

Security Systems

Social Service Tax Act

Do you sell, install or repair security systems?

Do you need to know how tax applies to your business?

This bulletin provides specific tax information to help security system sellers and installers 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

Security systems are taxable to either the security system seller/installer or the customer. Whether you pay PST or charge your customer PST depends on the kind of system that you install, the contract you have with your customer and when you entered into the contract. Whether you charge PST on the installation charges also depends on the kind of system. The PST rules are the same whether the system is purchased or leased by the customer.

Categories of Security Systems

For PST purposes, a security system is:

- tangible personal property (most wireless and removable systems), or
- an improvement to real property (most hardwired systems permanently attached to land or buildings), or
- a hybrid (a combination of both tangible personal property and improvement to real property).

For more details on the kinds of security systems, see the section below, [Categories of Security Systems](#).

For systems that are tangible personal property, you charge PST on the total charge to your customer, including labour.

Systems that are permanently attached to land or buildings and meet certain criteria become improvements to real property on installation (for the criteria, see the section below, [Security Systems that Become Improvements to Real Property](#)). Whether you pay PST or charge your customer PST on systems that become improvements to real property depends on the contract you have with your customer and when you entered into the contract. For details, please see the section below, [Security Systems that Become Improvements to Real Property](#).

Categories of Security Systems

The key distinction between the types of security systems is whether, on installation, the system remains tangible personal property (most wireless and removable systems) or becomes an improvement to real property (most hardwired systems permanently attached to land or buildings). Some systems may be a combination of both tangible personal property and an improvement to real property.

It can be difficult to distinguish tangible personal property from improvements to real property. The rules regarding real property are based on common-law principles, which add 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.**

For a detailed explanation on tangible personal property and improvements to real property, please see [Bulletin SST 072](#), *Real Property Contractors*.

While there is a wide variety of components and configurations of security systems, for PST purposes, we have grouped security systems into three general categories.

Security Systems that are 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. Security system components that are not permanently attached to land or buildings remain tangible personal property on installation. An indicator that an item is not permanently attached to a building or land is if it is attached for the convenient or safe operation of the item, or the security of the item. An example is a freestanding automatic teller machine that is attached to the floor for security reasons only.

Most wireless systems are tangible personal property as the components are removable and not permanently attached to land or buildings. Retail sales or leases of tangible personal property are taxable, unless a general exemption applies. For details on general exemptions, please see the [Small Business Guide to Provincial Sales Tax \(PST\)](#).

As a general rule, if the tangible personal property is taxable, then most services provided to the tangible personal property are also taxable. This means you charge PST on the total charge to supply and install a system that is tangible personal property, including the system and the labour to install the system. Once installed, you also charge PST on maintenance and repairs to a system that is tangible personal property.

Examples

The following items are examples of security system components that remain tangible personal property on installation. You charge PST on the components, installation charges, and charges for repairs or maintenance.

- Aerials
- Antennae
- Batteries and replacement batteries
- Cables (outside walls and ceilings)

- Cameras (removable)
- Cassette recorders
- Computer hardware and software (for custom software, please see [Bulletin SST 040, Computer Software and Hardware](#))
- Control panels (removable or wireless)
- Digital recorders
- Fibre-optic cables (outside walls or ceilings)
- Film
- Horns
- Key fobs
- Keyboard panels (portable or part of computer system)
- Monitors
- Remote controls
- Sensors (wireless, not hardwired)
- Swipe cards
- Tapes and DVDs (audio and video)
- Telephone cords
- Transmitters (removable or wireless)
- VCRs and DVD players
- Video cameras (removable)
- Wires not permanently installed
- Wireless accessories (e.g. wireless flood detectors)

Security Systems that Become Improvements to 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.

Security systems that are permanently attached to land or buildings become improvements to real property on installation. Most hardwired systems are improvements to real property on installation as the components are permanently attached to land or buildings.

To become an improvement to real property, the security system must meet all of the following criteria.

Criteria

1. The security system 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 security system is for the purpose of improving and becoming permanently part of the real property, rather than for the convenient or safe operation of the security system, or the security of the system.
3. The security system is installed for the better use of the building, structure or land.
4. The security system is permanently installed at a location where it is intended to remain.

Examples

The following items are examples of security system components that become improvements to real property once they are installed. The items must meet all the criteria explained above. If any of the items are sold without installation, they are tangible personal property.

- Cables (inside walls or ceilings)
- Cameras (hardwired and permanently attached to real property)
- Control panels (hardwired and permanently attached to real property)
- Detectors (hardwired; e.g. to detect heat, shock, motion)
- Fibre-optic cables (inside walls or ceilings)
- Gas detection monitors
- Keypad panels (hardwired)
- Lighting systems and light fixtures (permanently attached; does not include freestanding lamps, such as desktop, tabletop or floor lamps)
- Power sources (permanently built in)
- Sensors (hardwired; e.g. door, window, motion, fire, heat)
- Speaker phones (permanently attached to walls)
- Switches (hardwired)
- Telephone jacks
- Video cameras (hardwired and permanently attached to real property)
- Wires/wiring (inside walls or ceilings)

If you sell and install security system components that become an improvement to real property on installation, it is important that you read [Bulletin SST 072, Real Property Contractors](#), for detailed information.

How PST Applies

There is no PST on sales or leases of real property or on services to real property. This means you do not charge your customer PST on the labour charge to install or service a system that becomes an improvement to real property. However, security system components that become an improvement to real property on installation are taxable to either you or the customer. Who pays the PST on the security system depends on the contract you have with your customer and when you entered into the contract.

Contracts entered into before October 1, 2008

For contracts that you **enter into before October 1, 2008**, the way you structure your contract determines whether you pay PST or you charge your customer PST on the security system components that you supply and install to complete the contract.

With a lump sum contract, you charge a single price for your labour and materials, and your customer is purchasing a completed improvement to real property. Generally, you do not charge your customer PST but you pay PST on all taxable goods and materials used to fulfill the contract.

With a time and materials contract, you identify and charge your labour separately from the materials. The general rule is you charge your customer PST on the materials but not on your labour.

Please note: There are some exceptions to the general rules. For details, please see the section Real Property Contracts – Before October 1, 2008, in [Bulletin SST 072](#), *Real Property Contractors*, or contact us.

Contracts entered into on, or after, October 1, 2008

INSTALLER IS RESPONSIBLE FOR THE PST

For contracts that you **enter into on, or after, October 1, 2008**, you are required to pay PST on security system components 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 security system components, and
- that the customer is responsible for paying PST on this amount.

For more information on contracts entered into on, or after, October 1, 2008, please see the section Real Property Contracts – On, or After, October 1, 2008, in [Bulletin SST 072, Real Property Contractors](#), or contact us.

For contracts where you charge your customer PST, you purchase the security system components 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 \(PST\)](#).

Hybrid Security Systems

Security systems that include both tangible personal property and improvements to real property are called hybrid systems. For example, a system may have wireless and removable sensors, and a hardwired control panel.

For hybrid security systems, you apply PST as follows.

- Separate the charges for the portion that relates to tangible personal property from the portion that relates to improvements to real property. If you do not know the exact price of the tangible personal property components, you make a reasonable determination of their value.
- You charge your customer PST on the portion of the security system and labour that relates to tangible personal property.
- For the portion that is an improvement to real property, who pays the PST depends on the contract you have with your customer and when you entered into the contract.
 - **Contracts entered into before October 1, 2008**
 - Lump sum contract: you pay PST on the portion of the security system that is an improvement to real property.
 - Time and materials contract: you charge your customer PST on the system components but not on the labour.

- **Contracts entered into on, or after, October 1, 2008**
 - You pay PST on the security system components that you supply and install to complete the contract unless you and your customer agree, in writing (**see box** on page 7), that your customer pays the PST.
 - If you and your customer have agreed that your customer pays the PST (**see box** on page 7), you charge your customer PST on all the security system components that you supply and install to complete the contract.

Summary

Here is a summary of the general rules for security systems.

Category of Security System	Who Pays the PST
Tangible Personal Property (most wireless and removable systems)	Customer pays PST on the system and labour.
Improvements to Real Property (most hardwired systems permanently attached to land or buildings)	<p><i>Contracts entered into before October 1, 2008</i></p> <p>Depends on the type of contract.</p> <ul style="list-style-type: none"> ▪ Lump sum contract: installer pays PST on the system. ▪ Time and materials contract: customer pays PST on the system but not on the labour. <p><i>Contracts entered into on, or after, October 1, 2008</i></p> <p>Installer pays PST on the system unless the installer and customer agree, in writing (see box on page 7), that the customer pays the PST.</p>
Hybrid (combination of both tangible personal property and improvements to real property)	<p>Separate and charge PST as follows.</p> <p>Tangible personal property portion Customer pays PST on the system and labour.</p> <p>Improvement to real property portion</p> <p><i>Contracts entered into before October 1, 2008</i></p> <p>Depends on the type of contract.</p> <ul style="list-style-type: none"> ▪ Lump sum contract: installer pays PST on the system. ▪ Time and materials contract: customer pays PST on the system but not on the labour. <p><i>Contracts entered into on, or after, October 1, 2008</i></p> <p>Installer pays PST on the system unless the installer and customer agree, in writing (see box on page 7), that the customer pays the PST.</p>

When to Charge PST

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

- security system components that are tangible personal property (including labour charges; see the section above, Security Systems that are Tangible Personal Property),
- security system components that are improvements to real property and installed under time and materials contracts that you **enter into before October 1, 2008** (excluding labour charges; see the section above, Security Systems that Become Improvements to Real Property),
- security system components that are improvements to real property and installed under contracts that you **enter into on, or after, October 1, 2008**, if your customer is responsible for paying PST (see the section above, Security Systems that Become Improvements to Real Property),
- retail sales of security systems sold without installation,
- security systems for vehicles, motor homes and boats, and
- personal security devices, such as personal alarms.

When Not to Charge PST

You do not charge PST on the sale or lease of goods or services, such as:

- security system components that are improvements to real property and installed under lump sum contracts that you **enter into before October 1, 2008** (see the section above, Security Systems that Become Improvements to Real Property),
- security system components that are improvements to real property and installed under contracts that you **enter into on, or after, October 1, 2008**, if you are responsible for paying PST (see the section above, Security Systems that Become Improvements to Real Property),
- installation charges for security system components that are improvements to real property and installed under time and materials contracts that you **enter into before October 1, 2008** (see the section above, Security Systems that Become Improvements to Real Property),
- installation charges for security system components that are improvements to real property and installed under contracts that you **enter into on, or after, October 1, 2008** (see the section above, Security Systems that Become Improvements to Real Property),

- repairs or maintenance services to systems that are improvements to real property (labour charges only; see the section below, *Services*),
- monitoring services (for any type of system), and
- medical alert transmitters, or certain fire and smoke alarm devices for residential use (for more details, please see [Bulletin SST 002](#), *Exemption for Safety Equipment*).

Bundled Goods and Services

Generally, if a non-taxable good or service, such as a monitoring service, is bundled together with a taxable good or service, such as a wireless security system, and sold together for a single price, you charge PST only on the fair market value of the taxable good or service. However, there are exceptions to this general rule. For more information, please see [Bulletin SST 119](#), *Bundled Sales: Taxable and Non-taxable Goods or Services Sold Together for a Single Price*.

Promotional or Giveaway Items

Promotional or giveaway items are often given away with the purchase of another product or service. For example, you may give your customer a free security system when they purchase a monitoring service contract. These types of giveaway items are part of the sale, and you can purchase them without paying PST if the giveaway item meets *one* of the following conditions:

- it is physically included with the purchased item,
- your customer receives the promotional or giveaway item as a condition of purchasing another product or service, or
- you advertise that you only give it away with the purchase of another product or service.

For these types of sales, you charge PST on the taxable item that your customer purchases to receive the giveaway item, and you do not charge PST on the giveaway item. However, if the item that your customer purchases is not taxable (e.g. a monitoring service contract), you do not charge PST on the sale.

For more information, please see [Bulletin SST 080](#), *Promotions and Special Offers*.

Conditional Sales Contracts

Under a conditional sales contract, your customer makes regular payments and becomes the owner of the security system once all the payments have been made.

If you have a conditional sales contract and the system is taxable, you charge PST at the start of the contract on the total of all payments your customer must make (excluding interest if you separate the charges).

Please note: Leases are not conditional sales. Under a conditional sales contract, ownership passes to your customer once certain terms and conditions are met. Under a lease agreement with an option to purchase, ownership passes to your customer only if they exercise the option to purchase.

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,
- goods you purchase to give away as free promotions (see the section above, Promotional or Giveaway Items),
- computer hardware and software (unless custom software),
- system components that become improvements to real property on installation under lump sum contracts that you **enter into before October 1, 2008** (see the section above, Security Systems that Become Improvements to Real Property),
- system components that become improvements to real property on installation under contracts that you **enter into on, or after, October 1, 2008**, if you are responsible for paying PST (see the section above, Security Systems that Become Improvements to Real Property),
- supplies that do not become part of the system you are installing, such as oils, lubricants, cleaning cloths, paper towels and cleaning supplies,
- equipment used to perform your installation services, such as hand tools, drills and vehicles,
- equipment used to provide monitoring services, such as computers and telephone systems, and
- services to repair your equipment.

If the supplier does not charge you PST on the above items, you self-assess and record the PST due at Step 3 of your next tax return.

When Not to Pay PST

You do not pay PST on the following:

- system components that you purchase for resale or lease and sell without installation,
- system components that become improvements to real property on installation and that you purchase for resale or lease to your customers:
 - under time and materials contracts that you **enter into before October 1, 2008** (see the section above, Security Systems that Become Improvements to Real Property), and
 - under contracts that you **enter into on, or after, October 1, 2008**, if your customer is responsible for paying PST (see the section above, Security Systems that Become Improvements to Real Property),
- system components that are tangible personal property that you purchase for resale or lease to your customer, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customer.

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 system or system component will be taxable or non-taxable, you have two options to account for the PST on your purchases.

1. You maintain separate inventories for taxable 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 a taxable system or system component, you charge your customer PST but you recover the tax paid on your purchase of the system or component 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 tax paid on the purchase of the system from the tax you have collected on your sales.

Example:

Assume you purchase five identical systems for a total of \$5,000 (\$1,000 each). Some of the systems will be taxable (e.g. systems sold without installation) and some will be non-taxable (e.g. systems that become improvements to real property and installed under lump sum contracts entered into before October 1, 2008). At the time of purchase, you pay \$350 PST ($\$5,000 \times 7\%$), because you do not know which systems will be taxable and which ones will be non-taxable. You later sell one system without installation to your customer for \$1,200 and collect \$84 PST ($\$1,200 \times 7\%$). In this example, if you qualify to take an internal tax account adjustment, you deduct the tax you paid on one system ($\$1,000 \times 7\% = \70) from the total tax you collected on your sales and recorded at Step 2 of your next tax return. If you do not qualify for an internal account tax adjustment, you may claim a refund from the ministry.

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*.

Purchases from Out-of-Province Suppliers

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

Services

Repair and Maintenance Services

How you apply PST to repairs and maintenance depends on the type of system you are servicing, the contract you have with your customer and when you entered into the contract.

Systems that are tangible personal property

If you repair a system that is tangible personal property, you charge PST on your repair services. You charge PST on the full price of your services, including charges for parts, labour and travel time. For more information, please see [Bulletin SST 018](#), *Taxable Services*.

Systems that are improvements to real property

If you repair a system that is an improvement to real property, you do not charge PST on the charge for your labour, as services to real property are not taxable.

If you install repair parts while providing the service, the parts are taxable to either you or your customer depending on the contract you have with your customer and when you entered into the contract.

Contract entered into before October 1, 2008

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 the customer PST on the parts but not on the labour to install them. The exceptions to the general rule for real property contracts are explained in the section, Real Property Contracts – Before October 1, 2008, in [Bulletin SST 072](#), *Real Property Contractors*.

Contract entered into on, or after, October 1, 2008

If you install repair parts while providing a service, you pay PST on the parts unless you and your customer have agreed, in writing ([see box](#) on page 7), that your customer pays the PST.

Hybrid systems (tangible personal property and improvements to real property)

For services to hybrid systems:

- separate the charge for the portion that relates to tangible personal property from the portion that relates to improvements to real property (if you do not know the exact price of the tangible personal property components, you make a reasonable determination of their value),
- you charge the customer PST on the portion of the service that relates to tangible personal property, and
- you do not charge PST on the portion of the service that relates to improvements to real property.

If you install repair parts while providing a service to improvements to real property, PST applies as set out in the section above, Systems that are improvements to real property.

Monitoring Services

Monitoring services include a monitoring center that is alerted when the customer's security system is set off. There is usually a monthly or yearly fee for the monitoring service.

If you provide monitoring services, you do not charge PST as these services are non-taxable. However, you pay PST on any equipment that you use to provide the service, such as computers and telephones.



Need more info?

Security Systems website: www.sbr.gov.bc.ca/industry_specific/security/security.htm

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The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/legislation.htm

References: *Social Service Tax Act*, Sections 1, 5, 6, 11, 40-45, 69.1, 71(j), 71 (k), 76, 78 and 82, and Regulations 2.45, 2.52, 3.26, 12 and 12.1; Bill 2, *Budget Measures Implementation Act*, 2008