

THE RETAIL SALES TAX ACT

MECHANICAL AND ELECTRICAL TRADES

This bulletin explains the application of retail sales tax (RST) by mechanical and electrical trades.

Section 1 - GENERAL INFORMATION

- Mechanical and/or Electrical (M&E) trades are considered to be working on tangible personal property (TPP). The RST on M&E work applies to the total selling price on all contracts or service/maintenance work. See Section 3 - Sales by M&E trades.
- All M&E trades (sole proprietors, partnerships and corporations) must register as a vendor under *The Retail Sales Tax Act (Act)* and collect RST on their total billings for M&E work. See Section 6 - Registration Requirements.

Section 2 - MECHANICAL AND ELECTRICAL TRADES

Taxable mechanical or electrical work

- M&E trades perform the following work as normally described by the construction industry (this listing is for illustrative purposes and is not all-inclusive):
 - air conditioning
 - air and hydronic testing and balancing
 - audio visual systems
 - commissioning
 - compressed air systems
 - electrical
 - fire/burglar alarms
 - fire protection systems
 - fire stopping (related to M&E penetrations)
 - gas distribution systems
 - grounding/lightning protection
 - grouting of equipment
 - heating
 - intrusion/detection systems
 - non-destructive examination
 - pipe coating, lining, protection, identification
 - plumbing
 - pneumatic tube systems
 - process piping (including gas lines, pipelines both above and underground)
 - refrigeration
 - sound communication systems (ex: nurse call and P/A systems)
 - stress relieving
 - system and component controls
 - telecommunications
 - thermal insulation
 - vacuum cleaning systems
 - ventilating (ducts)
 - video security systems
 - voice/data/video cable systems
 - wood stoves/non-masonry fire places

Note: Revisions to contents of previous Bulletin (April 2011) have been identified by shading ()

Real property contracts

- The construction of a building (including civil construction related to the structural integrity of a building) is a real property contract. Real property contractors must pay RST on all their taxable purchases (ex: engineering/architectural designs, construction materials and M&E work). Real property contractors must include RST in their contract price and not charge the RST separately on the bill to their customer. (See Bulletin No. 005 - *Information for Contractors* and Bulletin No. 008 - *Installation, Repairs and Improvements to Real Property*.)
- The following are examples of real property contracts and services:
 - asbestos removal from real property (ex: walls or ceilings)
 - basements, foundations and piles including related earthwork
 - ceilings, flooring and walls
 - concrete poured in place other than concrete storage tanks
 - dams and bridges
 - doors and windows, including hardware and millwork
 - drywall, paneling
 - eavestroughs, soffits, fascia
 - elevators and lifts designed for people
 - fencing that is permanent
 - fire proofing/architectural firestopping (excludes firestopping related to M&E penetrations)
 - framing
 - houses and buildings
 - landscaping
 - masonry work (ex: buildings and chimneys)
 - painting of buildings (including walls, floors, ceilings and doors)
 - reinforcing structural construction including installing rebar
 - roofing and shingling, including roof venting
 - stucco, siding, lathing, plastering and other exterior finishing
 - thermal building insulation
 - tunnels/galleries (concrete and steel)
 - wall covering
 - waterproofing of real property, including related earthwork

Earthwork installation services

- Earthwork services related to real property contracts, whether inside or outside of a building are not taxable (including site preparation, excavation for basements, piling, underground parking structures, backfilling and surface restoration).
- Earthwork performed outside of a building related to M&E work such as installation of telecommunication lines, electrical cables, conduit, sewer or waterlines, gas or oil pipelines, irrigation lines, underground tanks and septic tanks/fields is also not taxable.
- Earthwork performed inside of a building in relation to M&E work is fully taxable.

SECTION 3 - SALES BY MECHANICAL AND ELECTRICAL TRADES**Taxable sales**

- M&E trades are required to collect RST on their total selling price for M&E work. All charges in connection with M&E work (except on contracts for exempt

customers as noted below) are subject to RST including:

- M&E contract extras
 - asbestos removal from TPP for the purposes of repair or re-insulating (including M&E systems and components, ex: plumbing lines)
 - equipment charges (vehicles, compressors, heaters, welders, etc.)
 - coring, trenching or earthwork within a building when performed to facilitate M&E work (ex: to install plumbing lines)
 - equipment pads or supports (other than concrete poured in place) required for M&E installation
 - permits, bonding, mobilization, de-mobilization
 - travel time, company/personal mileage and car rentals
- RST does not apply to 3rd party transportation charges (ex: airfare, bus, train or taxi), accommodation or meals, including per diem or living allowance charges as quoted in the contract, if they are segregated on the invoice and RST has been paid, where applicable.

Holdbacks

- RST is applied to contract billings for M&E work net of holdbacks. RST is applied on the holdback billing to the customer as per the following example.

Progress # 1 – Contract 50% complete	\$200,000
Less: 7.5% holdback	<u>15,000</u>
Subtotal	\$185,000
5% GST	9,250
8% RST	<u>14,800</u>
Total amount due Progress #1	<u>\$209,050</u>
Progress #2 – Remaining 50% of contract invoice- same as Progress # 1	

Invoice for holdback

Total contract price	\$400,000
Less: Progress Billings #1 and #2	<u>370,000</u>
Subtotal	\$ 30,000
5% GST	1,500
8% RST	<u>2,400</u>
Total amount due for holdback	<u>\$ 33,900</u>

Exempt customers

- Status Indians and Indian Bands* - M&E work for Status Indians and Indian Bands are exempt from RST when provided on a reserve. M&E trades must record the Status Indian's name and registration number or the Band's name and number on their invoice, and ensure that the M&E work is performed on a reserve to allow the exemption. This exemption does not apply to corporations that are owned by a Status Indian or Indian Band.
- Farmers* - M&E work on exempt farm equipment, including certain M&E systems in barns and crop storage buildings are exempt from RST. The farmer must provide a farm-use exemption certificate to obtain the exemption. (See Bulletin No. 018 - *Farm-Use Equipment and Other Items*).

- Federal Government* - the Federal Government is exempt from RST and is required to provide their RST number to obtain the exemption. M&E trades must record the Federal Government's RST number on their sales invoices.

* M&E contractors acting as sub-trades are providing services to the general contractor. The general contractor must provide their RST number to the M&E sub-trades to receive the RST exemption and the M&E sub-trade must record this RST number on their invoices. The general contractor will exempt the sale to the particular customer by recording the Band number, a signed farm-use exemption certificate or the Federal Government's RST number on their invoices. **This exemption applies both where the general contractor is supplying strictly M&E work and where M&E is being supplied in connection with real property.**

- Out of Province contracts - M&E work on contracts performed outside of Manitoba are exempt from Manitoba RST. Please contact that jurisdiction for their tax application.

Real property contracts by an M&E trade

- Where an M&E trade is a general contractor on a real property contract, the M&E trade must pay RST on all taxable purchases (ex: engineering/architectural designs, construction materials and M&E work). **Note the exemption for the M&E portion of a contract with exempt customers, as explained above.**
- If the M&E trade, acting as the general contractor, also performs M&E work on the contract, they must self-assess RST based on the total selling price of their M&E work.
- A real property contract must include RST (paid and self-assessed) in the total contract price without having to segregate the real property portion from the M&E portion.

Taxable installation

- The installation of M&E systems inside a building is always taxable, regardless of the trade performing or billing for the work. If a general contractor (or owner) purchases installation services such as coring or trenching for M&E work, they are required to self-assess the RST if it has not been charged.

Section 4 - PURCHASES BY MECHANICAL AND ELECTRICAL TRADES

Exempt purchases

- Materials and services purchased by M&E trades, which are installed as part of their M&E work, may be purchased RST exempt by providing their supplier with their RST number. Some examples of exempt purchases include electrical and telecommunications wire, electrical tape, connectors, electric panels, conduit, switches, plugs, transformers and other electrical materials, water, gas and interior drainage pipes, pumps, fittings, sinks, faucets and other plumbing fixtures, furnaces, wood stoves, hot water tanks, air conditioners, air exchangers, air ducts and fans.
- M&E trades that subcontract work to other M&E trades (ex: plumbing, heating, ventilation, telecommunications, electrical, refrigeration, balancing, etc.) purchase these subcontract services RST exempt using their RST number.

Exempt consumables/ expendables

- Consumables/expendables used by an M&E trade to install or repair M&E components are exempt from RST if they are used up or consumed to the point of destruction while in direct contact with and transforming the components being installed, examples include:
 - welding rods, acetylene, oxygen, solder and jointing compounds
 - sandpaper, emery cloth and steel wool
 - drill bits, saw blades and grinding wheels (does not include hand tools)
 - lubricating oils, grease and solvents

Taxable purchases

- All trades are required to pay tax on their purchase, rental or lease of all equipment (plus related repairs) and supplies *for their own use* in supplying and installing TPP. Goods for a trade's own use are not considered to be resold to the customer, even when itemized as a line charge on the invoice to the customer for the supply and install job. Tax still applies on the purchase to the trade. Some examples include vehicles, power tools, hand tools, scaffolding, cranes, lifts, test equipment, safety equipment, stationery and office equipment.

Section 5 - M&E REPAIR, MAINTENANCE AND SERVICE WORK**Repair, maintenance and service work**

- RST applies on all charges for M&E repairs, maintenance or service work. M&E trades will purchase materials, parts and consumables/expendables used in providing this service, exempt from RST. Following are examples of TPP on which taxable services (ex: repairing, maintaining, cleaning, adjusting) would be performed:
 - alarms systems
 - compressed air systems
 - building environment control systems (ex: heating, ventilating, air conditioning, related duct works, lighting, power)
 - electronic systems
 - fire/burglar alarms
 - fire protection systems
 - plumbing
 - sewer, water and drain clearing
 - telecommunication systems
 - video surveillance

Section 6 - REGISTRATION REQUIREMENTS

- All M&E trades must register as a vendor under the Act:
 - to collect and remit RST on their billings for M&E work (contracts and service/maintenance work)
 - to purchase materials and services RST exempt where applicable
 - to self assess RST on purchases for their own use, where RST has not been paid
- See Bulletin No. 004 - *Information for Vendors* for details on how to apply and collect the RST and to understand your obligations under the Act.

FURTHER INFORMATION

This bulletin is intended to serve as a guideline and is not all-inclusive. For the specific wording of the law, please refer to *The Retail Sales Tax Act and Regulations*. Further information may be obtained from:

Winnipeg Office

Manitoba Finance
Taxation Division
101 - 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Telephone (204) 945-5603
Manitoba Toll Free 1-800-782-0318
Fax (204) 948-2087

Westman Regional Office

Manitoba Finance
Taxation Division
314, 340 - 9th Street
Brandon, Manitoba R7A 6C2
Fax (204) 726-6763

E-mail: MBTax@gov.mb.ca

ONLINE SERVICES

Our Web site at manitoba.ca/finance/taxation provides tax forms and publications about taxes administered by Taxation Division, and a link to Manitoba's laws and regulations. Forms and publications can also be obtained by contacting the Taxation Division.

Our online service at manitoba.ca/TAXcess provides a simple, secure way to apply for, and to file, pay and view your Taxation Division tax accounts.