply and install materials and equipment that become real property?

This bulletin provides specific tax information to help real property contractors 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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The revision bar (|) identifies changes to the previous version of this bulletin dated July 2008.

Overview

If you construct buildings, or supply and install materials and equipment that become improvements to real property, you are a real property contractor. This includes contractors and trade subcontractors in the construction industry, as well as other businesses that make improvements to real property.

Here are some examples of real property contractors.

- Bricklayers
- Cabinet installers
- Carpenters
- Carpet layers
- Drywallers
- Excavators
- Electricians
- Fence builders
- Foundation contractors
- Framing contractors
- Glass and glazing contractors
- Heating system installers
- Home builders
- Kitchen installers
- Landscapers
- Masonry contractors
- Mechanical contractors
- Painters
- Pavers
- Plumbers
- Roofers
- Sheet metal contractors
- Siding contractors
- Sundeck builders
- Window installers

To understand how PST applies to your contracts, there are two important questions that you need to consider.

1. Do you install materials and equipment that become improvements to real property?

Real property is land and any items permanently attached to land (buildings and structures). Materials and equipment that become permanently attached to the land or buildings on installation are called improvements to real property. Improvements to real property include integral parts of buildings or land, such as windows, doors and driveways. It also includes very large machinery or equipment that is constructed on site, such as machinery used in sawmills, pulp mills or other industrial locations.

For more details on real property, see the section below, Improvements to Real Property.

2. When did you enter into the contract?

Before October 1, 2008

For real property 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 that you supply and install to complete the contract.

The general rules for real property contracts are as follows.

Type of real property contract:	Who pays the PST:
Lump sum or fixed-price contracts	Contractor pays PST on the materials and equipment
Time and materials contracts	Customer pays PST on the materials and equipment but not on the labour
Services to existing real property	Neither contractor nor customer pays PST, as services to real property are exempt

Please note: there are some exceptions to the general rules. For more information, see the section below, Real Property Contracts – Before October 1, 2008.

On, or after, October 1, 2008

For real property contracts that you **enter into on, or after, October 1, 2008**, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST. It is important that you read the section below, Real Property Contracts – On, or After, October 1, 2008, for more information.

Improvements to Real Property

It can be difficult to distinguish tangible personal property from fixtures or improvements to real property. The rules regarding real property are based on common-law principles, which add considerable complexity. **While we have set**

out guidelines and examples for you below, if you are unsure how PST applies, please contact us. We will provide you with an answer that applies to your particular situation.

Tangible Personal Property

Tangible personal property is property that you can see, weigh, measure, or touch, or that is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Retail sales or leases of tangible personal property are taxable, unless there is a specific exemption. As a general rule, if the tangible personal property is taxable when purchased, services provided to the tangible personal property are also taxable (these services are taxable as the tangible personal property is not an improvement to real property).

Fixtures

While fixtures may be commonly understood by contractors to mean items, such as lighting, bathroom and plumbing fixtures, for PST purposes, fixtures has a specific definition in the legislation. Fixtures include certain machinery, equipment or apparatus that are used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property, or in the provision of a service.

Sales or leases of fixtures are taxable but services to fixtures are exempt. For a detailed explanation and the criteria for fixtures, please see **Bulletin SST 078, Fixtures**.

Real Property

Real property is land and any items permanently attached to land (buildings and structures). It also includes tangible personal property that is installed for the purpose of improving and becoming permanently part of the land or a building. Once installed, the tangible personal property becomes an improvement to real property.

There is no PST on sales or leases of real property, or on services to real property. However, the tangible personal property that becomes an improvement to real property on installation is taxable. For more information, please see the following sections in this bulletin:

- Real Property Contracts – Before October 1, 2008
- Real Property Contracts – On, or After, October 1, 2008

General Criteria for Improvements to Real Property

There are two basic categories of improvements to real property. The criteria for each category are detailed below.

Category 1 – Integral parts of buildings or land

This includes tangible personal property that, on installation, becomes an integral part of a building, structure or land. This includes items, such as heating, air conditioning, lighting or sewage disposal equipment for a building, and elevators and escalators.

To become an integral part of a building, structure or land, the tangible personal property must meet all of the following criteria.

Criteria

1. The tangible personal property is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.
3. The tangible personal property is installed for the better use of the building, structure or land.
4. The tangible personal property is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 1 – Integral Parts of Buildings or Land. If any of the items are sold without installation, they are tangible personal property.

- Aircraft hangar doors
- Air conditioning systems – does not include portable or window units
- Air ventilation systems
- Alarm systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Altar railings, built-in

- Antennae, scatter
- Artwork – permanently attached to, and part of, a building (e.g. statues, fountains, murals and decorative wall panels)
- Asphalt roads
- Awnings
- Baseboards
- Bins, built-in
- Bleachers – folding and attached to gym walls
- Blinds, venetian
- Bridges
- Boilers – used to service a building for heat, electricity or lighting only
- Booths, built-in
- Cabinets and counters, built-in
- Cablevision cables, cable connectors, wall plates – does not include cable to the television, unless there is no wall plate
- Carpeting – wall-to-wall and attached to the floor
- Ceilings
- Church pews, pew fronts, altar rails, organ and chancel screens
- Closet organizers, built-in
- Construction materials – once installed that are used to construct a building or other permanent structure (e.g. lumber, concrete, glass, and insulation)
- Conveyors
- Dishwashers, built-in
- Docks – permanently attached to pilings that are sunk into the seabed; includes floating docks and floating breakwaters
- Doors, door frames and door locks
- Drapery tracks and rails – does not include the drapes
- Driveways (e.g. asphalt or concrete)
- Elevators and escalators
- Eaves troughs
- Fences – does not include temporary fences or fences that rest upon the ground on their own weight

- Fibre-optic telecommunications systems – includes buried fibre optic cable and access points to install or maintain the cable, and above-ground wire and poles to connect users; does not include computers to manage the system
- Fire alarm and detection devices, built-in
- Fire hydrants
- Fireplaces – does not include electric fireplaces that plug in to electrical outlets
- Flooring (e.g. tile, linoleum, wall-to-wall carpeting and hardwood)
- Foundations
- Furnaces and duct work
- Garage doors
- Gas fireplaces, stoves and heaters – attached to the gas line and an outside venting system
- Glass – installed in buildings
- Greenhouses – does not include portable types
- Hand rails
- Hardwood floors
- Heating systems
- Heat pumps
- Hot water heaters
- Hot tubs – permanently attached to the land or buildings; does not include hot tubs that can be readily dismantled and removed
- Houseboats – permanently moored and hooked up to utilities; does not include houseboats that are self-propelled
- Irrigation systems
- Island units (e.g. kitchen islands, supermarket islands)
- Kitchen countertops
- Landscaping materials (e.g. plants, trees, shrubs, underground sprinklers, irrigation lines, retaining walls; does not include potted plants)
- Lighting systems and light fixtures – permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps
- Mirrors – permanently attached
- Moldings and baseboards

- Partition walls
- Plumbing fixtures and pipes
- Pools and spas – plumbed into the water supply; above ground must be enclosed by a permanent deck; does not include above ground pools or spas that can be readily dismantled and removed
- Rail sidings and rail spurs
- Range hoods
- Restaurant booths and stools – attached to floor
- Retaining walls
- Roads (e.g. asphalt or concrete)
- Roofs
- Scatter antennae
- Security systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Sewage disposal equipment
- Shelves – built into walls
- Signs – either directly bolted to concrete bases embedded in the ground, or affixed to poles or pylons which are bolted to concrete bases embedded in the ground (e.g. canopy, cube, twin pole and flag mount pylon signs)
- Signs – mounted on walls of buildings (e.g. fascia or neon signs)
- Sinks and sink counters
- Sprinkler systems – embedded in the ground or affixed to a building
- Stairs
- Stools – restaurant stools attached to the floor
- Swimming pools, in-ground
- Telecommunications towers
- Trash compactors
- Vacuum cleaner systems – built-in; does not include plug-in hoses and attachments
- Venetian blinds
- Water meters
- Water treatment systems, built-in

- Windows – includes screens
- Wiring – built into walls

Category 2 - Very large machinery and equipment

This includes machinery or equipment that is constructed on site because of its size, such as machinery used in sawmills, pulp mills or other industrial locations. The machinery or equipment is used in specific business processes that include manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmitting or distributing tangible personal property, or delivering a service. Machinery or equipment that runs on rails or tracks, or moves around on, or from, the site it was constructed does not qualify.

The machinery and equipment must meet all of the following criteria to qualify.

Criteria

1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
3. The machinery or equipment is constructed on site because of its size.
4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.
5. The machinery or equipment cannot be moved from the site without:
 - dismantling the machinery or equipment, or
 - dismantling or causing substantial damage to the building in which it is installed or attached.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 2 – Very Large Machinery and Equipment. If any of the items are sold without installation, they are tangible personal property.

- Aerial tramways – does not include tramway cars
- Alpine slides – does not include the cars that go down the slide

- Automotive spray booths
- Chairlifts – includes steel towers, gearboxes, motors and engines bolted to concrete, cables and chairs
- Coolers, walk-in
- Compressors – used in natural gas pipelines
- Dry kilns
- Freezers, walk-in
- Gas distribution systems – consisting of underground mainlines, distribution pipes, etc.
- Ice-making equipment – used in cold storage plants or curling and skating rinks; does not include ice resurfacing machines or equipment used to make ice for sale
- Paint spray booths – includes ventilation systems
- Pulp mills – includes black liquor evaporating plant, black liquor oxidation plant, black liquor storage tanks, block conveyor and chlorine dioxide generators
- Refrigeration systems – includes freon refrigerant
- Saw mills – includes waste conveyors, green chains, storage bins, kickers (part of conveyor), drop gate, landing decks, sewage, wastewater and treatment systems and septic tanks when installed in real property, walkways and platforms for access to machinery
- Tanks, process – must be of a size that cannot be transported in one piece and are assembled on the site
- Walk-in freezers and coolers

Improvements to Real Property Summary

The following table provides a quick reference guide to the general criteria that are described in the previous section, Improvements to Real Property.

Category	Criteria:	Examples:
Integral parts of buildings or land	1. Tangible personal property that is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Building materials (once installed) to construct buildings, such as lumber, concrete, steel, glass and insulation ▪ Windows and doors ▪ Flooring, such as tiles, linoleum, wall-to-wall carpeting, hardwood floors ▪ In-ground swimming pools ▪ Furnaces and duct work
	2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.	
	3. The tangible personal property is installed for the better use of the building, structure or land.	
	4. The tangible personal property is permanently installed at a location where it is intended to remain.	
Very large machinery and equipment	1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Automotive spray booths ▪ Pulp mills: chlorine dioxide generators ▪ Saw mills: waste conveyors ▪ Walk-in freezers and coolers
	2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.	
	3. The machinery or equipment is constructed on site because of its size.	
	4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.	
	5. The machinery or equipment cannot be moved from the site without: <ul style="list-style-type: none"> ▪ dismantling the machinery or equipment, or ▪ dismantling or causing substantial damage to the building in which it is installed or attached. 	

Real Property Contracts – Before October 1, 2008

For real property contracts that you enter into before October 1, 2008, how PST applies depends on whether you use your own materials and equipment to improve the

customer's property, or you improve the customer's property using materials and equipment that you have sold to your customer. In most cases, this depends on whether the contract is for a lump sum or a time and materials contract.

If you are uncertain about how PST applies to your contract, please contact us. We will provide an answer that applies to your particular situation.

Lump Sum (Fixed-Price) Contracts

These are contracts where a single charge is made for the tangible personal property and labour services supplied under the contract.

With this type of contract, your customer is not purchasing tangible personal property, but is purchasing an improvement to real property. Therefore, you are considered the last purchaser of the tangible personal property and must pay PST on all materials and equipment used to fulfill the contract.

A contract may contain a provision transferring ownership of the materials and equipment to the customer. This is to ensure that the customer maintains a security interest in the property in case you go bankrupt. If the contract is a lump sum contract, this type of provision will not change the nature of the contract into a sale of tangible personal property.

Your customer may request a breakdown in the price of the lump sum contract between the materials and the labour without changing the nature of the contract. Where the contract remains a single fixed-price contract for the delivery of a completed improvement to real property, a breakdown in costs for materials and labour may be provided to your customer for information only. To avoid misunderstanding, you should include a statement on the invoice explaining that the breakdown of the price is for information only and does not indicate that the parties intend that the contract involve a sale of tangible personal property.

Indicators of a lump sum contract

- The contract price is for a single fixed amount for completion of described work. The contract does not consider separate charges for materials and labour (although the price may be adjusted for changes, extra work etc.).
- The contract and invoice do not break down the contract price into separate amounts for materials, equipment and labour.
- You are to deliver a completed improvement to real property.
- The payment schedule is based on a percentage of the lump sum price.

Time and Materials (Cost-Plus) Contracts

These are contracts where the charges for the supply of tangible personal property and labour services are separately identified and accounted for in the contract.

Indicators of a time and materials contract

- The contract price separately identifies and prices the materials, equipment and labour.
- The invoice has a breakdown with separate charges for materials, equipment and labour.
- According to the contract or invoice, you charged your customer PST on the materials and equipment.

General rule

When a contract is structured this way, the general rule is that you have sold the tangible personal property to your customer before it becomes installed as an improvement to real property (see below for exceptions to the general rule). Therefore, **your customer must pay PST** on all materials and equipment purchased. You charge your customer PST on the sale price of all tangible personal property supplied under the contract.

Exception to the general rule

The exception to the general rule is where a time and materials contract does not involve a sale of tangible personal property. If a time and materials contract does not involve a sale of tangible personal property, you are considered the last purchaser of the tangible personal property and **you must pay PST** on all materials and equipment used to fulfill the contract.

The information below will help you to determine whether or not a time and materials contract involves a sale of tangible personal property, and therefore, whether you or your customer must pay PST.

Indicators that the contract does not involve a sale of tangible personal property

- You retain any surplus materials and equipment once the installation is complete.
- The materials and equipment remain as your property, and ownership of the materials and equipment does not transfer to your customer until after the installation is complete. This does not include a situation where the purpose of a contractual provision is for you to maintain a security interest in the materials and equipment.

- The contract indicates that you are liable for all sales taxes.

Indicators that the contract involves a sale of tangible personal property

- According to the contract or invoice, you charged your customer PST on the materials and equipment.
- Ownership of the materials and equipment transfers to your customer upon delivery to the site, and before installation.
- You are liable to your customer for any damage to materials and equipment supplied and intended to be incorporated into the improvement to real property.
- Any surplus materials and equipment are the property of your customer.
- The customer keeps the materials and equipment in the event the contract is cancelled.
- The contract indicates that the property is to remain as tangible personal property.

Lump Sum Contracts Involving Both Tangible Personal Property and Real Property

You may have a lump sum contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, the parts are taxable to either you or your customer depending on the type of contract, unless an

exemption applies. PST applies to the repair parts as explained in the above sections, Lump Sum (Fixed-Price) Contracts, and Time and Materials (Cost-Plus) Contracts. If you install the parts under a lump sum contract, you pay PST on the parts. If you install the parts under a time and materials contract, the general rule is that you charge your customer PST on the parts but not on the labour to install them.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If a subcontractor has a lump sum contract with a contractor, the subcontractor pays PST. If a subcontractor has a time and materials contract with a contractor, the subcontractor charges the contractor PST on the materials and equipment but not on the labour.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into before October 1, 2008. However, there is an exception to the general rules. For details on the exception, see the section above, Exception to the general rule, under the section, Time and Materials (Cost-Plus) Contracts.

If the material or equipment is:	And your contract is:	The following person pays the PST:
Improvement to real property or fixture	Lump sum / fixed price	Contractor pays on purchase price of materials and equipment
	Time and materials	Customer pays on sale price of materials and equipment but not labour (time)
	Service / repair (time) only	Neither contractor nor customer pays PST on services to improvements to real property or fixtures If repair parts installed: Contractor pays on parts for lump sum contracts Customer pays on parts for time and materials contracts
Tangible personal property	Supply / materials only	Customer pays on sale price of materials and equipment
	Service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers Before October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of eligible customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments.

If you structure your contract with an exempt customer as a time and materials contract, you purchase the materials and equipment without paying PST by giving your PST registration number to the supplier.

You do not charge PST as long as your customer meets all the criteria for an exemption. To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

If you structure your contract as a lump sum contract, you pay PST on the materials and equipment. This is because, under lump sum contracts, you are considered the final purchaser of the materials and equipment. You are not reselling the materials and equipment because your customers are purchasing them after you have installed them into real property. The only exception is when you supply and install production machinery and equipment under specific conditions. In this case, you may claim an exemption using the *Certificate of Exemption - Production Machinery and Equipment* form (FIN 453/M). For more information, please see **Bulletin SST 054, Manufacturers**.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, *Manufacturers*

SST 023, *Bona Fide Farmers*

SST 046, *Exemption for Indians and Indian Bands*

SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

GEN 007, *Exemption for Members of the Diplomatic and Consular Corps*

GEN 006, *Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators*

Real Property Contracts On, or After, October 1, 2008

Contractor is Responsible for the PST

For real property contracts that you enter into on, or after, October 1, 2008, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST.

Customer is Responsible for the PST

For you to charge PST, the written contract or a separate written agreement **must specifically state:**

- the value of the materials and equipment, and
- that the customer is responsible for paying PST on this amount.

For contracts where you charge your customers PST, you purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

If you regularly enter into contracts where your customers pay PST, you need to register as a vendor. For information on how to register as a vendor, please see *Bulletin SST 044, Registering to Collect Provincial Sales Tax (PST)*.

Contracts Involving Both Tangible Personal Property and Real Property

You may have a contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts, PST applies as outlined below.

If the contractor is responsible for the PST:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,

- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

If the customer is responsible for the PST:

- if you and your customer have agreed, in writing, that your customer pays the PST on the materials and equipment that become improvements to real property (see box above), you charge your customer PST on:
 - all of the materials and equipment that you supply and install to complete the contract, and
 - the **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, you pay PST on the parts, unless you and your customer have agreed, in writing, (see box above), that your customer pays the PST.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If you are a subcontractor, you pay PST on the materials and equipment that you supply and install to complete the contract, unless you and the contractor agree, in writing (see box above), that the contractor pays the PST.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into on, or after, October 1, 2008.

If the material or equipment is:	And:	The following person pays the PST:
Improvement to real property or fixture	The contract does not specify that the customer pays the PST and/or the value of the materials and equipment	Contractor pays on purchase price of materials and equipment
	You and your customer have agreed, in writing, that your customer pays the PST, and the value of the materials and equipment is specified	Customer pays on sale price of materials and equipment but not labour (time)
	The contract is for service / repair (time) only	Neither contractor nor customer pays on services to improvements to real property or fixtures If repair parts installed: Contractor pays PST on parts unless the contractor and the customer agree, in writing (see box above), that the customer will pay PST
Tangible personal property	The contract is for supply / materials only	Customer pays on sale price of materials and equipment
	The contract is for service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of exempt customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments. For contracts that you enter into on, or after, October 1, 2008, there are two ways to claim a PST exemption on materials and equipment that you are installing on behalf of an exempt customer, depending on the contract with your customer (see the beginning of this section, Real Property Contracts – On, or After, October 1, 2008).

1. Customer is responsible for the PST - the contract specifies that your customer pays the PST

You purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

You do not charge your customer PST as long as your customer meets all the criteria for the exemption (for more information, see bulletins listed below). To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

2. Contractor is responsible for the PST - the contract does not specify that the customer pays the PST

You purchase the materials and equipment without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, give the supplier a completed *Certificate of Exemption - Contractors* form (FIN 453/C) completed by the customer (the contractor only completes Part B). This form is available from the ministry or any Service BC Centre. You will also find it on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm

For you to qualify for the exemption, your customer must qualify for and meet all the criteria for exemption as if they were purchasing the materials and equipment themselves. For example, for Status Indians to qualify for an exemption on the purchase of goods, title to the goods must pass to the Status Indian at a location on reserve land. Therefore, if your customer is a Status Indian, title to the materials and equipment must pass to you at a location on reserve land to qualify for the exemption.

You must obtain documentation from your customer confirming your customer's eligibility for the exemption. To show why you did not pay PST, keep this supporting documentation and a copy of the completed *Certificate of Exemption - Contractors* form (FIN 453/C) for your records. The bulletins listed at the end of this section provide more information on supporting documentation.

Please note: For contracts that you **enter into on, or after, October 1, 2008**, you cannot use the *Certificate of Exemption - Production Machinery and Equipment* form (FIN 453/M) to claim an exemption on production machinery and equipment that you supply and install under a real property contract for an eligible manufacturer. Instead, you follow the process described above.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, *Manufacturers*

SST 023, *Bona Fide Farmers*

SST 046, *Exemption for Indians and Indian Bands*

SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

GEN 007, *Exemption for Members of the Diplomatic and Consular Corps*

GEN 006, *Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators*

Sales

When to Charge PST

You charge PST on the retail sale or lease of goods, such as:

- supply-only sales of materials and equipment (excluding installation),
- materials and equipment sold under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment sold under real property contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see the section above, Real Property Contracts – On, or After, October 1, 2008), and
- supply and installation of materials and equipment that do not become improvements to real property (i.e. they remain tangible personal property after installation, such as drapes, gym lockers, Murphy wall-beds, wireless security systems etc).

If you regularly sell taxable goods or services in British Columbia, you need to register and receive a PST registration number. If you are not required to register, you are still responsible for collecting and remitting PST if you occasionally make taxable sales. You self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Seller Not Registered Under the Social Service Tax Act* form (FIN 428S). This form is available from the ministry or any Service BC Centre. You will also find it on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm

If you are located outside British Columbia and make taxable sales in British Columbia, you may be required to register. For more information, and to see if you need to

register, please see **Bulletins SST 044, Registering to Collect Provincial Sales Tax (PST)** and **SST 074, Out-of-Province Sellers**.

When Not to Charge PST

You do not charge PST on the following:

- materials and equipment installed under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment installed under real property contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- services to real property, such as installation or labour charges,
- sales to exempt customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above – Real Property Contracts Provided to Exempt Customers Before October 1, 2008), and
- sales to exempt customers under real property contracts that you enter into **on, or after**, October 1, 2008 (see section above, Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008).

Purchases

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:

- materials and equipment you purchase to install under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase to install under contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- stationery, furniture and office equipment,
- advertising materials, such as flyers and brochures,
- goods you purchase to give away as free promotions,
- computer hardware and software (unless custom software),

- supplies that do not become part of the materials and equipment you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

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. If you do not have a PST registration number, you self-assess the PST due using a *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered under the Social Service Tax Act* form (FIN 428P). This form is available from the ministry or any Service BC Centre. You will also find it on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm

When Not to Pay PST

You do not pay PST on the following:

- materials and equipment you purchase for resale or lease to your customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase for resale or lease to your customers under contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- materials and equipment that you purchase for resale or lease to your customers under supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

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

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

Purchases for Taxable and Non-Taxable Sales

If you maintain an inventory and you do not know at the time of purchase whether the goods will be taxable or non-taxable, there are three possible ways to pay the PST on your purchases.

1. You maintain separate inventories for taxable sales and non-taxable sales. You pay PST on the purchases for the non-taxable sale inventory and do not pay PST on the purchases for the taxable sale inventory.
2. You pay PST on all your purchases. When you sell taxable goods, you charge your customer PST but you recover the PST paid on your purchase of the goods by claiming a refund from the ministry or taking an internal tax account adjustment. Under certain circumstances, you may take an internal tax account adjustment by deducting the PST paid on the purchase of the goods from the PST you have collected on your sales.
3. You make a reasonable estimate of the portion of the purchases that are for non-taxable sales and you pay PST to the supplier on that portion. You need to reconcile this estimate to your actual usage. If the reconciliation shows you used more goods for taxable purposes than estimated, you self-assess the PST owing on the goods purchased exempt, but used for taxable purposes. If you have a PST registration number, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number, you self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P).

If the reconciliation shows you used more goods for exempt purposes than estimated, you can recover the PST paid on items used for exempt purposes by claiming a refund from the ministry or taking an internal account adjustment.

For more information on when you can take internal tax account adjustments, please see *Bulletin SST 032, Completing the Tax Return Form*. For more information on refunds, please see *Bulletin GEN 008, Refunds of Overpayments of Tax*.

Safety Equipment and Protective Clothing

Effective February 20, 2008, all work-related safety equipment and protective clothing, designed to be worn by, or attached to, a worker, will be tax exempt if they **meet provincial work safety legislation** and are purchased by an employer, self-employed person, or school boards or similar authority. The definition of work gloves has also been expanded to include all gloves with built-in safety features, such as reinforced thumbs, cuffs or palms designed to protect a worker from physical harm, including traffic safety gloves to enhance visibility. There are also safety items that are exempt to everyone, such as gas detection monitors, portable fire extinguishers and their refills.

For more information, please see *Bulletin SST 002, Safety Equipment and Protective Clothing*.

Production Machinery and Equipment Exemption

If you manufacture goods (e.g. cabinets), you may qualify as a manufacturer. If you qualify as a manufacturer, you may purchase equipment used to produce your product without paying PST. For more information, and to see if you qualify for the production machinery and equipment exemption, please see *Bulletin SST 054, Manufacturers*.

General Exemptions Common to Contractors

Energy conservation exemptions

You do not charge PST on the following energy conservation materials and equipment:

- certain materials and equipment that prevent heat loss from a building,
- energy efficient residential furnaces, boilers and heat pumps,
- gas-fired water heaters (including gas-fired storage water heaters and gas fired instantaneous water heaters) with an energy factor of 0.80 or greater when purchased or leased for residential purposes,
- ENERGY STAR®¹ Qualified residential refrigerators, freezers and clothes washers,
- ENERGY STAR® Qualified windows, doors (including side panels) and skylights,
- insulation designed to prevent heat transfer to, or from, hot water tanks, hot or cold water pipes and ductwork, and
- prescribed wind, solar and micro-hydro power generating equipment.

As of February 21, 2007, windows, doors and skylights that do not have the ENERGY STAR® designation are taxable. This means that there is no longer an exemption for glass and other materials used to manufacture windows or skylights as the ENERGY STAR® designation is available only for pre-manufactured products. Also, there is no longer an exemption for window walls in high-rise residential and commercial buildings as there are no standards equivalent to ENERGY STAR® for these products.

There is no change to the exemption for replacement parts, such as glass used to repair ENERGY STAR® windows. If you provide repair services, you can purchase replacement parts without paying PST by giving your PST registration number to the supplier.

¹ The ENERGY STAR® mark is administered and promoted in Canada by Natural Resources Canada and is registered in Canada by the United States Environmental Protection Agency.

For more details on the ENERGY STAR® designation and energy conservation exemptions, please see: www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/energy_conservation_exemptions.htm

Transitional Refunds

Before February 21, 2007, the following products qualified under the PST exemption for windows and doors:

- storm windows, storm doors, multi-glazed windows and doors containing multi-glazed windows, and
- glass and other materials purchased to construct multi-glazed windows.

Recognizing that individuals and businesses may have entered into agreements before February 21, 2007 to purchase or supply and install products that qualified under the previous exemption, PST refunds are available for the following agreements:

- lump sum agreements entered into before February 21, 2007 by contractors to supply and install products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007, and
- written agreements entered into by individuals or businesses before February 21, 2007 to purchase a specific quantity of products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007.

To qualify for the above transitional refunds, applicants must:

- purchase and take delivery of the products between February 21, 2007 and March 31, 2009, inclusive, and
- apply for the refund before April 1, 2010.

Please note: Contractors cannot claim a refund if the lump sum agreement allows them to recover the PST from their customers.

To claim a refund, you need to provide the following information:

- a completed and signed *Application for Refund* form (FIN 413),
- a copy of the written agreement dated before February 21, 2007,
 - for contractors: the lump sum agreement to supply and install products that qualified under the previous exemption
 - for individuals and other businesses: the purchase order, receipt or other written document to purchase a specific quantity of products that qualified under the previous exemption

- purchase invoices or receipts, dated between February 21, 2007 and March 31, 2009, inclusive, for products that qualified under the previous exemption,
- proof that PST was paid on the purchase invoices or receipts (e.g. cancelled cheques or accounting records), and
- proof that the previously exempt products were delivered to the applicant between February 21, 2007 and March 31, 2009, inclusive.

Send your refund application and supporting documents to:

Consumer Taxation Branch
 Refund Section
 PO Box 9628 Stn Prov Govt
 Victoria BC V8W 9N6

Goods Brought into British Columbia

Goods or Equipment for Permanent Use

If you purchase taxable goods or equipment from an out-of-province supplier, or bring taxable goods or equipment into British Columbia for permanent use, you pay PST on the full value of the goods or equipment as outlined below.

The value of **new** goods or equipment you bring into the province is the total purchase price. The purchase price includes charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

The value of **used** goods or equipment you bring into the province is the greater of the depreciated value or 50% of the purchase price. You also include charges for transportation, customs, excise and any other costs that you pay before you use the equipment in British Columbia, except the goods and services tax (GST). Calculate the depreciated value using the depreciation rates shown below.

- Motor vehicles, including all self-propelled equipment and trailers, 30% per year (2.5% for each month).
- Aircraft, 25% per year (2.0833% for each month).
- Vessels, 15% per year (1.25% for each month).
- Railway rolling stock, 10% per year (0.8333% for each month).
- Other equipment, furniture and fixtures, 20% per year (1.667% for each month).

The value of goods that you manufacture or process outside of the province is the total direct manufacturing costs of the goods, including costs for materials, labour, fabrication, supplies, utilities, packaging and any other direct costs. You also include charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

However, you do not include services, such as design and engineering services that are provided by third-parties, as long as they are not directly involved in the manufacturing or processing of the goods, and they perform the services outside of the province prior to the goods being brought into the province.

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

Goods or Equipment for Temporary Use

If you bring taxable goods or equipment into the province for temporary use, you may qualify to pay the PST due using the temporary use formula. The temporary use formula, also known as the one-third formula, allows you to pay PST on one-third of the value of the equipment for each 12-month period the equipment is in the province for **6 days or more**. Equipment brought into the province for 5 days or less during each 12-month period is not taxable.

If you bring leased goods into the province for temporary use to perform a specific task related to your contract, you pay PST based on the time you have the goods in the province. The 5-day exemption does not apply to leased equipment.

For more information, please see *Bulletin SST 098, Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

Remitting the PST

If you have a PST registration number and the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number and the supplier does not charge you PST, you self-assess the PST due using a *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P) at the time you bring or ship the goods into British Columbia.



Need more info?

Construction Industry website:

www.sbr.gov.bc.ca/industry_specific/construction/construction.htm

Telephone (Vancouver): 604 660-4524

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

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 74(e), 76, 77, 92 and 138(1)(j) - (j.2), and Regulations 2.21, 2.37, 2.45, 2.46, 2.47, 2.52 and 3.20; Bill 2, *Budget Measures Implementation Act*, 2008

Ministry of Finance

Tax Bulletin



ISSUED: September 1986 REVISED: February 2009

Bulletin SST 072

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

Real Property Contractors

Social Service Tax Act

Are you in the construction industry?

Do you supply and install materials and equipment that become real property?

This bulletin provides specific tax information to help real property contractors 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

If you construct buildings, or supply and install materials and equipment that become improvements to real property, you are a real property contractor. This includes contractors and trade subcontractors in the construction industry, as well as other businesses that make improvements to real property.

Here are some examples of real property contractors.

- Bricklayers
- Cabinet installers
- Carpenters
- Carpet layers
- Drywallers
- Excavators
- Electricians
- Fence builders
- Foundation contractors
- Framing contractors
- Glass and glazing contractors
- Heating system installers
- Home builders
- Kitchen installers
- Landscapers
- Masonry contractors
- Mechanical contractors
- Painters
- Pavers
- Plumbers
- Roofers
- Sheet metal contractors
- Siding contractors
- Sundeck builders
- Window installers

To understand how PST applies to your contracts, there are two important questions that you need to consider.

1. Do you install materials and equipment that become improvements to real property?

Real property is land and any items permanently attached to land (buildings and structures). Materials and equipment that become permanently attached to the land or buildings on installation are called improvements to real property. Improvements to real property include integral parts of buildings or land, such as windows, doors and driveways. It also includes very large machinery or equipment that is constructed on site, such as machinery used in sawmills, pulp mills or other industrial locations.

For more details on real property, see the section below, Improvements to Real Property.

2. When did you enter into the contract?

Before October 1, 2008

For real property 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 that you supply and install to complete the contract.

The general rules for real property contracts are as follows.

Type of real property contract:	Who pays the PST:
Lump sum or fixed-price contracts	Contractor pays PST on the materials and equipment
Time and materials contracts	Customer pays PST on the materials and equipment but not on the labour
Services to existing real property	Neither contractor nor customer pays PST, as services to real property are exempt

Please note: there are some exceptions to the general rules. For more information, see the section below, Real Property Contracts – Before October 1, 2008.

On, or after, October 1, 2008

For real property contracts that you **enter into on, or after, October 1, 2008**, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST. It is important that you read the section below, Real Property Contracts – On, or After, October 1, 2008, for more information.

Improvements to Real Property

It can be difficult to distinguish tangible personal property from fixtures or improvements to real property. The rules regarding real property are based on common-law principles, which add considerable complexity. **While we have set**

out guidelines and examples for you below, if you are unsure how PST applies, please contact us. We will provide you with an answer that applies to your particular situation.

Tangible Personal Property

Tangible personal property is property that you can see, weigh, measure or touch, or that is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Retail sales or leases of tangible personal property are taxable, unless there is a specific exemption. As a general rule, if the tangible personal property is taxable when purchased, services provided to the tangible personal property are also taxable (these services are taxable as the tangible personal property is not an improvement to real property).

Fixtures

While fixtures may be commonly understood by contractors to mean items, such as lighting, bathroom and plumbing fixtures, for PST purposes, fixtures has a specific definition in the legislation. Fixtures include certain machinery, equipment or apparatus that are used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property, or in the provision of a service.

Sales or leases of fixtures are taxable but services to fixtures are exempt. For a detailed explanation and the criteria for fixtures, please see **Bulletin SST 078, *Fixtures***.

Real Property

Real property is land and any items permanently attached to land (buildings and structures). It also includes tangible personal property that is installed for the purpose of improving and becoming permanently part of the land or a building. Once installed, the tangible personal property becomes an improvement to real property.

There is no PST on sales or leases of real property, or on services to real property. However, the tangible personal property that becomes an improvement to real property on installation is taxable. For more information, please see the following sections in this bulletin:

- Real Property Contracts – Before October 1, 2008
- Real Property Contracts – On, or After, October 1, 2008

General Criteria for Improvements to Real Property

There are two basic categories of improvements to real property. The criteria for each category are detailed below.

Category 1 – Integral parts of buildings or land

This includes tangible personal property that, on installation, becomes an integral part of a building, structure or land. This includes items, such as heating, air conditioning, lighting or sewage disposal equipment for a building, and elevators and escalators.

To become an integral part of a building, structure or land, the tangible personal property must meet all of the following criteria.

Criteria

1. The tangible personal property is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.
3. The tangible personal property is installed for the better use of the building, structure or land.
4. The tangible personal property is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 1 – Integral Parts of Buildings or Land. If any of the items are sold without installation, they are tangible personal property.

- Aircraft hangar doors
- Air conditioning systems – does not include portable or window units
- Air ventilation systems
- Alarm systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Altar railings, built-in

- Antennae, scatter
- Artwork – permanently attached to, and part of, a building (e.g. statues, fountains, murals and decorative wall panels)
- Asphalt roads
- Awnings
- Baseboards
- Bins, built-in
- Bleachers – folding and attached to gym walls
- Blinds, venetian
- Bridges
- Boilers – used to service a building for heat, electricity or lighting only
- Booths, built-in
- Cabinets and counters, built-in
- Cablevision cables, cable connectors, wall plates – does not include cable to the television, unless there is no wall plate
- Carpeting – wall-to-wall and attached to the floor
- Ceilings
- Church pews, pew fronts, altar rails, organ and chancel screens
- Closet organizers, built-in
- Construction materials – once installed that are used to construct a building or other permanent structure (e.g. lumber, concrete, glass and insulation)
- Conveyors
- Dishwashers, built-in
- Docks – permanently attached to pilings that are sunk into the seabed; includes floating docks and floating breakwaters
- Doors, door frames and door locks
- Drapery tracks and rails – does not include the drapes
- Driveways (e.g. asphalt or concrete)
- Elevators and escalators
- Eaves troughs
- Fences – does not include temporary fences or fences that rest upon the ground on their own weight

- Fibre-optic telecommunications systems – includes buried fibre optic cable and access points to install or maintain the cable, and above-ground wire and poles to connect users; does not include computers to manage the system
- Fire alarm and detection devices, built-in
- Fire hydrants
- Fireplaces – does not include electric fireplaces that plug in to electrical outlets
- Flooring (e.g. tile, linoleum, wall-to-wall carpeting and hardwood)
- Foundations
- Furnaces and duct work
- Garage doors
- Gas fireplaces, stoves and heaters – attached to the gas line and an outside venting system
- Glass – installed in buildings
- Greenhouses – does not include portable types
- Hand rails
- Hardwood floors
- Heating systems
- Heat pumps
- Hot water heaters
- Hot tubs – permanently attached to the land or buildings; does not include hot tubs that can be readily dismantled and removed
- Houseboats – permanently moored and hooked up to utilities; does not include houseboats that are self-propelled
- Irrigation systems
- Island units (e.g. kitchen islands, supermarket islands)
- Kitchen countertops
- Landscaping materials (e.g. plants, trees, shrubs, underground sprinklers, irrigation lines, retaining walls; does not include potted plants)
- Lighting systems and light fixtures – permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps
- Mirrors – permanently attached
- Moldings and baseboards

- Partition walls
- Plumbing fixtures and pipes
- Pools and spas – plumbed into the water supply; above ground must be enclosed by a permanent deck; does not include above ground pools or spas that can be readily dismantled and removed
- Rail sidings and rail spurs
- Range hoods
- Restaurant booths and stools – attached to floor
- Retaining walls
- Roads (e.g. asphalt or concrete)
- Roofs
- Scatter antennae
- Security systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Sewage disposal equipment
- Shelves – built into walls
- Signs – either directly bolted to concrete bases embedded in the ground, or affixed to poles or pylons which are bolted to concrete bases embedded in the ground (e.g. canopy, cube, twin pole and flag mount pylon signs)
- Signs – mounted on walls of buildings (e.g. fascia or neon signs)
- Sinks and sink counters
- Sprinkler systems – embedded in the ground or affixed to a building
- Stairs
- Stools – restaurant stools attached to the floor
- Swimming pools, in-ground
- Telecommunications towers
- Trash compactors
- Vacuum cleaner systems – built-in; does not include plug-in hoses and attachments
- Venetian blinds
- Water meters
- Water treatment systems, built-in

- Windows – includes screens
- Wiring – built into walls

Category 2 - Very large machinery and equipment

This includes machinery or equipment that is constructed on site because of its size, such as machinery used in sawmills, pulp mills or other industrial locations. The machinery or equipment is used in specific business processes that include manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmitting or distributing tangible personal property, or delivering a service. Machinery or equipment that runs on rails or tracks, or moves around on, or from, the site it was constructed does not qualify.

The machinery and equipment must meet all of the following criteria to qualify.

Criteria

1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
3. The machinery or equipment is constructed on site because of its size.
4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.
5. The machinery or equipment cannot be moved from the site without:
 - dismantling the machinery or equipment, or
 - dismantling or causing substantial damage to the building in which it is installed or attached.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 2 – Very Large Machinery and Equipment. If any of the items are sold without installation, they are tangible personal property.

- Aerial tramways – does not include tramway cars
- Alpine slides – does not include the cars that go down the slide

- Automotive spray booths
- Chairlifts – includes steel towers, gearboxes, motors and engines bolted to concrete, cables and chairs
- Coolers, walk-in
- Compressors – used in natural gas pipelines
- Dry kilns
- Freezers, walk-in
- Gas distribution systems – consisting of underground mainlines, distribution pipes, etc.
- Ice-making equipment – used in cold storage plants or curling and skating rinks; does not include ice resurfacing machines or equipment used to make ice for sale
- Paint spray booths – includes ventilation systems
- Pulp mills – includes black liquor evaporating plant, black liquor oxidation plant, black liquor storage tanks, block conveyor and chlorine dioxide generators
- Refrigeration systems – includes freon refrigerant
- Saw mills – includes waste conveyors, green chains, storage bins, kickers (part of conveyor), drop gate, landing decks, sewage, wastewater and treatment systems and septic tanks when installed in real property, walkways and platforms for access to machinery
- Tanks, process – must be of a size that cannot be transported in one piece and are assembled on the site
- Walk-in freezers and coolers

Improvements to Real Property Summary

The following table provides a quick reference guide to the general criteria that are described in the previous section, Improvements to Real Property.

Category	Criteria:	Examples:
Integral parts of buildings or land	1. Tangible personal property that is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Building materials (once installed) to construct buildings, such as lumber, concrete, steel, glass and insulation ▪ Windows and doors ▪ Flooring, such as tiles, linoleum, wall-to-wall carpeting, hardwood floors ▪ In-ground swimming pools ▪ Furnaces and duct work
	2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.	
	3. The tangible personal property is installed for the better use of the building, structure or land.	
	4. The tangible personal property is permanently installed at a location where it is intended to remain.	
Very large machinery and equipment	1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Automotive spray booths ▪ Pulp mills: chlorine dioxide generators ▪ Saw mills: waste conveyors ▪ Walk-in freezers and coolers
	2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.	
	3. The machinery or equipment is constructed on site because of its size.	
	4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.	
	5. The machinery or equipment cannot be moved from the site without: <ul style="list-style-type: none"> ▪ dismantling the machinery or equipment, or ▪ dismantling or causing substantial damage to the building in which it is installed or attached. 	

Real Property Contracts – Before October 1, 2008

For real property contracts that you **enter into before October 1, 2008**, how PST applies depends on whether you use your own materials and equipment to improve the

customer's property, or you improve the customer's property using materials and equipment that you have sold to your customer. In most cases, this depends on whether the contract is for a lump sum or a time and materials contract.

If you are uncertain about how PST applies to your contract, please **contact us**. We will provide an answer that applies to your particular situation.

Lump Sum (Fixed-Price) Contracts

These are contracts where a single charge is made for the tangible personal property and labour services supplied under the contract.

With this type of contract, your customer is not purchasing tangible personal property, but is purchasing an improvement to real property. Therefore, you are considered the last purchaser of the tangible personal property and must pay PST on all materials and equipment used to fulfill the contract.

A contract may contain a provision transferring ownership of the materials and equipment to the customer. This is to ensure that the customer maintains a security interest in the property in case you go bankrupt. If the contract is a lump sum contract, this type of provision will not change the nature of the contract into a sale of tangible personal property.

Your customer may request a breakdown in the price of the lump sum contract between the materials and the labour without changing the nature of the contract. Where the contract remains a single fixed-price contract for the delivery of a completed improvement to real property, a breakdown in costs for materials and labour may be provided to your customer for information only. To avoid misunderstanding, you should include a statement on the invoice explaining that the breakdown of the price is for information only and does not indicate that the parties intend that the contract involve a sale of tangible personal property.

Indicators of a lump sum contract

- The contract price is for a single fixed amount for completion of described work. The contract does not consider separate charges for materials and labour (although the price may be adjusted for changes, extra work etc.).
- The contract and invoice do not break down the contract price into separate amounts for materials, equipment and labour.
- You are to deliver a completed improvement to real property.
- The payment schedule is based on a percentage of the lump sum price.

Time and Materials (Cost-Plus) Contracts

These are contracts where the charges for the supply of tangible personal property and labour services are separately identified and accounted for in the contract.

Indicators of a time and materials contract

- The contract price separately identifies and prices the materials, equipment and labour.
- The invoice has a breakdown with separate charges for materials, equipment and labour.
- According to the contract or invoice, you charged your customer PST on the materials and equipment.

General rule

When a contract is structured this way, the general rule is that you have sold the tangible personal property to your customer before it becomes installed as an improvement to real property (see below for exceptions to the general rule). Therefore, **your customer must pay PST** on all materials and equipment purchased. You charge your customer PST on the sale price of all tangible personal property supplied under the contract.

Exception to the general rule

The exception to the general rule is where a time and materials contract does not involve a sale of tangible personal property. If a time and materials contract does not involve a sale of tangible personal property, you are considered the last purchaser of the tangible personal property and **you must pay PST** on all materials and equipment used to fulfill the contract.

The information below will help you to determine whether or not a time and materials contract involves a sale of tangible personal property, and therefore, whether you or your customer must pay PST.

Indicators that the contract does not involve a sale of tangible personal property

- You retain any surplus materials and equipment once the installation is complete.
- The materials and equipment remain as your property, and ownership of the materials and equipment does not transfer to your customer until after the installation is complete. This does not include a situation where the purpose of a contractual provision is for you to maintain a security interest in the materials and equipment.
- The contract indicates that you are liable for all sales taxes.

Indicators that the contract involves a sale of tangible personal property

- According to the contract or invoice, you charged your customer PST on the materials and equipment.
- Ownership of the materials and equipment transfers to your customer upon delivery to the site, and before installation.
- You are liable to your customer for any damage to materials and equipment supplied and intended to be incorporated into the improvement to real property.
- Any surplus materials and equipment are the property of your customer.
- The customer keeps the materials and equipment in the event the contract is cancelled.
- The contract indicates that the property is to remain as tangible personal property.

Lump Sum Contracts Involving Both Tangible Personal Property and Real Property

You may have a lump sum contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, the parts are taxable to either you or your customer depending on the type of contract, unless an

exemption applies. PST applies to the repair parts as explained in the above sections, Lump Sum (Fixed-Price) Contracts, and Time and Materials (Cost-Plus) Contracts. If you install the parts under a lump sum contract, you pay PST on the parts. If you install the parts under a time and materials contract, the general rule is that you charge your customer PST on the parts but not on the labour to install them.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If a subcontractor has a lump sum contract with a contractor, the subcontractor pays PST. If a subcontractor has a time and materials contract with a contractor, the subcontractor charges the contractor PST on the materials and equipment but not on the labour.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into before October 1, 2008. However, there is an exception to the general rules. For details on the exception, see the section above, Exception to the general rule, under the section, Time and Materials (Cost-Plus) Contracts.

If the material or equipment is:	And your contract is:	The following person pays the PST:
Improvement to real property or fixture	Lump sum / fixed price	Contractor pays on purchase price of materials and equipment
	Time and materials	Customer pays on sale price of materials and equipment but not labour (time)
	Service / repair (time) only	Neither contractor nor customer pays PST on services to improvements to real property or fixtures If repair parts installed: Contractor pays on parts for lump sum contracts Customer pays on parts for time and materials contracts
Tangible personal property	Supply / materials only	Customer pays on sale price of materials and equipment
	Service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers Before October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of eligible customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments.

If you structure your contract with an exempt customer as a time and materials contract, you purchase the materials and equipment without paying PST by giving your PST registration number to the supplier.

You do not charge PST as long as your customer meets all the criteria for an exemption. To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

If you structure your contract as a lump sum contract, you pay PST on the materials and equipment. This is because, under lump sum contracts, you are considered the final purchaser of the materials and equipment. You are not reselling the materials and equipment because your customers are purchasing them after you have installed them into real property. The only exception is when you supply and install production machinery and equipment under specific conditions. In this case, you may claim an exemption using the *Certificate of Exemption - Production Machinery and Equipment* form (FIN 453/M). For more information, please see **Bulletin SST 054, Manufacturers**.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, Manufacturers

SST 023, Bona Fide Farmers

SST 046, Exemption for Indians and Indian Bands

SST 034, Procedures for Making Exempt Sales or Leases to Indians and Indian Bands

GEN 007, Exemption for Members of the Diplomatic and Consular Corps

GEN 006, Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators

Real Property Contracts – On, or After, October 1, 2008

Contractor is Responsible for the PST

For real property contracts that you **enter into on, or after, October 1, 2008**, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST.

Customer is Responsible for the PST

For you to charge PST, the written contract or a separate written agreement **must specifically state:**

- the value of the materials and equipment, and
- that the customer is responsible for paying PST on this amount.

For contracts where you charge your customers PST, you purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

If you regularly enter into contracts where your customers pay PST, you need to register as a vendor. For information on how to register as a vendor, please see *Bulletin SST 044, Registering to Collect Provincial Sales Tax (PST)*.

Contracts Involving Both Tangible Personal Property and Real Property

You may have a contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts, PST applies as outlined below.

If the contractor is responsible for the PST:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,

- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

If the customer is responsible for the PST:

- if you and your customer have agreed, in writing, that your customer pays the PST on the materials and equipment that become improvements to real property (see box above), you charge your customer PST on:
 - all of the materials and equipment that you supply and install to complete the contract, and
 - the **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, you pay PST on the parts, unless you and your customer have agreed, in writing, (see box above), that your customer pays the PST.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If you are a subcontractor, you pay PST on the materials and equipment that you supply and install to complete the contract, unless you and the contractor agree, in writing (see box above), that the contractor pays the PST.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into on, or after, October 1, 2008.

If the material or equipment is:	And:	The following person pays the PST:
Improvement to real property or fixture	The contract does not specify that the customer pays the PST and/or the value of the materials and equipment	Contractor pays on purchase price of materials and equipment
	You and your customer have agreed, in writing, that your customer pays the PST, and the value of the materials and equipment is specified	Customer pays on sale price of materials and equipment but not labour (time)
	The contract is for service / repair (time) only	Neither contractor nor customer pays on services to improvements to real property or fixtures If repair parts installed: Contractor pays PST on parts unless the contractor and the customer agree, in writing (see box above), that the customer will pay PST
Tangible personal property	The contract is for supply / materials only	Customer pays on sale price of materials and equipment
	The contract is for service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of exempt customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments. For contracts that you enter into on, or after, October 1, 2008, there are two ways to claim a PST exemption on materials and equipment that you are installing on behalf of an exempt customer, depending on the contract with your customer (see the beginning of this section, Real Property Contracts – On, or After, October 1, 2008).

1. Customer is responsible for the PST - the contract specifies that your customer pays the PST

You purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

You do not charge your customer PST as long as your customer meets all the criteria for the exemption (for more information, see bulletins listed below). To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

2. **Contractor is responsible for the PST - the contract does not specify that the customer pays the PST**

You purchase the materials and equipment without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, give the supplier a completed *Certificate of Exemption - Contractors* form (FIN 453/C) completed by the customer (the contractor only completes Part B). This form is available from the ministry or any Service BC Centre. You will also find it on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm

For you to qualify for the exemption, your customer must qualify for and meet all the criteria for exemption as if they were purchasing the materials and equipment themselves. For example, for Status Indians to qualify for an exemption on the purchase of goods, title to the goods must pass to the Status Indian at a location on reserve land. Therefore, if your customer is a Status Indian, title to the materials and equipment must pass to you at a location on reserve land to qualify for the exemption.

You must obtain documentation from your customer confirming your customer's eligibility for the exemption. To show why you did not pay PST, keep this supporting documentation and a copy of the completed *Certificate of Exemption - Contractors* form (FIN 453/C) for your records. The bulletins listed at the end of this section provide more information on supporting documentation.

Please note: For contracts that you **enter into on, or after, October 1, 2008**, you cannot use the *Certificate of Exemption – Production Machinery and Equipment* form (FIN 453/M) to claim an exemption on production machinery and equipment that you supply and install under a real property contract for an eligible manufacturer. Instead, you follow the process described above.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, *Manufacturers*

SST 023, *Bona Fide Farmers*

SST 046, *Exemption for Indians and Indian Bands*

SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

GEN 007, *Exemption for Members of the Diplomatic and Consular Corps*

GEN 006, *Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators*

Sales

When to Charge PST

You charge PST on the retail sale or lease of goods, such as:

- supply-only sales of materials and equipment (excluding installation),
- materials and equipment sold under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment sold under real property contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see the section above, Real Property Contracts – On, or After, October 1, 2008), and
- supply and installation of materials and equipment that do not become improvements to real property (i.e. they remain tangible personal property after installation, such as drapes, gym lockers, Murphy wall-beds, wireless security systems etc.).

If you regularly sell taxable goods or services in British Columbia, you need to register and receive a PST registration number. If you are not required to register, you are still responsible for collecting and remitting PST if you occasionally make taxable sales. You self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Seller Not Registered Under the Social Service Tax Act* form (FIN 428S). This form is available from the ministry or any Service BC Centre. You will also find it on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm

If you are located outside British Columbia and make taxable sales in British Columbia, you may be required to register. For more information, and to see if you need to register, please see **Bulletins SST 044, *Registering to Collect Provincial Sales Tax (PST)***, and **SST 074, *Out-of-Province Sellers***.

When Not to Charge PST

You do not charge PST on the following:

- materials and equipment installed under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment installed under real property contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- services to real property, such as installation or labour charges,
- sales to exempt customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above – Real Property Contracts Provided to Exempt Customers Before October 1, 2008), and
- sales to exempt customers under real property contracts that you enter into **on, or after**, October 1, 2008 (see section above, Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008).

Purchases

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:

- materials and equipment you purchase to install under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase to install under contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- stationery, furniture and office equipment,
- advertising materials, such as flyers and brochures,
- goods you purchase to give away as free promotions,
- computer hardware and software (unless custom software),
- supplies that do not become part of the materials and equipment you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,

- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

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. If you do not have a PST registration number, you self-assess the PST due using a *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered under the Social Service Tax Act* form (FIN 428P). This form is available from the ministry or any Service BC Centre. You will also find it on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm

When Not to Pay PST

You do not pay PST on the following:

- materials and equipment you purchase for resale or lease to your customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase for resale or lease to your customers under contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- materials and equipment that you purchase for resale or lease to your customers under supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

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

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

Purchases for Taxable and Non-Taxable Sales

If you maintain an inventory and you do not know at the time of purchase whether the goods will be taxable or non-taxable, there are three possible ways to pay the PST on your purchases.

1. You maintain separate inventories for taxable sales and non-taxable sales. You pay PST on the purchases for the non-taxable sale inventory and do not pay PST on the purchases for the taxable sale inventory.

2. You pay PST on all your purchases. When you sell taxable goods, you charge your customer PST but you recover the PST paid on your purchase of the goods by claiming a refund from the ministry or taking an internal tax account adjustment. Under certain circumstances, you may take an internal tax account adjustment by deducting the PST paid on the purchase of the goods from the PST you have collected on your sales.
3. You make a reasonable estimate of the portion of the purchases that are for non-taxable sales and you pay PST to the supplier on that portion. You need to reconcile this estimate to your actual usage. If the reconciliation shows you used more goods for taxable purposes than estimated, you self-assess the PST owing on the goods purchased exempt, but used for taxable purposes. If you have a PST registration number, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number, you self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P).

If the reconciliation shows you used more goods for exempt purposes than estimated, you can recover the PST paid on items used for exempt purposes by claiming a refund from the ministry or taking an internal account adjustment.

For more information on when you can take internal tax account adjustments, please see **Bulletin SST 032, *Completing the Tax Return Form***. For more information on refunds, please see **Bulletin GEN 008, *Refunds of Overpayments of Tax***.

Safety Equipment and Protective Clothing

Effective February 20, 2008, all work-related safety equipment and protective clothing, designed to be worn by, or attached to, a worker, will be PST exempt if they **meet provincial work safety legislation** and are purchased by an employer, self-employed person, or school boards or similar authority. The definition of work gloves has also been expanded to include all gloves with built-in safety features, such as reinforced thumbs, cuffs or palms designed to protect a worker from physical harm, including traffic safety gloves to enhance visibility.

There are also safety items that are exempt to everyone, such as gas detection monitors, portable fire extinguishers and their refills.

For more information, please see **Bulletin SST 002, *Safety Equipment and Protective Clothing***.

Production Machinery and Equipment Exemption

If you manufacture goods (e.g. cabinets), you may qualify as a manufacturer. If you qualify as a manufacturer, you may purchase equipment used to produce your product without paying PST. For more information, and to see if you qualify for the production machinery and equipment exemption, please see *Bulletin SST 054, Manufacturers*.

General Exemptions Common to Contractors

Energy conservation exemptions

You do not charge PST on the following energy conservation materials and equipment:

- certain materials and equipment that prevent heat loss from a building,
- ENERGY STAR® Qualified residential oil-fired forced air furnaces, boilers, and air- or ground-source heat pumps,
- prescribed commercial boilers (for more information, please see *Bulletin SST 011, Exemption for Material and Equipment Used to Conserve Energy*),
- gas-fired water heaters (including gas-fired storage water heaters and gas fired instantaneous water heaters) with an energy factor of 0.80 or greater when purchased or leased for residential purposes,
- ENERGY STAR®¹ Qualified residential refrigerators, freezers and clothes washers,
- ENERGY STAR® Qualified windows, doors (including side panels) and skylights,
- insulation designed to prevent heat transfer to, or from, hot water tanks, hot or cold water pipes and ductwork, and
- prescribed ocean, wind, solar and micro-hydro power generating equipment.

As of February 21, 2007, windows, doors and skylights that do not have the ENERGY STAR® designation are taxable. This means that there is no longer an exemption for glass and other materials used to manufacture windows or skylights as the ENERGY STAR® designation is available only for pre-manufactured products. Also, there is no longer an exemption for window walls in high-rise residential and commercial buildings as there are no standards equivalent to ENERGY STAR® for these products.

There is no change to the exemption for replacement parts, such as glass used to repair ENERGY STAR® windows. If you provide repair services, you can purchase replacement parts without paying PST by giving your PST registration number to the supplier.

¹ The ENERGY STAR® mark is administered and promoted in Canada by Natural Resources Canada and is registered in Canada by the United States Environmental Protection Agency.

For more details on the ENERGY STAR® designation and energy conservation exemptions, please see: www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/energy_conservation_exemptions.htm

Transitional refunds

Before February 21, 2007, the following products qualified under the PST exemption for windows and doors:

- storm windows, storm doors, multi-glazed windows and doors containing multi-glazed windows, and
- glass and other materials purchased to construct multi-glazed windows.

Recognizing that individuals and businesses may have entered into agreements before February 21, 2007, to purchase or supply and install products that qualified under the previous exemption, PST refunds are available for the following agreements:

- lump sum agreements entered into before February 21, 2007, by contractors to supply and install products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007, and
- written agreements entered into by individuals or businesses before February 21, 2007, to purchase a specific quantity of products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007.

To qualify for the above transitional refunds, applicants must:

- purchase and take delivery of the products between February 21, 2007 and March 31, 2009, inclusive, and
- apply for the refund before April 1, 2010.

Please note: Contractors cannot claim a refund if the lump sum agreement allows them to recover the PST from their customers.

To claim a refund, you need to provide the following information:

- a completed and signed *Application for Refund* form (FIN 413),
- a copy of the written agreement dated before February 21, 2007,
 - for contractors: the lump sum agreement to supply and install products that qualified under the previous exemption
 - for individuals and other businesses: the purchase order, receipt or other written document to purchase a specific quantity of products that qualified under the previous exemption

- purchase invoices or receipts, dated between February 21, 2007 and March 31, 2009, inclusive, for products that qualified under the previous exemption,
- proof that PST was paid on the purchase invoices or receipts (e.g. cancelled cheques or accounting records), and
- proof that the previously exempt products were delivered to the applicant between February 21, 2007 and March 31, 2009, inclusive.

Send your refund application and supporting documents to:

Consumer Taxation Branch
 Refund Section
 PO Box 9628 Stn Prov Govt
 Victoria BC V8W 9N6

Goods Brought Into British Columbia

Goods or Equipment for Permanent Use

If you purchase taxable goods or equipment from an out-of-province supplier, or bring taxable goods or equipment into British Columbia for permanent use, you pay PST on the full value of the goods or equipment as outlined below.

The value of **new** goods or equipment you bring into the province is the total purchase price. The purchase price includes charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

The value of **used** goods or equipment you bring into the province is the greater of the depreciated value or 50% of the purchase price. You also include charges for transportation, customs, excise and any other costs that you pay before you use the equipment in British Columbia, except the goods and services tax (GST). Calculate the depreciated value using the depreciation rates shown below.

- Motor vehicles, including all self-propelled equipment and trailers, 30% per year (2.5% for each month).
- Aircraft, 25% per year (2.0833% for each month).
- Vessels, 15% per year (1.25% for each month).
- Railway rolling stock, 10% per year (0.8333% for each month).
- Other equipment, furniture and fixtures, 20% per year (1.667% for each month).

The value of goods that you manufacture or process outside of the province is the total direct manufacturing costs of the goods, including costs for materials, labour, fabrication, supplies, utilities, packaging and any other direct costs. You also include charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

However, you do not include services, such as design and engineering services that are provided by third-parties, as long as they are not directly involved in the manufacturing or processing of the goods, and they perform the services outside of the province prior to the goods being brought into the province.

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

Goods or Equipment for Temporary Use

If you bring taxable goods or equipment into the province for temporary use, you may qualify to pay the PST due using the temporary use formula. The temporary use formula, also known as the one-third formula, allows you to pay PST on one-third of the value of the equipment for each 12-month period the equipment is in the province for **6 days or more**. Equipment brought into the province for 5 days or less during each 12-month period is not taxable.

If you bring leased goods into the province for temporary use to perform a specific task related to your contract, you pay PST based on the time you have the goods in the province. The 5-day exemption does not apply to leased equipment.

For more information, please see *Bulletin SST 098, Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

Remitting the PST

If you have a PST registration number and the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number and the supplier does not charge you PST, you self-assess the PST due using a *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P) at the time you bring or ship the goods into British Columbia.



Need more info?

Construction Industry website: www.sbr.gov.bc.ca/industry_specific/construction/construction.htm

Telephone (Vancouver): 604 660-4524

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

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 74(e), 76, 77, 92 and 138(1)(j) - (j.2), and Regulations 2.21, 2.37, 2.45, 2.46, 2.47, 2.52 and 3.20; *Budget Measures Implementation Act*, 2009.

Ministry of Finance

Tax Bulletin



ISSUED: September 1986 REVISED: July 2010

Bulletin SST 072

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

Real Property Contractors

Social Service Tax Act

Are you in the construction industry?

Do you supply and install materials and equipment that become real property?

This bulletin provides specific tax information to help real property contractors 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

If you construct buildings, or supply and install materials and equipment that become improvements to real property, you are a real property contractor. This includes contractors and trade subcontractors in the construction industry, as well as other businesses that make improvements to real property.

Here are some examples of real property contractors.

- Bricklayers
- Cabinet installers
- Carpenters
- Carpet layers
- Drywallers
- Excavators
- Electricians
- Fence builders
- Foundation contractors
- Framing contractors
- Glass and glazing contractors
- Heating system installers
- Home builders
- Kitchen installers
- Landscapers
- Masonry contractors
- Mechanical contractors
- Painters
- Pavers
- Plumbers
- Roofers
- Sheet metal contractors
- Siding contractors
- Sundeck builders
- Window installers

To understand how PST applies to your contracts, there are two important questions that you need to consider.

1. Do you install materials and equipment that become improvements to real property?

Real property is land and any items permanently attached to land (buildings and structures). Materials and equipment that become permanently attached to the land or buildings on installation are called improvements to real property. Improvements to real property include integral parts of buildings or land, such as windows, doors and driveways. It also includes very large machinery or equipment that is constructed on site, such as machinery used in sawmills, pulp mills or other industrial locations.

For more details on real property, see the section below, Improvements to Real Property.

2. When did you enter into the contract?

Before October 1, 2008

For real property 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 that you supply and install to complete the contract.

The general rules for real property contracts are as follows.

Type of real property contract:	Who pays the PST:
Lump sum or fixed-price contracts	Contractor pays PST on the materials and equipment
Time and materials contracts	Customer pays PST on the materials and equipment but not on the labour
Services to existing real property	Neither contractor nor customer pays PST, as services to real property are exempt

Please note: there are some exceptions to the general rules. For more information, see the section below, Real Property Contracts – Before October 1, 2008.

On, or after, October 1, 2008

For real property contracts that you **enter into on, or after, October 1, 2008**, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST. It is important that you read the section below, Real Property Contracts – On, or After, October 1, 2008, for more information.

Improvements to Real Property

It can be difficult to distinguish tangible personal property from fixtures or improvements to real property. The rules regarding real property are based on common-law principles, which add considerable complexity. **While we have set out guidelines and examples for you below, if you are unsure how PST applies, please contact us. We will provide you with an answer that applies to your particular situation.**

Tangible Personal Property

Tangible personal property is property that you can see, weigh, measure or touch, or that is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Retail sales or leases of tangible personal property are taxable, unless there is a specific exemption. As a general rule, if the tangible personal property is taxable when purchased, services provided to the tangible personal property are also taxable (these services are taxable as the tangible personal property is not an improvement to real property).

Fixtures

While fixtures may be commonly understood by contractors to mean items, such as lighting, bathroom and plumbing fixtures, for PST purposes, fixtures has a specific definition in the legislation. Fixtures include certain machinery, equipment or apparatus that are used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of tangible personal property, or in the provision of a service.

Sales or leases of fixtures are taxable but services to fixtures are exempt. For a detailed explanation and the criteria for fixtures, please see **Bulletin SST 078, *Fixtures***.

Real Property

Real property is land and any items permanently attached to land (buildings and structures). It also includes tangible personal property that is installed for the purpose of improving and becoming permanently part of the land or a building. Once installed, the tangible personal property becomes an improvement to real property.

There is no PST on sales or leases of real property, or on services to real property. However, the tangible personal property that becomes an improvement to real property on installation is taxable. For more information, please see the following sections in this bulletin:

- Real Property Contracts – Before October 1, 2008
- Real Property Contracts – On, or After, October 1, 2008

General Criteria for Improvements to Real Property

There are two basic categories of improvements to real property. The criteria for each category are detailed below.

Category 1 – Integral parts of buildings or land

This includes tangible personal property that, on installation, becomes an integral part of a building, structure or land. This includes items, such as heating, air conditioning, lighting or sewage disposal equipment for a building, and elevators and escalators.

To become an integral part of a building, structure or land, the tangible personal property must meet all of the following criteria.

Criteria

1. The tangible personal property is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.
3. The tangible personal property is installed for the better use of the building, structure or land.
4. The tangible personal property is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 1 – Integral Parts of Buildings or Land. If any of the items are sold without installation, they are tangible personal property.

- Aircraft hangar doors
- Air conditioning systems – does not include portable or window units
- Air ventilation systems
- Alarm systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Altar railings, built-in
- Antennae, scatter
- Artwork – permanently attached to, and part of, a building (e.g. statues, fountains, murals and decorative wall panels)
- Asphalt roads
- Awnings
- Baseboards
- Bins, built-in
- Bleachers – folding and attached to gym walls
- Blinds, venetian
- Bridges
- Boilers – used to service a building for heat, electricity or lighting only
- Booths, built-in
- Cabinets and counters, built-in
- Cablevision cables, cable connectors, wall plates – does not include cable to the television, unless there is no wall plate
- Carpeting – wall-to-wall and attached to the floor
- Ceilings
- Church pews, pew fronts, altar rails, organ and chancel screens
- Closet organizers, built-in
- Construction materials – once installed that are used to construct a building or other permanent structure (e.g. lumber, concrete, glass and insulation)
- Conveyors
- Dishwashers, built-in
- Docks – permanently attached to pilings that are sunk into the seabed; includes floating docks and floating breakwaters

- Doors, door frames and door locks
- Drapery tracks and rails – does not include the drapes
- Driveways (e.g. asphalt or concrete)
- Elevators and escalators
- Eaves troughs
- Fences – does not include temporary fences or fences that rest upon the ground on their own weight
- Fibre-optic telecommunications systems – includes buried fibre optic cable and access points to install or maintain the cable, and above-ground wire and poles to connect users; does not include computers to manage the system
- Fire alarm and detection devices, built-in
- Fire hydrants
- Fireplaces – does not include electric fireplaces that plug in to electrical outlets
- Flooring (e.g. tile, linoleum, wall-to-wall carpeting and hardwood)
- Foundations
- Furnaces and duct work
- Garage doors
- Gas fireplaces, stoves and heaters – attached to the gas line and an outside venting system
- Glass – installed in buildings
- Greenhouses – does not include portable types
- Hand rails
- Hardwood floors
- Heating systems
- Heat pumps
- Hot water heaters
- Hot tubs – permanently attached to the land or buildings; does not include hot tubs that can be readily dismantled and removed
- Houseboats – permanently moored and hooked up to utilities; does not include houseboats that are self-propelled

- Irrigation systems
- Island units (e.g. kitchen islands, supermarket islands)
- Kitchen countertops
- Landscaping materials (e.g. plants, trees, shrubs, underground sprinklers, irrigation lines, retaining walls; does not include potted plants)
- Lighting systems and light fixtures – permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps
- Mirrors – permanently attached
- Moldings and baseboards
- Partition walls
- Plumbing fixtures and pipes
- Pools and spas – plumbed into the water supply; above ground must be enclosed by a permanent deck; does not include above ground pools or spas that can be readily dismantled and removed
- Rail sidings and rail spurs
- Range hoods
- Restaurant booths and stools – attached to floor
- Retaining walls
- Roads (e.g. asphalt or concrete)
- Roofs
- Scatter antennae
- Security systems – permanently attached to real property; does not include removable components, such as sensors, video cameras, computers
- Sewage disposal equipment
- Shelves – built into walls
- Signs – either directly bolted to concrete bases embedded in the ground, or affixed to poles or pylons which are bolted to concrete bases embedded in the ground (e.g. canopy, cube, twin pole and flag mount pylon signs)
- Signs – mounted on walls of buildings (e.g. fascia or neon signs)
- Sinks and sink counters

- Sprinkler systems – embedded in the ground or affixed to a building
- Stairs
- Stools – restaurant stools attached to the floor
- Swimming pools, in-ground
- Telecommunications towers
- Trash compactors
- Vacuum cleaner systems – built-in; does not include plug-in hoses and attachments
- Venetian blinds
- Water meters
- Water treatment systems, built-in
- Windows – includes screens
- Wiring – built into walls

Category 2 - Very large machinery and equipment

This includes machinery or equipment that is constructed on site because of its size, such as machinery used in sawmills, pulp mills or other industrial locations. The machinery or equipment is used in specific business processes that include manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmitting or distributing tangible personal property, or delivering a service. Machinery or equipment that runs on rails or tracks, or moves around on, or from, the site it was constructed does not qualify.

The machinery and equipment must meet all of the following criteria to qualify.

Criteria

1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.
2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.
3. The machinery or equipment is constructed on site because of its size.

4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.
5. The machinery or equipment cannot be moved from the site without:
 - dismantling the machinery or equipment, or
 - dismantling or causing substantial damage to the building in which it is installed or attached.

Examples

The following items are examples of improvements to real property once they are installed. The items must meet all the criteria explained in the section above, Category 2 – Very Large Machinery and Equipment. If any of the items are sold without installation, they are tangible personal property.

- Aerial tramways – does not include tramway cars
- Alpine slides – does not include the cars that go down the slide
- Automotive spray booths
- Chairlifts – includes steel towers, gearboxes, motors and engines bolted to concrete, cables and chairs
- Coolers, walk-in
- Compressors – used in natural gas pipelines
- Dry kilns
- Freezers, walk-in
- Gas distribution systems – consisting of underground mainlines, distribution pipes, etc.
- Ice-making equipment – used in cold storage plants or curling and skating rinks; does not include ice resurfacing machines or equipment used to make ice for sale
- Paint spray booths – includes ventilation systems
- Pulp mills – includes black liquor evaporating plant, black liquor oxidation plant, black liquor storage tanks, block conveyor and chlorine dioxide generators
- Refrigeration systems – includes freon refrigerant
- Saw mills – includes waste conveyors, green chains, storage bins, kickers (part of conveyor), drop gate, landing decks, sewage, wastewater and treatment systems and septic tanks when installed in real property, walkways and platforms for access to machinery
- Tanks, process – must be of a size that cannot be transported in one piece and are assembled on the site
- Walk-in freezers and coolers

Improvements to Real Property Summary

The following table provides a quick reference guide to the general criteria that are described in the previous section, Improvements to Real Property.

Category	Criteria:	Examples:
Integral parts of buildings or land	1. Tangible personal property that is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Building materials (once installed) to construct buildings, such as lumber, concrete, steel, glass and insulation ▪ Windows and doors ▪ Flooring, such as tiles, linoleum, wall-to-wall carpeting, hardwood floors ▪ In-ground swimming pools ▪ Furnaces and duct work
	2. The attachment of the tangible personal property is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the tangible personal property, or the security of the tangible personal property.	
	3. The tangible personal property is installed for the better use of the building, structure or land.	
	4. The tangible personal property is permanently installed at a location where it is intended to remain.	
Very large machinery and equipment	1. The machinery or equipment is permanently attached to real property, such as being firmly bolted to the floor or ceiling, embedded in a concrete pad or built into the walls of a building.	<ul style="list-style-type: none"> ▪ Automotive spray booths ▪ Pulp mills: chlorine dioxide generators ▪ Saw mills: waste conveyors ▪ Walk-in freezers and coolers
	2. The attachment of the machinery or equipment is for the purpose of improving and becoming part of the real property, rather than for the convenient or safe operation of the machinery, or the security of the machinery.	
	3. The machinery or equipment is constructed on site because of its size.	
	4. The machinery or equipment, by its nature or design, is normally expected to remain on the site where it is constructed for its useful life.	
	5. The machinery or equipment cannot be moved from the site without: <ul style="list-style-type: none"> ▪ dismantling the machinery or equipment, or ▪ dismantling or causing substantial damage to the building in which it is installed or attached. 	

Real Property Contracts – Before October 1, 2008

For real property contracts that you **enter into before October 1, 2008**, how PST applies depends on whether you use your own materials and equipment to improve the

customer's property, or you improve the customer's property using materials and equipment that you have sold to your customer. In most cases, this depends on whether the contract is for a lump sum or a time and materials contract.

If you are uncertain about how PST applies to your contract, please contact the ministry. We will provide an answer that applies to your particular situation.

Lump Sum (Fixed-Price) Contracts

These are contracts where a single charge is made for the tangible personal property and labour services supplied under the contract.

With this type of contract, your customer is not purchasing tangible personal property, but is purchasing an improvement to real property. Therefore, you are considered the last purchaser of the tangible personal property and must pay PST on all materials and equipment used to fulfill the contract.

A contract may contain a provision transferring ownership of the materials and equipment to the customer. This is to ensure that the customer maintains a security interest in the property in case you go bankrupt. If the contract is a lump sum contract, this type of provision will not change the nature of the contract into a sale of tangible personal property.

Your customer may request a breakdown in the price of the lump sum contract between the materials and the labour without changing the nature of the contract. Where the contract remains a single fixed-price contract for the delivery of a completed improvement to real property, a breakdown in costs for materials and labour may be provided to your customer for information only. To avoid misunderstanding, you should include a statement on the invoice explaining that the breakdown of the price is for information only and does not indicate that the parties intend that the contract involve a sale of tangible personal property.

Indicators of a lump sum contract

- The contract price is for a single fixed amount for completion of described work. The contract does not consider separate charges for materials and labour (although the price may be adjusted for changes, extra work etc.).
- The contract and invoice do not break down the contract price into separate amounts for materials, equipment and labour.
- You are to deliver a completed improvement to real property.
- The payment schedule is based on a percentage of the lump sum price.

Time and Materials (Cost-Plus) Contracts

These are contracts where the charges for the supply of tangible personal property and labour services are separately identified and accounted for in the contract.

Indicators of a time and materials contract

- The contract price separately identifies and prices the materials, equipment and labour.
- The invoice has a breakdown with separate charges for materials, equipment and labour.
- According to the contract or invoice, you charged your customer PST on the materials and equipment.

General rule

When a contract is structured this way, the general rule is that you have sold the tangible personal property to your customer before it becomes installed as an improvement to real property (see below for exceptions to the general rule). Therefore, **your customer must pay PST** on all materials and equipment purchased. You charge your customer PST on the sale price of all tangible personal property supplied under the contract.

Exception to the general rule

The exception to the general rule is where a time and materials contract does not involve a sale of tangible personal property. If a time and materials contract does not involve a sale of tangible personal property, you are considered the last purchaser of the tangible personal property and **you must pay PST** on all materials and equipment used to fulfill the contract.

The information below will help you to determine whether or not a time and materials contract involves a sale of tangible personal property, and therefore, whether you or your customer must pay PST.

Indicators that the contract does not involve a sale of tangible personal property

- You retain any surplus materials and equipment once the installation is complete.
- The materials and equipment remain as your property, and ownership of the materials and equipment does not transfer to your customer until after the installation is complete. This does not include a situation where the purpose of a contractual provision is for you to maintain a security interest in the materials and equipment.
- The contract indicates that you are liable for all sales taxes.

Indicators that the contract involves a sale of tangible personal property

- According to the contract or invoice, you charged your customer PST on the materials and equipment.
- Ownership of the materials and equipment transfers to your customer upon delivery to the site, and before installation.
- You are liable to your customer for any damage to materials and equipment supplied and intended to be incorporated into the improvement to real property.
- Any surplus materials and equipment are the property of your customer.
- The customer keeps the materials and equipment in the event the contract is cancelled.
- The contract indicates that the property is to remain as tangible personal property.

Lump Sum Contracts Involving Both Tangible Personal Property and Real Property

You may have a lump sum contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, the parts are taxable to either you or your customer depending on the type of contract, unless an exemption applies. PST applies to the repair parts as explained in the above sections, Lump Sum (Fixed-Price) Contracts, and Time and Materials (Cost-Plus) Contracts. If you install the parts under a lump sum contract, you pay PST on the parts. If you install the parts under a time and materials contract, the general rule is that you charge your customer PST on the parts but not on the labour to install them.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If a subcontractor has a lump sum contract with a contractor, the subcontractor pays PST. If a subcontractor has a time and materials contract with a contractor, the subcontractor charges the contractor PST on the materials and equipment but not on the labour.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into before October 1, 2008. However, there is an exception to the general rules. For details on the exception, see the section above, Exception to the general rule, under the section, Time and Materials (Cost-Plus) Contracts.

If the material or equipment is:	And your contract is:	The following person pays the PST:
Improvement to real property or fixture	Lump sum / fixed price	Contractor pays on purchase price of materials and equipment
	Time and materials	Customer pays on sale price of materials and equipment but not labour (time)
	Service / repair (time) only	Neither contractor nor customer pays PST on services to improvements to real property or fixtures If repair parts installed: Contractor pays on parts for lump sum contracts Customer pays on parts for time and materials contracts
Tangible personal property	Supply / materials only	Customer pays on sale price of materials and equipment
	Service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers Before October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of eligible customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments.

If you structure your contract with an exempt customer as a time and materials contract, you purchase the materials and equipment without paying PST by giving your PST registration number to the supplier.

You do not charge PST as long as your customer meets all the criteria for an exemption. To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

If you structure your contract as a lump sum contract, you pay PST on the materials and equipment. This is because, under lump sum contracts, you are considered the final purchaser of the materials and equipment. You are not reselling the materials and equipment because your customers are purchasing them after you have installed them into real property. The only exception is when you supply and install production

machinery and equipment under specific conditions. In this case, you may claim an exemption using the *Certificate of Exemption - Production Machinery and Equipment* form (FIN 453/M). For more information, please see **Bulletin SST 054, Manufacturers**.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, Manufacturers

SST 023, Bona Fide Farmers

SST 046, Exemption for Indians and Indian Bands

SST 034, Procedures for Making Exempt Sales or Leases to Indians and Indian Bands

GEN 007, Exemption for Members of the Diplomatic and Consular Corps

GEN 006, Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators

Real Property Contracts – On, or After, October 1, 2008

Contractor is Responsible for the PST

For real property contracts that you **enter into on, or after, October 1, 2008**, you are required to pay PST on the materials and equipment that you supply and install to complete the contract **unless** you and your customer agree, in writing, that your customer pays the PST.

Customer is Responsible for the PST

For you to charge PST, the written contract or a separate written agreement **must specifically state:**

- the value of the materials and equipment, and
- that the customer is responsible for paying PST on this amount.

For contracts where you charge your customers PST, you purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

If you regularly enter into contracts where your customers pay PST, you need to register as a vendor. For information on how to register as a vendor, please see **Bulletin SST 044, Registering to Collect Provincial Sales Tax (PST)**.

Contracts Involving Both Tangible Personal Property and Real Property

You may have a contract that includes both the supply and installation of materials and equipment that remain tangible personal property, and materials and equipment that become improvements to real property. For example, once installed, a security system may have components that are tangible personal property (e.g. wireless and removable sensors) and components that are improvements to real property (e.g. hardwired control panels).

For these contracts, PST applies as outlined below.

If the contractor is responsible for the PST:

- separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property,
- you pay PST on the portion of the materials and equipment that relates to improvements to real property, and
- you charge your customer PST on the portion of the materials, equipment and **labour** that relates to tangible personal property.

If the customer is responsible for the PST:

- if you and your customer have agreed, in writing, that your customer pays the PST on the materials and equipment that become improvements to real property (**see box above**), you charge your customer PST on:
 - all of the materials and equipment that you supply and install to complete the contract, and
 - the **labour** that relates to tangible personal property.

Services and Repairs to Real Property

These are contracts that include only services or repairs to existing real property. As services to real property are not taxable, you do not charge PST to your customer for services or repairs.

If you install repair parts for existing real property while providing a service, you pay PST on the parts, unless you and your customer have agreed, in writing, (**see box above**), that your customer pays the PST.

Subcontractors

A subcontractor is a person who enters into an agreement with a general contractor to perform part, or all, of the work contracted to the general contractor. The PST rules for subcontractors are the same as those for contractors. If you are a subcontractor, you pay PST on the materials and equipment that you supply and install to complete the

contract, unless you and the contractor agree, in writing (see box above), that the contractor pays the PST.

Summary of Who Pays the PST

The table below summarizes the general rules for contracts that you enter into on, or after, October 1, 2008.

If the material or equipment is:	And:	The following person pays the PST:
Improvement to real property or fixture	The contract does not specify that the customer pays the PST and/or the value of the materials and equipment	Contractor pays on purchase price of materials and equipment
	You and your customer have agreed, in writing, that your customer pays the PST, and the value of the materials and equipment is specified	Customer pays on sale price of materials and equipment but not labour (time)
	The contract is for service / repair (time) only	Neither contractor nor customer pays on services to improvements to real property or fixtures If repair parts installed: Contractor pays PST on parts unless the contractor and the customer agree, in writing (see box above), that the customer will pay PST
Tangible personal property	The contract is for supply / materials only	Customer pays on sale price of materials and equipment
	The contract is for service / repair (time) only	Customer pays on sale price of taxable services (including parts and labour)

Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008

Some of your customers may be eligible for a PST exemption. Some examples of exempt customers include Status Indians, *bona fide* farmers, manufacturers, diplomats and federal government departments. For contracts that you enter into on, or after, October 1, 2008, there are two ways to claim a PST exemption on materials and equipment that you are installing on behalf of an exempt customer, depending on the contract with your customer (see the beginning of this section, Real Property Contracts – On, or After, October 1, 2008).

1. **Customer is responsible for the PST - the contract specifies that your customer pays the PST**

You purchase the materials and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, you use a *Certificate of Exemption* form (FIN 453).

You do not charge your customer PST as long as your customer meets all the criteria for the exemption (for more information, see bulletins listed below). To show why you did not charge PST, keep a copy of the supporting documentation from your customer, such as a certificate of exemption or an identity card. The bulletins listed at the end of this section provide more information on supporting documentation.

2. **Contractor is responsible for the PST - the contract does not specify that the customer pays the PST**

You purchase the materials and equipment without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, give the supplier a completed *Certificate of Exemption - Contractors* form (FIN 453/C) completed by the customer (the contractor only completes Part B). This form is available from the ministry or any **Service BC Centre**. You will also find it on our website.

For you to qualify for the exemption, your customer must qualify for and meet all the criteria for exemption as if they were purchasing the materials and equipment themselves. For example, for Status Indians to qualify for an exemption on the purchase of goods, title to the goods must pass to the Status Indian at a location on reserve land. Therefore, if your customer is a Status Indian, title to the materials and equipment must pass to you at a location on reserve land to qualify for the exemption.

You must obtain documentation from your customer confirming your customer's eligibility for the exemption. To show why you did not pay PST, keep this supporting documentation and a copy of the completed *Certificate of Exemption - Contractors* form (FIN 453/C) for your records. The bulletins listed at the end of this section provide more information on supporting documentation.

Please note: For contracts that you **enter into on, or after, October 1, 2008**, you cannot use the *Certificate of Exemption – Production Machinery and Equipment* form (FIN 453/M) to claim an exemption on production machinery and equipment that you supply and install under a real property contract for an eligible manufacturer. Instead, you follow the process described above.

For more information on sales to exempt customers, please see the following bulletins.

SST 054, *Manufacturers*

SST 023, *Bona Fide Farmers*

SST 046, *Exemption for Indians and Indian Bands*

SST 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*

GEN 007, *Exemption for Members of the Diplomatic and Consular Corps*

GEN 006, *Exemption for Members of the Diplomatic and Consular Corps: Instructions to Vendors and Operators*

Sales

When to Charge PST

You charge PST on the retail sale or lease of goods, such as:

- supply-only sales of materials and equipment (excluding installation),
- materials and equipment sold under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment sold under real property contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see the section above, Real Property Contracts – On, or After, October 1, 2008), and
- supply and installation of materials and equipment that do not become improvements to real property (i.e. they remain tangible personal property after installation, such as drapes, gym lockers, Murphy wall-beds, wireless security systems etc.).

If you regularly sell taxable goods or services in British Columbia, you need to register and receive a PST registration number. If you are not required to register, you are still responsible for collecting and remitting PST if you occasionally make taxable sales. You self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Seller Not Registered Under the Social Service Tax Act* form (FIN 428S). This form is available from the ministry or any Service BC Centre. You will also find it on our website.

If you are located outside British Columbia and make taxable sales in British Columbia, you may be required to register. For more information, and to see if you need to register, please see **Bulletins SST 044, *Registering to Collect Provincial Sales Tax (PST)***, and **SST 074, *Out-of-Province Sellers***.

When Not to Charge PST

You do not charge PST on the following:

- materials and equipment installed under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment installed under real property contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- services to real property, such as installation or labour charges,
- sales to exempt customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above – Real Property Contracts Provided to Exempt Customers Before October 1, 2008), and
- sales to exempt customers under real property contracts that you enter into **on, or after**, October 1, 2008 (see section above, Real Property Contracts Provided to Exempt Customers On, or After, October 1, 2008).

Purchases

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:

- materials and equipment you purchase to install under lump sum contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase to install under contracts that you enter into **on, or after**, October 1, 2008, if you are responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- stationery, furniture and office equipment,
- advertising materials, such as flyers and brochures,
- goods you purchase to give away as free promotions,
- computer hardware and software (unless custom software),
- supplies that do not become part of the materials and equipment you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment and tools used to fulfill your contract, such as saws, hammers, nail guns, hand tools and vehicles, and
- services to repair your equipment and tools.

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. If you do not have a PST registration number, you self-assess the PST due using a *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered under the Social Service Tax Act* form (FIN 428P). This form is available from the ministry or any Service BC Centre. You will also find it on our website.

When Not to Pay PST

You do not pay PST on the following:

- materials and equipment you purchase for resale or lease to your customers under time and materials contracts that you enter into **before** October 1, 2008 (see section above, Real Property Contracts – Before October 1, 2008),
- materials and equipment you purchase for resale or lease to your customers under contracts that you enter into **on, or after**, October 1, 2008, if your customer is responsible for paying PST (see section above, Real Property Contracts – On, or After, October 1, 2008),
- materials and equipment that you purchase for resale or lease to your customers under supply-only contracts, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

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

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

Purchases for Taxable and Non-Taxable Sales

If you maintain an inventory and you do not know at the time of purchase whether the goods will be taxable or non-taxable, there are three possible ways to pay the PST on your purchases.

1. You maintain separate inventories for taxable sales and non-taxable sales. You pay PST on the purchases for the non-taxable sale inventory and do not pay PST on the purchases for the taxable sale inventory.
2. You pay PST on all your purchases. When you sell taxable goods, you charge your customer PST but you recover the PST paid on your purchase of the goods by claiming a refund from the ministry or taking an internal tax account adjustment. Under certain circumstances, you may take an internal tax account adjustment by deducting the PST paid on the purchase of the goods from the PST you have collected on your sales.

3. You make a reasonable estimate of the portion of the purchases that are for non-taxable sales and you pay PST to the supplier on that portion. You need to reconcile this estimate to your actual usage. If the reconciliation shows you used more goods for taxable purposes than estimated, you self-assess the PST owing on the goods purchased exempt, but used for taxable purposes. If you have a PST registration number, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number, you self-assess the PST due using the *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P).

If the reconciliation shows you used more goods for exempt purposes than estimated, you can recover the PST paid on items used for exempt purposes by claiming a refund from the ministry or taking an internal account adjustment.

For more information on when you can take internal tax account adjustments, please see **Bulletin SST 032, Completing the Tax Return Form**. For more information on refunds, please see **Bulletin GEN 008, Refunds of Overpayments of Tax**.

Safety Equipment and Protective Clothing

Effective February 20, 2008, all work-related safety equipment and protective clothing, designed to be worn by, or attached to, a worker, will be PST exempt if they **meet provincial work safety legislation** and are purchased by an employer, self-employed person, or school boards or similar authority. The definition of work gloves has also been expanded to include all gloves with built-in safety features, such as reinforced thumbs, cuffs or palms designed to protect a worker from physical harm, including traffic safety gloves to enhance visibility. There are also safety items that are exempt to everyone, such as gas detection monitors, portable fire extinguishers and their refills.

For more information, please see **Bulletin SST 002, Safety Equipment and Protective Clothing**.

Production Machinery and Equipment Exemption

If you manufacture goods (e.g. cabinets), you may qualify as a manufacturer. If you qualify as a manufacturer, you may purchase equipment used to produce your product without paying PST. For more information, and to see if you qualify for the production machinery and equipment exemption, please see **Bulletin SST 054, Manufacturers**.

General Exemptions Common to Contractors

Energy conservation exemptions

You do not charge PST on the following energy conservation materials and equipment:

- certain materials and equipment that prevent heat loss from a building,
- ENERGY STAR® Qualified residential oil-fired forced air furnaces, boilers, and air- or ground-source heat pumps,
- prescribed commercial boilers (for more information, please see **Bulletin SST 011, Exemption for Material and Equipment Used to Conserve Energy**),
- gas-fired water heaters (including gas-fired storage water heaters and gas fired instantaneous water heaters) with an energy factor of 0.80 or greater when purchased or leased for residential purposes,
- ENERGY STAR®¹ Qualified residential refrigerators, freezers and clothes washers,
- ENERGY STAR® Qualified windows, doors (including side panels) and skylights,
- insulation designed to prevent heat transfer to, or from, hot water tanks, hot or cold water pipes and ductwork, and
- prescribed ocean, wind, solar and micro-hydro power generating equipment.

As of February 21, 2007, windows, doors and skylights that do not have the ENERGY STAR® designation are taxable. This means that there is no longer an exemption for glass and other materials used to manufacture windows or skylights as the ENERGY STAR® designation is available only for pre-manufactured products. Also, there is no longer an exemption for window walls in high-rise residential and commercial buildings as there are no standards equivalent to ENERGY STAR® for these products.

There is no change to the exemption for replacement parts, such as glass used to repair ENERGY STAR® windows. If you provide repair services, you can purchase replacement parts without paying PST by giving your PST registration number to the supplier.

For more details on the ENERGY STAR® designation and energy conservation exemptions, please see our website.

Transitional refunds

Before February 21, 2007, the following products qualified under the PST exemption for windows and doors:

- storm windows, storm doors, multi-glazed windows and doors containing multi-glazed windows, and
- glass and other materials purchased to construct multi-glazed windows.

¹ The ENERGY STAR® mark is administered and promoted in Canada by Natural Resources Canada and is registered in Canada by the United States Environmental Protection Agency.

Recognizing that individuals and businesses may have entered into agreements before February 21, 2007, to purchase or supply and install products that qualified under the previous exemption, PST refunds are available for the following agreements:

- lump sum agreements entered into before February 21, 2007, by contractors to supply and install products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007, and
- written agreements entered into by individuals or businesses before February 21, 2007, to purchase a specific quantity of products qualifying under the previous exemption, and purchases of the products are made on, or after, February 21, 2007.

To qualify for the above transitional refunds, applicants must:

- purchase and take delivery of the products between February 21, 2007 and March 31, 2009, inclusive, and
- apply for the refund before April 1, 2010.

Please note: Contractors cannot claim a refund if the lump sum agreement allows them to recover the PST from their customers.

To claim a refund, you need to provide the following information:

- a completed and signed *Application for Refund* form (FIN 413),
- a copy of the written agreement dated before February 21, 2007,
 - for contractors: the lump sum agreement to supply and install products that qualified under the previous exemption
 - for individuals and other businesses: the purchase order, receipt or other written document to purchase a specific quantity of products that qualified under the previous exemption
- purchase invoices or receipts, dated between February 21, 2007 and March 31, 2009, inclusive, for products that qualified under the previous exemption,
- proof that PST was paid on the purchase invoices or receipts (e.g. cancelled cheques or accounting records), and
- proof that the previously exempt products were delivered to the applicant between February 21, 2007 and March 31, 2009, inclusive.

Send your refund application and supporting documents to:

Consumer Taxation Branch
Refund Section
PO Box 9628 Stn Prov Govt
Victoria BC V8W 9N6

Goods Brought Into British Columbia

Goods or Equipment for Permanent Use

If you purchase taxable goods or equipment from an out-of-province supplier, or bring taxable goods or equipment into British Columbia for permanent use, you pay PST on the full value of the goods or equipment as outlined below.

The value of **new** goods or equipment you bring into the province is the total purchase price. The purchase price includes charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

The value of **used** goods or equipment you bring into the province is the greater of the depreciated value or 50% of the purchase price. You also include charges for transportation, customs, excise and any other costs that you pay before you use the equipment in British Columbia, except the goods and services tax (GST). Calculate the depreciated value using the depreciation rates shown below.

- Motor vehicles, including all self-propelled equipment and trailers, 30% per year (2.5% for each month).
- Aircraft, 25% per year (2.0833% for each month).
- Vessels, 15% per year (1.25% for each month).
- Railway rolling stock, 10% per year (0.8333% for each month).
- Other equipment, furniture and fixtures, 20% per year (1.667% for each month).

The value of goods that you manufacture or process outside of the province is the total direct manufacturing costs of the goods, including costs for materials, labour, fabrication, supplies, utilities, packaging and any other direct costs. You also include charges for transportation, customs, excise and any other costs that you pay before you use the goods in British Columbia, except the goods and services tax (GST).

However, you do not include services, such as design and engineering services that are provided by third-parties, as long as they are not directly involved in the manufacturing or processing of the goods, and they perform the services outside of the province prior to the goods being brought into the province.

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

Goods or Equipment for Temporary Use

If you bring taxable goods or equipment into the province for temporary use, you may qualify to pay the PST due using the temporary use formula. The temporary use formula, also known as the one-third formula, allows you to pay PST on one-third of the value of the equipment for each 12-month period the equipment is in the province for **6 days or more**. Equipment brought into the province for 5 days or less during each 12-month period is not taxable.

If you bring leased goods into the province for temporary use to perform a specific task related to your contract, you pay PST based on the time you have the goods in the province. The 5-day exemption does not apply to leased equipment.

For more information, please see **Bulletin SST 098, Equipment Brought into the Province for Temporary Use (1/3 Formula).**

Remitting the PST

If you have a PST registration number and the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number and the supplier does not charge you PST, you self-assess the PST due using a *Casual Remittance Return For Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form (FIN 428P) at the time you bring or ship the goods into British Columbia.

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.

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69, 69.1, 74(e), 76, 77, 92 and 138(1)(j) - (j.2), and Regulations 2.21, 2.37, 2.45, 2.46, 2.47, 2.52 and 3.20; *Budget Measures Implementation Act*, 2009.