

THE RETAIL SALES TAX ACT

ENGINEERING DESIGN SERVICES

This bulletin explains how retail sales tax (RST) applies to engineering design services that relate to Manitoba.

PART I – APPLICATION OF TAX BY ENGINEERING DESIGN SERVICE PROVIDERS

Section 1: COLLECTION OF TAX ON SERVICES

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| Engineering design services | <ul style="list-style-type: none">• Engineering design services are design services provided by an engineer, within the scope of “the practice of professional engineering” or “the practice of professional geoscience” as defined in <i>The Engineering and Geoscientific Professions Act</i> of Manitoba. |
| Services relating to Manitoba | <ul style="list-style-type: none">• Engineering design services relate to Manitoba if the design services are for a facility or project located in Manitoba. Services relating to Manitoba include design services provided by a non-resident engineer for a facility or project in Manitoba, and design services provided to a non-resident client for a facility or project in Manitoba. |
| Application of tax on sales | <ul style="list-style-type: none">• Engineers and geoscientists who provide taxable design services must collect the RST from their client.• Engineering design services are taxable regardless of whether or not the project that is the subject of the services proceeds to completion.• Sub-consultants (e.g. structural, mechanical and electrical engineers or architects) providing design services to a prime consulting engineer are not required to collect RST on the sale of these design services. The prime consulting engineer must provide their RST number to the sub-consultant to purchase the design services exempt from RST. The prime consulting engineer collects RST on their total bill, which includes design services provided by the sub-consultant and prime consulting engineer, as calculated below. |
| Engineering design services on which tax must be collected | <ul style="list-style-type: none">• Taxable engineering design services on which RST must be collected are deemed to be 30% of the following services provided by an engineer:<ol style="list-style-type: none">1. services under Category III: Design, in the Association of Professional Engineers and Geoscientists of the Province of Manitoba (APEGM) Categories of Services; plus2. disbursements related to Category III |

Note: Revisions to content of previous Bulletin (June 2004) have been identified by shading ().

- Category III includes the following basic and additional designs and services:
 - detailed design
 - working drawings
 - specifications and tender documents
 - statement of probable cost
 - preparation of tender call documents
 - reviewing and advising on tenders submitted
 - detailed cost estimate
 - reinforcing bar schedules
 - fabrication drawings
 - pre-qualifications of contractors
 - coordinating other Consulting Engineer's documents
 - fast-track construction or sequential tendering
 - bills, materials, detailed cost estimates
 - tender advertisement
 - alternative conceptual proposals

Calculation of tax

- RST to be collected on engineering design services is applied to 30% of the total billings under Category III as follows:

Total services under Category III (including disbursements)	<u>\$100,000</u>
Taxable engineering design services (30%)	<u>\$ 30,000</u>
RST @ 8%	<u>\$ 2,400</u>

- This calculation applies whether engineering services are billed on an hourly rate, as a percentage of contract cost, or as a fixed-fee contract.

Exempt services

- The following services provided by engineers are not subject to tax:
 - design services related to facilities or projects located outside Manitoba
 - design services not within the scope of the practice of professional engineering or the practice of professional geoscience under *The Engineering and Geoscientific Professions Act* of Manitoba
 - feasibility studies, environmental studies, general consulting or advisory services
 - services to design goods that will be manufactured strictly for sale
 - "As built" services, i.e. as-is drawings of completed construction/installation projects (these fall under Category VI of the APEGM Categories of Services)
 - design services provided to the federal government, if an RST number is provided (engineering design services provided to federal Crown corporations and provincial government departments, agencies and Crown corporations are taxable)
 - design services provided to a Status Indian or Indian Band, if the services relate to facilities or projects located on a reserve (engineering design services provided for corporations owned by a Status Indian or Indian Band are taxable)
 - services provided by an engineer to their employer in their course of employment

Note: Where exempt and taxable services are provided, the exempt services must be separately itemized or the entire charge is taxable.

Section 2: OTHER TAXABLE GOODS & SERVICES

Other taxable sales

- Engineering firms often make the following sales, which are taxable on 100% of the selling price:
 - Installation of machinery, equipment and other tangible personal property (TPP), including the service of providing direct supervision of staff (either your own or another company's staff) who physically install TPP.
 - Repairs, testing and inspection of TPP, including commissioning of equipment.
 - Direct sales of TPP and other services to TPP.

See Bulletin No. 030 – *Summary of Taxable And Exempt Goods and Services* for more information.

- Acting as a vendor of a turn-key supply and installation project: these can include components of real property, mechanical and electrical systems (TPP) and production equipment (TPP). See Bulletin No. 005 – *Information for Contractors* and No. 031 – *Mechanical and Electrical Trades* for further information on this topic.

What is tangible personal property

- Tangible personal property (TPP) is generally;
 - Goods that can be seen, weighed, measured, felt, or touched, or that are in any other way perceptible to the senses, such as vehicles, furniture, clothing, equipment and generally all other moveable goods, but does not include intangible property or real property.
 - Machinery, equipment, apparatus, or storage structures (that are not buildings, ex: warehouses or grain elevators) that are installed in, or attached to, buildings or land and that are used in the manufacturing, producing, processing, storing, handling, packaging, displaying, transporting, transmission or distribution of tangible personal property, or in providing a service.
 - Plumbing, heating, cooling, electrical, electronic and telecommunication systems and components installed on, under or in, or attached to, land, buildings or structures (known as M&E systems).
 - Computer software as defined in the Act, including any document or manual designed to facilitate the use of the software.

See Notice No. 008 – *Installation, Repairs and Improvements to Real Property* for a listing of examples of TPP and real property.

Section 3: APPLICATION OF TAX ON PURCHASES BY SERVICE PROVIDERS

Purchases for your own use

- Engineers and engineering firms are required to pay RST on purchases of equipment, services and supplies used in their business. If purchased from an unregistered supplier (e.g. located outside Manitoba), RST must be self-assessed and remitted with the next tax return on the laid-down cost of the taxable goods or services (includes exchange, transportation, customs and duties, but not the GST).

Section 4: REGISTRATION REQUIREMENTS

- Registration**
- Engineering businesses must register for RST purposes to collect and remit RST on their taxable engineering design services. Businesses can apply for registration online at Manitoba.ca/TAXcess. Applications for registration are also available on our Web Site or by contacting the Taxation Division Offices listed at the end of this bulletin.
- General information for vendors**
- See Bulletin 004 – *Information for Vendors* – which explains a vendor's obligations to collect and remit RST. This bulletin is available at the web site listed at the end of this bulletin.

PART II - TAX ON PURCHASES OF DESIGN SERVICES RELATED TO TANGIBLE PERSONAL PROPERTY

Tax on design services related to tangible personal property

- Engineering firms are required to charge RST on 30% of services provided under Category III for all types of property, whether the subject of the design services is real property, tangible personal property (TPP) or intangible property.
- Engineering services provided under Category III in connection with TPP are taxable at 100% of that category of service, when the designed goods are actually built, manufactured or constructed.

Businesses that design and produce TPP for sale should be collecting the tax on full selling price of the goods – which would include the engineering cost component. However, where the design services are acquired separately and either provided to another party to produce goods (for use by the acquiring party) or used by the purchaser to manufacture goods (for their own use) themselves, the purchaser will have to self-assess and remit the tax directly on the Category III services.

Where the engineering firm has collected the tax on 30% of Category III services, the taxpayer is required to self-assess tax on the remaining 70% of the services under Category III. Services acquired from an unregistered vendor (e.g. an out of province service provider) must be self-assessed on 100% of Category III services.

Combined services

- Where an engineering firm is hired for a project involving both TPP and real property, the tax on the additional 70% balance of the Category III services applies only on the TPP portion. Engineering services that relate to TPP will generally (but not entirely) fall under the disciplines of mechanical or electrical engineering, while those related to real property are typically civil engineering.

FURTHER INFORMATION

This bulletin is intended 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.