

## Partnerships

### *Social Service Tax Act*

**Are you a partner in a general or limited partnership?**

**Do you need to know how PST applies to partnerships?**

This bulletin provides specific tax information to help individuals and businesses understand how the social service tax, also called the provincial sales tax (PST), applies to partnerships.

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

A partnership is a type of business entity that is a relationship between persons carrying on business in common with a view to profit.

If you are a partner in a partnership, you need to be aware of how PST applies whenever tangible personal property is acquired by, transferred into, or transferred out of, the partnership, or when a new partner acquires an interest in the partnership.

PST applies to the sale of tangible personal property. A sale includes a transfer of title or possession of tangible personal property for a price or other consideration. Tangible personal property includes goods that you can see, weigh, measure or touch, or that is in any other way perceptible to the senses, including software. Examples of taxable goods include equipment, motor vehicles, clothing and computers.

When the transfer of taxable goods relates to a partnership, PST applies as outlined in this bulletin.

The law relating to partnerships is complicated. While we have set out guidelines and examples for you in this bulletin, if you are unsure how PST applies, please [contact us](#). We will provide you with an answer that applies to your particular situation.

For other types of business asset transfers, please see the following bulletins.

[SST 091](#), *Transfers of Business Assets as Part of a Winding Up, as a Dividend in Kind, or as a Return of Capital*

[SST 092](#), *Transfer of Business Assets Between Closely Related Parties*

[SST 093](#), *Trusts*

## Ownership of Partnership Goods

All of the partners in a general partnership have an ownership interest in the partnership goods.

Unless a written partnership agreement provides otherwise, for PST purposes, each partner is considered to individually own a proportionate share of the partnership goods equal to that partner's interest in the partnership.

For example, you are a partner in a partnership of four equal partners. The partnership has equipment worth \$100,000. You, and each of your partners, own a 25% share, or \$25,000 in equipment.

**Please note:** Limited partnerships are treated differently. For more information, please see the section below, Limited Partnerships.

## Formation of a Partnership

When a partnership is formed, each partner that contributes taxable goods to the partnership is considered to transfer an interest in the goods to the other partner(s). Each partner acquires a proportionate share of the goods contributed to the partnership equal to their interest in the partnership. This means that each partner pays PST on the portion of the value of the taxable goods that is equal to their interest in the partnership.

The trade-in provisions of the *Social Service Tax Act* may apply to reduce the PST payable. The amount of PST you pay on the interest you acquire in the goods contributed by your partner(s) may be offset by the amount of PST you already paid on goods you contribute to the partnership.

### Example 1:

You form a new partnership of two equal partners. You contribute \$100,000 in cash to the partnership. Your partner contributes \$100,000 in equipment on which your partner has already paid PST. You give up a 50% interest in the cash to your partner in exchange for a 50% interest in your partner's equipment. In this case, you pay PST on the \$50,000 ( $50\% \times \$100,000$ ) in equipment you acquire from your partner. Your partner pays no further PST on the equipment.

### Example 2:

You form a new partnership of two equal partners. You (Partner A) contribute \$100,000 in tax-paid equipment, and your partner (Partner B) contributes \$50,000 in tax-paid equipment, to the partnership. You give up a 50% interest in your equipment to your partner in exchange for a 50% interest in your partner's equipment.

PST applies as follows.

Partner A:

Interest acquired in Partner B's equipment (50% X \$50,000):	\$25,000
Less: trade-in for interest in equipment contributed to partnership (50% X \$100,000)	<u>-\$50,000</u>
Taxable equipment	-\$25,000

Partner A pays no PST as the trade-in value exceeds the value of the equipment acquired from Partner B.

Partner B:

Interest acquired in Partner A's equipment (50% X \$100,000):	\$50,000
Less: trade-in for interest in equipment contributed to partnership (50% X \$50,000)	<u>-\$25,000</u>
Taxable equipment	\$25,000
PST payable (7% X \$25,000)	\$1,750

Partner B pays \$1,750 PST on \$25,000 in equipment acquired from Partner A.

**Example 3:**

You form a new partnership of two equal partners. You and your partner each contribute \$100,000 in tax-paid equipment to the partnership. You give up a 50% interest in your equipment to your partner in exchange for a 50% interest in your partner's equipment. Since both interests have equal value, no PST is payable.

## Transfers to a Partnership

The transfer of goods to a partnership is considered to be a transfer to each partner.

When your partnership acquires goods, you acquire a proportionate share of the goods equal to your interest in the partnership. This means that you pay PST on the portion of the value of the taxable goods that is equal to your interest in the partnership.

For example, you are a partner in a partnership of four equal partners. The partnership purchases taxable equipment for \$100,000. You, and each of your partners, acquire ownership of a 25% share, or \$25,000 in equipment. You each pay \$1,750 PST on \$25,000 in equipment acquired.

## Acquisitions of Partnership Interests

When you become a partner in an established partnership, you acquire an interest in that partnership.

When you acquire an interest in a partnership, you are considered to purchase an interest in the partnership's goods proportionate to the interest you acquire in the partnership.

For example, you acquire a 25% interest in an established partnership. The partnership has taxable equipment worth \$200,000. You are considered to purchase a 25% share, or \$50,000 in equipment. You pay \$3,500 PST on \$50,000 in equipment acquired.

## Transfers from a Partnership to a Partner

A transfer of goods from a partnership to a partner is considered to be a sale of the goods from all the partners. If you acquire taxable goods from the partnership, you pay PST on the portion of the value of the taxable goods not already attributed to you.

For example, you are a partner in a partnership of two equal partners. The partnership transfers taxable equipment worth \$100,000 to you. This is considered to be a sale from the partnership (you and your partner) to you. You already own a 50% share in the equipment and purchase the other 50% from your partner. Therefore, you pay \$3,500 PST on \$50,000 in equipment acquired.

## Dissolution of the Partnership

When a partnership is dissolved, the assets and liabilities of the partnership are distributed to the partners.

If the value of any taxable goods you receive on dissolution is proportionate to your interest in the partnership, you pay no additional PST. This is because the taxable goods you receive represent the portion of the goods already attributed to you.

However, if the value of any taxable goods you receive is greater than your proportionate share, you pay PST on the portion of the value of the goods not already attributed to you.

**Example 1:**

You are a partner in a partnership of two equal partners. The partnership assets are \$4,000 in taxable equipment and \$11,000 in cash. When the partnership is dissolved, you and your partner each receive \$2,000 in equipment and \$5,500 in cash. No PST is payable because you and your partner each receive a proportionate share (50%) of the value of the equipment equal to your interests in the partnership.

**Example 2:**

You are a partner in a partnership of two equal partners. The partnership assets are \$15,000 in taxable equipment, \$45,000 in cash and \$20,000 in accounts receivable. When the partnership is dissolved, you receive \$15,000 in equipment and \$25,000 in cash, while your partner receives \$20,000 in cash and \$20,000 in accounts receivable. The value of the equipment you receive (100% of \$15,000) is greater than your proportionate interest (50%) in the partnership. In this case, PST is payable on the 50% interest in the equipment not already attributed to you. You pay \$525 PST on \$7,500 in equipment acquired.

## Exemption for Related Corporations

If partners are related corporations, such as wholly-owned subsidiaries of the same parent corporation, any transfers between the partners will be eligible for exemption under related corporation rules. Partnerships may also be eligible to transfer assets PST exempt to a new corporation, provided the required conditions are met.

For more information, please see [Bulletin SST 092](#), *Transfer of Business Assets Between Closely Related Companies*.

## Limited Partnerships

Limited partnerships are treated differently than general partnerships. Limited partnerships have both limited and general partners. Limited partners contribute capital and have a limited liability for the debts of the partnership (to the amount of capital contributed). Limited partners do not take a management role in the partnership.

For PST purposes, unless a limited partnership agreement provides otherwise in writing, the general partner(s) is considered to own the partnership's goods. If you acquire a limited interest in such a partnership, you are not considered to be purchasing an interest in the partnership's goods and, therefore, do not need to pay PST.

Unless a limited partnership agreement provides otherwise in writing, any transaction involving the limited partnership is considered to be a transaction with the general partner(s). A transfer of goods from the partnership to a limited partner is treated as a sale from the general partner to the limited partner. The limited partner pays PST on the full value of the taxable goods, because the limited partner does not have an interest in the goods prior to the transfer.

**Example 1:**

You are a limited partner in a limited partnership that consists of three limited partners and one general partner. The limited partnership agreement does not state who owns the partnership assets. The partnership transfers taxable equipment worth \$100,000 to you in payout of your contribution to the partnership. This is considered a sale from the general partner to you. As you do not have an interest in the equipment before the transfer, you pay PST on the full value of the equipment (i.e. you pay \$7,000 PST on \$100,000 in equipment acquired).

**Example 2:**

You are a limited partner in a new limited partnership that consists of three limited partners and one general partner. The limited partnership agreement does not state who owns the partnership assets. You contribute \$100,000 in tax-paid equipment to the partnership in exchange for your interest in the limited partnership. This is considered a sale from you to the general partner. As the general partner does not have an interest in the equipment before the transfer, PST is payable on the full value of the equipment. In this case, the partnership pays \$7,000 PST on \$100,000 in equipment acquired.

**First Nations**

Limited partnerships in which one or more of the general or limited partners is an Indian or Indian band may qualify for exemption, or partial exemption, from PST, if the purchase meets all of the criteria for exemption under the *Indian Act* (Canada). The exemption is proportionate to the interest in the partnership held by the partners who are Indians or Indian bands.

Both general and limited partnerships in which all of the partners are Indians or Indian bands may purchase taxable goods exempt from PST, provided that all the criteria for exemption are met.

**Please note:** As with all limited partnerships, the specific terms of the limited partnership agreement can affect how PST applies to purchases made by the partnership.

For more information on the criteria for exemption, please see [Bulletin SST 046, Exemption for Indians and Indian Bands](#).

**Example 1:**

An Indian band forms a limited partnership in which all of the general and limited partners are Indians or Indian bands, to carry on a business on-reserve. Because all of the partners are Indians or Indian bands, the purchase of taxable goods on-reserve by the limited partnership (that meets all the criteria for exemption) is fully exempt from PST.

**Example 2:**

The general partner in a limited partnership is a band-owned corporation with a 1% interest in the partnership. The sole limited partner is an Indian band with a 99% interest. In this case, a purchase of taxable goods on-reserve by the limited partnership (that meets all the criteria for exemption) is eligible for a partial exemption (99%) from PST. The purchase is not fully exempt because the general partner does not qualify as an Indian or Indian band.

**Need more info?**

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The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations are on our website at [www.sbr.gov.bc.ca/business/Consumer\\_Taxes/Provincial\\_Sales\\_Tax/legislation.htm](http://www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/legislation.htm)

References: *Social Service Tax Act*, Sections 1 and 10, and Regulations 3.14, 3.14.1, 3.14.2 and 3.14.3