

Warranties, Service Contracts and Maintenance Agreements

Social Service Tax Act

Do you sell service contracts?

Do you provide parts and labour to carry out service contracts?

This bulletin provides specific tax information to help you understand how the social service tax, also called the provincial sales tax (PST), applies to your business when you sell warranties, service contracts and maintenance agreements. This bulletin also provides information on how PST applies to the parts and labour services you provide when you carry out these agreements.

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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This bulletin has been completely rewritten and replaces the previous version dated February 2008.

Definitions

Taxable Service

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

Service Contract

A service contract is an agreement under which a charge is paid in advance in return for future services, wholly or partly, at no additional cost. This includes warranties, maintenance agreements and similar contracts.

Service Contracts for Taxable Goods

Whether PST applies to service contracts depends on how the contract is set up and how it is sold.

Taxable Contracts

Mandatory contracts, or contracts included in the purchase or lease price

You charge PST on service contracts that are a mandatory condition of the purchase or lease of goods. This includes warranties that are included in the purchase price of goods, such as a three-year warranty on the purchase of a motor vehicle. You charge PST because the service contract forms part of the purchase or lease price of the goods.

Optional contracts with scheduled maintenance, or with a specific or limited number of services

You charge PST when you sell optional contracts with scheduled maintenance. This includes contracts where the schedule depends on the ongoing condition of the taxable good. You also charge PST when you sell optional contracts with a limited or specific number of services. You charge PST because the service contracts are prepayments for taxable services that will be provided at a later date under the contract.

Carrying out the service

You do not charge PST when you provide parts and services free of charge under the service contracts described above. However, if you also provide parts or services that are not covered by the service contract, you charge PST when you sell the parts or services to your customer.

You do not pay PST on the cost of any parts you use, or services you purchase, in order to carry out the contract.

To purchase the parts or services without paying PST, give the supplier your PST registration number.

Non-taxable Contracts

Optional contracts with as-needed services

You do not charge PST when you sell optional service contracts that do not include scheduled maintenance and where the services are provided only when required, such as for equipment malfunction. You do not charge PST because you cannot determine at the outset what services, if any, will be provided.

Carrying out the service

You do not charge PST when you provide parts and services free of charge under the service contract described above. However, if you also provide parts or services that are not covered by the service contract, you charge PST when you sell the parts or services to your customer.

You pay PST on the cost of any parts you use, or services you purchase, in order to carry out the contract.

Service Contracts for Exempt Goods

The Contract

You do not charge PST when you sell service contracts for PST-exempt goods, such as:

- bicycles or adult-sized tricycles (qualifying non-motorized and electric power-assisted), and
- exempt farming equipment.

You do not charge PST because services and parts designed for, and used in, the repair or reconditioning of PST-exempt goods, are also PST-exempt.

Carrying Out the Service

You do not charge PST when you provide parts and services under the service contract. You also do not pay PST on the cost of any parts you use, or services you purchase, in order to carry out the contract.

Goods Specifically Exempt from Taxable Services

Certain taxable goods qualify for exemption from taxable services, such as:

- clothing and footwear,
- appliances designed for household use (i.e. ovens, refrigerators, washing machines and dryers), and
- fixtures, other than
 - travelling cranes and hoists that are attached to, or rest upon, tracks or rails that are themselves attached to a building, or
 - fixtures, or parts of fixtures, that have been removed from the site at which they were installed or attached.

Please note: If you are involved in service contracts for fixtures, it is important for you to read [Bulletin SST 078, Fixtures](#), for information on what qualifies as a fixture, and for information on fixtures that are considered to be real property on installation. The information below does not apply to fixtures that are considered to be real property on installation. You pay PST or charge your customers PST on these fixtures as described in the section below, **Service Contracts for Real Property**.

Contracts

While services to the taxable goods mentioned above are PST-exempt, parts used to repair or maintain the goods are not. Whether PST applies to service contracts for these goods depends on how the contract is set up and how it is sold.

Mandatory Contracts

You charge PST on mandatory service contracts sold with taxable goods because the contract forms part of the purchase or lease price of the goods.

Carrying out the service

You do not charge PST when you provide parts and services free of charge under the service contract. However, if you also provide parts that are not covered by the service contract, you charge PST when you sell the parts to your customer.

You also do not pay PST on the cost of any parts you use, or services you purchase, in order to carry out the contract.

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

Optional contracts with scheduled maintenance, or a limited number of services, where parts and services are sold together for a single price

The contract

You do not charge PST when you sell optional contracts with scheduled maintenance, or a limited number of services, if the parts and services are shown as a single price on the invoice for the contract. You do not charge PST because, in this case, the contract is considered to be a contract to provide services only.

Carrying out the service

You do not charge PST when you provide parts and services free of charge under the service contract. However, if you also provide parts that are not covered by the service contract, you charge PST when you sell the parts to your customer.

You pay PST on the cost of any parts you use to carry out the contract because you are considered to be the end-user of the parts. You do not pay PST on any services you purchase to carry out the contract because services to these goods are PST-exempt.

Optional contracts with scheduled maintenance, or a limited number of services, where parts and services are sold separately

The contract

If the parts and services are priced separately on the invoice for the optional contract, you charge PST on the portion of the contract relating to the parts. You do not charge PST on the portion relating to services because services to these goods are PST-exempt.

Carrying out the service

You do not charge PST when you provide parts and services free of charge under the service contract. However, if you also provide parts that are not covered by the service contract, you charge PST when you sell the parts to your customer.

You do not pay PST on the cost of any parts you use, or services you purchase, in order to carry out the contract.

Optional contracts with as-needed services

The contract

You do not charge PST when you sell optional service contracts that do not include scheduled maintenance and where the services are provided only when needed.

Carrying out the service

You do not charge PST when you provide parts and services, as needed, free of charge under the service contract. However, if you also provide parts that are not covered by the service contract, you charge PST when you sell the parts to your customer.

You pay PST on the cost of any parts you use to carry out the contract because you are considered to be the end-user of the parts. You do not pay PST on any services you purchase to carry out the contract because services to these goods are PST-exempt.

For more information on taxable service exemptions, please see the [Bulletin SST 018](#), *Taxable Services*.

Service Contracts for Real Property

Real property is land and any items permanently attached to land, such as buildings and structures. Materials and equipment that become permanently attached to the land or buildings are called improvements to real property. You do not charge PST on the sale or lease of real property, or on services to real property. However, the materials and equipment that become improvements to real property are taxable.

For service contracts that you enter into **on, or after, October 1, 2008**, generally you are required to pay PST on materials and equipment that you supply and install to complete the contract. However, under certain circumstances, you charge your customers PST. It is important that you read [Bulletin SST 072](#), *Real Property Contractors*, for more information.

Other Service Contracts

Bundled Sales

Generally, if a non-taxable good or service is bundled together with a taxable good or service, 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*.

The bundled sales rules only apply to optional contracts. The following are examples of how the bundled sales rules apply to optional contracts.

If you sell optional service contracts that include both taxable services (e.g. oil changes) and non-taxable services (e.g. trip insurance), you charge PST on the fair market value of the taxable service portion of the contract.

Similarly, if you sell optional service contracts that include both a set number of services (taxable) and services as needed (non-taxable), you charge PST on the fair market value of the taxable portion.

Manufacturer's Warranties or Manufacturer's Recalls

You do not charge PST on replacement parts, or services provided to install the replacement parts, when the parts are replaced free of charge under a manufacturer's warranty or manufacturer's recall. You also do not pay PST on the cost of any parts you use, or services you purchase, in order to fulfill the warranty or recall.

Limited Coverage

If there is a limit to what is covered under a warranty, you charge PST on the taxable services that exceed the covered amount. For example, if the total repair cost is \$300 and the warranty covers the first \$200 of repairs, you charge PST on the \$100 portion of the total \$300 charge.



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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

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References: *Social Service Tax Act*, Sections 1, 40, 42, 69.1, 75(1), 75(4), 76(1)(k), 77(d) and 77(e), and Regulations 2.45, 2.46, 2.47, 2.52, 3.12, 3.14, 3.14.1, 12, 12.1, 13.2(1) and 13.10.3