



Agricultural Equipment Supplied Together with Accessories

Legislative references	Section 10 of Part IV of Schedule VI to the <i>Excise Tax Act</i> (the Act); <i>Agriculture and Fishing Property (GST/HST) Regulations</i> ; sections 138 and 165 of the Act
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Please note that the following policy statement, although correct at the time of issue, may not have been updated to reflect any subsequent legislative changes.

Issue

At issue is determining the tax status of supplies of taxable accessories or equipment supplied together with zero-rated agricultural equipment. The policy does not apply to zero-rated accessories. The scope of the policy is restricted to zero-rated agricultural equipment.

Decision

When zero-rated agricultural equipment is sold together with any other accessories or equipment (referred to as accessories) otherwise taxable at 5% or 13%, the supply of such accessories or equipment will be zero-rated provided they are attached to or installed on the zero-rated agricultural equipment at the time of sale and form part of the unit.

When accessories are not sold together with zero-rated equipment, such accessories will not be treated as part of the zero-rated equipment and will be taxable at 5% or 13%.

When accessories are supplied together with zero-rated farm equipment but not attached to or installed on the equipment, if the supply of the accessories is incidental to the supply of the equipment for a single consideration, the supply of the accessories is deemed to form part of the supply of the equipment. The supply of the equipment together with the accessories would be zero-rated. If the supply of the accessories is not incidental to the supply of the equipment, the supply of the accessories is a separate supply and is taxable for GST/HST purposes at 5% or 13% as applicable.

Discussion

Whether accessories for zero-rated agricultural equipment are considered zero-rated or taxable at 5% or 13% depends on whether there is a single supply or multiple supplies. GST/HST Policy Statement P-77R2, *Single and Multiple Supplies* provides guidelines for determining whether a transaction consisting of several elements is a single supply or two or more supplies.

The following are some examples of accessories that may be sold with zero-rated agricultural equipment:

- hopper bottoms, metal floors, metal bases, and skids for zero-rated grain bins;
- an air conditioner for a zero-rated tractor;
- a front-end loader for a zero-rated tractor;

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- a blade attachment for a zero-rated tractor;
 - a tool box kit for a zero-rated tractor; and
 - a canopy for a zero-rated tractor.

Terms of the agreement

The terms of an agreement (e.g., purchase order, invoice) between the seller and the purchaser will establish what the seller is agreeing to provide and what the purchaser is expecting to receive for the consideration paid.

Whether accessories for zero-rated agricultural equipment are considered zero-rated or taxable at 5% or 13% is dependent on the following factors:

- Are the accessories and zero-rated farm equipment sold together with the accessories attached to or installed on the equipment at the time of sale? If so, then the CRA considers the sale to be of farm equipment that includes accessories, and this supply is zero-rated.
- Are the accessories sold separately from the zero-rated farm equipment? If so, then the CRA considers the sale of the accessories to be taxable at 5% or 13%.
- Are the accessories sold together with zero-rated farm equipment but not attached to or installed on the equipment prior to sale? If so, then it must be determined if there are multiple supplies and if the supply of the accessories is incidental to the supply of the zero-rated farm equipment.

It is important to note that the manner in which the price for a transaction is set out (e.g., a single price or separately identified prices on an invoice) does not by itself determine whether there is a single supply of zero-rated farm equipment, a single supply of accessories or multiple supplies of farm equipment and accessories.

Accessories attached to or installed on zero-rated farm equipment at the time of sale

Generally, the term “attach” is understood to mean to fasten, affix, join, bind or tie. The term “install” is understood to mean to set up, place or fix in position ready for use or service.

The phrase “at the time of sale” is understood to mean at the time ownership is transferred or possession is transferred under an agreement to transfer ownership of the property.

When accessories are attached to or installed on zero-rated farm equipment at the time of sale, these accessories become part of the farm equipment and lose their own identity. They are considered an input into the supply of zero-rated farm equipment. The consideration attributable to the accessories and farm equipment is not subject to the GST/HST.

Where accessories are attached or installed at the time of sale, there should be adequate documentary evidence to support that the accessories were attached or installed. This would also be the case where accessories are attached or installed by the manufacturer prior to sale.

With respect to tractors, the zero-rating provision specifies that the tractor must be designed for farm use and have a rating of at least 44.74 kW at power takeoff (60 PTO h.p.) to be zero-rated. Many accessories attached to a tractor do not change the design of the tractor, such as the attachment of a snowblower, a blade or a shovel. It should be noted that where an accessory is attached to a tractor in such a way that the original design of the tractor is altered (e.g., the steering mechanism, gas tank or other elements of the tractor are altered to allow for the attachment of an accessory) then the resulting vehicle could be considered a new product that is not designed for farm use and the supply of the vehicle is taxable for GST/HST purposes at 5% or 13% as applicable. This

situation is unique to tractors, since the zero-rating provision for tractors specifies that they must be “designed for farm use” to be zero-rated.

Accessories sold separately from zero-rated farm equipment

When accessories are sold separately from zero-rated farm equipment, these accessories are distinct and independent, and maintain their identity as supplies in their own right. Such accessories are subject to the GST/HST at 5% or 13%.

Accessories sold together with zero-rated farm equipment but not attached or installed

When accessories are sold together with zero-rated farm equipment, but are not attached to or installed on the farm equipment, then the transaction must be further analysed to determine if there are multiple supplies.

If there are multiple supplies for a single consideration, then it must be determined if one of the supplies is incidental to the other supply. If one of the supplies is incidental to the other supply (i.e., deemed to form part of the other supply) then it takes on the tax status of the other supply.

The following factors would generally indicate that there are multiple supplies that consist of accessories and zero-rated farm equipment:

- The accessories and farm equipment are supplied by two or more suppliers;
- The accessories are distinct and independent from the farm equipment;
- The supply of the accessories is not contingent upon the supply of the farm equipment. The recipient has the option to purchase the accessories separately; and
- The accessory is not required for the functioning of the farm equipment.

Further information regarding the determination of whether there is a single supply or multiple supplies can be found in GST/HST Policy Statement P-77R2, *Single and Multiple Supplies*.

Where the conclusion is that there are multiple supplies, it is then necessary to determine whether one of those supplies is incidental to the other and whether it may consequently be deemed to form part of a single supply pursuant to section 138 of the Act. To be considered incidental, a supply generally must play only a minor or subordinate role in relation to the provision of another supply.

Section 138 deems a supply to form part of another supply provided they are supplied together for a single consideration. Section 138 is intended to deal with recurring commercial transactions where an allocation of the purchase price between two or more items provided together would be administratively cumbersome for the supplier.

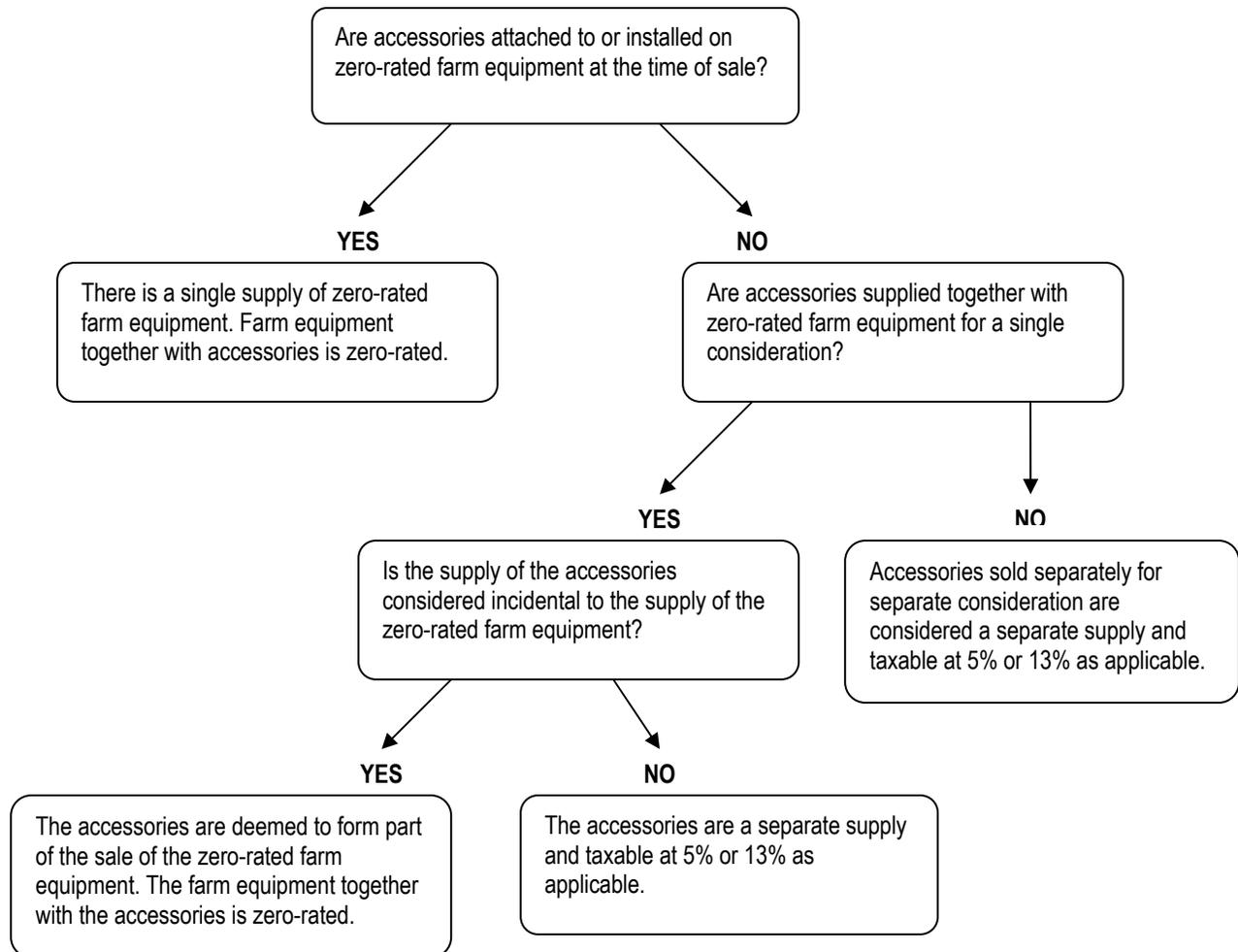
The following factors would generally indicate that the supply of accessories for farm equipment is incidental to the supply of the farm equipment:

- The accessories play a minor role or are subordinate to the farm equipment;
- The provision of the accessories is insignificant or of little importance relative to the provision of the farm equipment; and
- The dollar value of the accessories is small in comparison to the farm equipment.

Further information for determining whether a supply may be regarded as incidental can be found in GST/HST Policy Statement P-159R1, *Meaning of the Phrase “Reasonably Regarded as Incidental”* and GST/HST Policy

Statement P-160R, *Meaning of the Phrase "Where a Particular Property or Service is Supplied Together with any other Property or Service"*.

Summary



Examples

Example 1

Facts

1. A farmer decides to purchase a zero-rated tractor from an agricultural dealership.
2. At the same time, the farmer decides to buy an air conditioner for the tractor and has the dealership install the air conditioner prior to the transfer of ownership of the tractor.
3. The invoice for the purchase itemizes an amount for the tractor and an amount for the air conditioner with the total of these amounts due upon transfer of ownership.

Decision

There is a single supply of a zero-rated tractor.

Rationale

The air conditioner was installed on the tractor prior to the time of sale. The air conditioner is considered to form part of the tractor. The supply of the tractor with the installed air conditioner is zero-rated.

Example 2

Facts

1. A farmer purchases a zero-rated tractor from an agricultural dealership.
2. Three weeks later, the farmer decides to purchase a blade attachment for the tractor.

Decision

There is a separate supply of the blade attachment. Since there is no provision to zero-rate a supply of a blade attachment, it is taxable at 5% or 13% as applicable.

Rationale

This tractor accessory is sold separately from the zero-rated farm tractor and is considered a separate supply. Even if the farmer had had the dealership install the blade attachment on the tractor when the blade is purchased, the blade attachment is subject to the GST/HST because it was installed on a tractor owned by the farmer at the time of sale.

Example 3

Facts

1. A farmer purchases a 75 PTO h.p. tractor designed for farm use for \$45,000.
2. He also orders a tool box kit itemized on the invoice for \$150. The invoice is for a single consideration of \$45,150.
3. The farmer will attach the tool box to the tractor.

Decision

There are two supplies being made for one consideration, one of the tractor and one of the tool box kit. Pursuant to section 138, the supply of the tool box kit is incidental to the supply of the tractor. The supply of the tool box kit is deemed to form part of the supply of the tractor. The supply of the tractor including the tool box kit is zero-rated.

Rationale

The tool box kit was not installed prior to sale and is distinct and independent from the tractor. The purchase of the tool box kit is not contingent upon the purchase of the tractor. In other words, the purchaser has the option of purchasing the tractor and tool box kit separately. The tool box kit is not required for the functioning of the tractor. Further, the supply of the tool box kit plays a minor role or is subordinate to the supply of the tractor and is insignificant or of little importance relative to the provision of the tractor. The dollar value of the tool box kit is small in comparison to the tractor.

Example 4

Facts

1. A farmer purchases a 115 PTO h.p. tractor designed for farm use for \$130,000.
2. In the same order, the farmer purchases a blade attachment for \$15,000 for a total price of \$145,000.
3. The blade attachment will not be installed on the tractor.

Decision

There are two supplies, one of the tractor and one of the blade attachment. The supply of the blade attachment is not considered incidental to the supply of the tractor. Therefore, the tax status of each supply (i.e., the supply of the blade attachment and the supply of the tractor) must be determined. The supply of the tractor would be zero-rated. Since there is no provision to zero-rate a supply of a blade attachment, it will be taxable at 5% or 13% as applicable.

Rationale

The blade attachment is distinct and independent from the tractor and is not attached at the time of sale. The purchase of the blade attachment is not contingent upon the purchase of the tractor. The purchaser has the option of purchasing the tractor and blade attachment separately. The blade attachment is not required for the functioning of the tractor.

Further, the supply of the blade attachment is not subordinate to the supply of the tractor. The blade attachment has a significant dollar value in comparison to the value of the tractor.