

## Alternative Fuel Vehicles and Fuel Efficient Vehicles

### *Social Service Tax Act*

Do you know which vehicles qualify for a PST reduction?

Do you know how to calculate the PST reduction?

This bulletin provides specific tax information to help motor vehicle dealers understand the PST reduction for alternative fuel vehicles and fuel efficient vehicles. This bulletin also provides information to help vehicle purchasers understand when they qualify for a refund of PST paid on these vehicles.

For the annual list of **qualifying alternative fuel (hybrid) vehicles and fuel efficient vehicles** by vehicle make and model, please see our website at [www.sbr.gov.bc.ca/industry\\_specific/motor\\_vehicle/motor\\_vehicle\\_dealers.htm](http://www.sbr.gov.bc.ca/industry_specific/motor_vehicle/motor_vehicle_dealers.htm)

For information on alternative motor fuel tax rates, please see **Bulletin MFT 005**, *Tax Rates on Motor Fuels*.

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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## Overview

To help reduce greenhouse gas and air pollutant emissions, the province provides the following point-of-sale PST rate adjustment and reductions:

- a PST rate adjustment on purchases of qualifying alternative fuel vehicles that are passenger vehicles,
- a PST reduction on purchases of qualifying alternative fuel vehicles, and
- a PST reduction on purchases of qualifying fuel efficient vehicles.

The PST rate adjustment and reductions also apply to leases that are for a period of at least 12 months.

For information on qualifying vehicles purchased or leased outside of British Columbia, please see the section below, Refunds.

## Alternative Fuel Vehicles

### Definitions

A **qualifying alternative fuel vehicle** is a motor vehicle that meets the following three criteria.

1. It is manufactured to operate exclusively on electricity, ethanol, methanol, natural gas or propane, **or** operate as a:
  - hybrid electric vehicle (see definition below),
  - hydrogen fuel-cell bus (see definition below), **or**
  - bi-fuel vehicle that has two separate fuel storage tanks so the vehicle can be propelled by:
    - an alternative fuel, other than electricity (i.e. ethanol, methanol, natural gas or propane), or
    - gasoline or diesel fuel.
2. It is new. A vehicle is considered to be new if it has not, since its manufacture, been sold or leased at a retail sale or retail lease.
3. It is designed for use on a highway and is, or will be, licensed for use on a highway.

**Please note:** Multi-jurisdictional vehicles and two-wheel vehicles do **not** qualify as alternative fuel vehicles, other than two-wheel vehicles manufactured to operate exclusively on electricity, such as electric motorcycles and scooters.

A **hybrid electric vehicle** is a motor vehicle that has both an internal combustion engine and an electric motor, and it meets the following three criteria.

1. It is designed to automatically shut off the engine while idling, braking or coasting (commonly referred to as idle stop).
2. It is designed to capture and store electricity generated during braking (commonly referred to as regenerative braking).
3. It is capable of sustained propulsion either:
  - simultaneously by the internal combustion engine and the electric motor, **or**
  - solely by the electric motor, operating on electricity generated by the internal combustion engine. Torque smoothing does **not** qualify as sustained propulsion.

**Please note:** Some vehicles referred to by manufacturers and in advertisements as hybrid electric vehicles do not qualify for the PST rate adjustment or PST reduction. To qualify, the vehicle must meet the criteria listed above.

For the lists of qualifying hybrid electric vehicles by year and make/model, please see our website at [www.sbr.gov.bc.ca/industry\\_specific/motor\\_vehicle/motor\\_vehicle\\_dealers.htm](http://www.sbr.gov.bc.ca/industry_specific/motor_vehicle/motor_vehicle_dealers.htm)

A **hydrogen fuel-cell bus** is a **passenger bus** for which the primary power source is a fuel-cell system that chemically combines hydrogen and oxygen to generate electricity for the motors of the bus.

A **passenger bus** is a motor vehicle that is used to carry passengers within British Columbia and has a seating capacity of at least 30 passengers.

A **passenger vehicle** is a motor vehicle designed primarily as a means of transport for individuals. This includes the following:

- cars (including station wagons)
- motorcycles with engine capacities greater than 250 cc
- trucks and vans up to, and including,  $\frac{3}{4}$  ton

The following are **not** passenger vehicles:

- ambulances
- buses, passenger and shuttle
- camper vans
- hearses
- motor homes
- snowmobiles
- trailers

A **shuttle bus** is a motor vehicle that is used to carry passengers within British Columbia and has a seating capacity of at least 14 passengers, but not more than 29 passengers.

### **PST Rate Adjustment for Alternative Fuel Passenger Vehicles**

The PST rates for motor vehicles that are passenger vehicles depend on the purchase price or tax rate value of the vehicle. For a list of the tax rates and an explanation of purchase price and tax rate value, please see [Bulletin SST 042](#), *Motor Vehicle Dealers and Leasing Companies*.

Your customers are eligible for a PST rate adjustment on qualifying **alternative fuel vehicles** that are **passenger vehicles**, as they are generally more expensive than comparable gasoline or diesel models. This ensures that alternative fuel passenger vehicles are not taxed at higher rates only because the ability to operate on alternative fuel makes them more expensive.

If you sell a qualifying alternative fuel passenger vehicle for \$55,000 or more, you determine the PST rate as if the vehicle was \$7,000 less than the actual purchase price.

For example, if you sell a qualifying alternative fuel passenger vehicle for \$62,500, you determine the PST rate as if the vehicle was \$55,500. You then charge PST at a reduced rate of 8% on the purchase price of \$62,500.

**Please note:** The PST rate adjustment for alternative fuel passenger vehicles will expire on March 31, 2011.

## PST Reduction for Alternative Fuel Vehicles

In addition to the PST rate adjustment for qualifying alternative fuel passenger vehicles, your customers are eligible for a PST reduction on all qualifying alternative fuel vehicles. The amount of the PST reduction depends on the type of vehicle that your customer purchases or leases. If the PST payable on a vehicle is less than the maximum PST reduction available, the PST reduction will equal the PST payable.

Qualifying Vehicle	PST Reduction	Effective From	Effective To (inclusive)
Hydrogen fuel-cell buses	50% of the PST payable to a maximum of \$10,000	February 20, 2008	March 31, 2011
Electric motorcycles or scooters	50% of the PST payable to a maximum of \$1,000	February 20, 2008	March 31, 2011
Hybrid electric vehicles (other than passenger buses or shuttle buses)	100% of the PST payable to a maximum of \$2,000	February 16, 2005	March 31, 2011
Alternative fuel shuttle buses	50% of the PST payable to a maximum of \$5,000	February 16, 2005	March 31, 2011
Alternative fuel passenger buses	50% of the PST payable to a maximum of \$10,000	February 16, 2005	March 31, 2011
All other qualifying alternative fuel vehicles	50% of the PST payable to a maximum of \$1,000	February 16, 2005	March 31, 2011

## Fuel Efficient Vehicles

### Definitions

A **qualifying fuel efficient vehicle** is a new flex-fuel, gasoline or diesel powered:

- **light truck** with a Combined Fuel Consumption Rating (CFCR) of 8.3 litres or less, per 100 kilometres, or
- **passenger car** with a CFCR of 6.5 litres or less, per 100 kilometres.

An alternative fuel vehicle does not qualify as a fuel efficient vehicle.

**Please note:** A vehicle is considered to be new if it has not, since its manufacture, been sold or leased at a retail sale or retail lease.

The CFCR of a vehicle is the combined average of its fuel consumption rating for city driving (55%) and its fuel consumption rating for highway driving (45%). The fuel consumption ratings for city driving and highway driving are shown on the EnerGuide label for new motor vehicles. The CFCR is calculated as follows:

$$\text{CFCR} = (0.55 \times \text{fuel consumption rating for city driving}) + (0.45 \times \text{fuel consumption rating for highway driving})$$

For example, the city fuel consumption rating shown on the EnerGuide label for a passenger car is 5.9 and the highway fuel consumption rating is 4.8. The CFCR for this vehicle is 5.4 litres per 100 kilometres, calculated as follows:

$$(0.55 \times 5.9) + (0.45 \times 4.8) = 3.245 + 2.160 = 5.4$$

A **light truck** is a four-wheel motor vehicle that is:

- a pickup truck (up to, and including,  $\frac{3}{4}$  ton),
- a sport utility vehicle, or
- a minivan or large van (other than a camper van).

A **passenger car** is a four-wheel motor vehicle that is:

- a two-seater,
- a compact, subcompact, mid-size or full-size car, or
- a station wagon.

## **PST Reduction for Fuel Efficient Vehicles**

Your customers are eligible for a PST reduction on qualifying fuel efficient vehicles.

The amount of the PST reduction depends on the CFCR of the vehicle that your customer purchases or leases. If the PST payable on a vehicle is less than the maximum PST reduction available, the reduction will equal the PST payable.

Qualifying Vehicle and CFCR (litres per 100 km)	PST Reduction	Effective From	Effective To (inclusive)
Passenger cars 5.5 or less	100% of the PST payable to a maximum of \$2,000	February 20, 2008	March 31, 2011
Passenger cars 5.6 - 6.0	100% of the PST payable to a maximum of \$1,500	February 20, 2008	March 31, 2011
Passenger cars 6.1 - 6.5	100% of the PST payable to a maximum of \$1,000	February 20, 2008	March 31, 2011
Light trucks 7.3 or less	100% of the PST payable to a maximum of \$2,000	February 20, 2008	March 31, 2011
Light trucks 7.4 - 7.8	100% of the PST payable to a maximum of \$1,500	February 20, 2008	March 31, 2011
Light trucks 7.9 - 8.3	100% of the PST payable to a maximum of \$1,000	February 20, 2008	March 31, 2011

## Calculating the PST on Purchases

### Alternative Fuel Vehicles

#### Example 1:

Your customer purchases a hybrid electric vehicle that qualifies as a passenger vehicle. The maximum reduction is the lesser of 100% of the PST payable and \$2,000.

As the full selling price is \$62,000, the vehicle is subject to a higher rate of PST. Therefore, you need to calculate the PST rate adjustment before you determine the PST due.

#### Determine adjusted PST rate

Purchase price	\$62,000
Less PST rate adjustment	- <u>\$7,000</u>
Value for determining the PST rate	\$55,000

The PST rate is 8%.

#### Calculate reduced PST payable on purchase price

PST payable before reduction (8% x \$62,000)	\$4,960
Less PST reduction (lesser of 100% of \$4,960 and \$2,000)	- <u>\$2,000</u>
<b>PST due</b>	<b><u>\$2,960</u></b>

**Example 2:**

Your customer purchases an alternative fuel vehicle that qualifies as a passenger vehicle, but is not a hybrid electric vehicle, shuttle bus, passenger bus or hydrogen fuel-cell bus. The maximum reduction is the lesser of 50% of the PST payable and \$1,000.

As the full selling price is \$35,000, the vehicle is not subject to a higher rate of PST and you do not adjust the PST rate.

<b>Calculate reduced PST payable on purchase price</b>	
PST payable before reduction (7% x \$35,000)	\$2,450
Less PST reduction (lesser of 50% of \$2,450 and \$1,000)	- <u>\$1,000</u>
<b>PST due</b>	<b><u>\$1,450</u></b>

**Fuel Efficient Vehicles**

**Example 1:**

Your customer purchases a passenger car with a CFCR of 5.5 litres per 100 kilometres. The maximum reduction is the lesser of 100% of the PST payable and \$2,000. The purchase price of the vehicle is \$20,000.

<b>Calculate reduced PST payable on purchase price</b>	
PST payable before reduction (7% x \$20,000)	\$1,400
Less PST reduction (lesser of 100% of \$1,400 and \$2,000)	- <u>\$1,400</u>
<b>PST due</b>	<b><u>\$0</u></b>

**Example 2:**

Your customer purchases a passenger car with a CFCR of 6.1 litres per 100 kilometres. The maximum reduction is the lesser of 100% of the PST payable and \$1,000. The purchase price of the vehicle is \$30,000.

<b>Calculate reduced PST payable on purchase price</b>	
PST payable before reduction (7% x \$30,000)	\$2,100
Less PST reduction (lesser of 100% of \$2,100 and \$1,000)	- <u>\$1,000</u>
<b>PST due</b>	<b><u>\$1,100</u></b>



## Calculating the PST on Leases

If you lease a qualifying vehicle to a customer for a period of at least 12 months, you calculate the PST as follows.

1. Calculate the total amount of PST normally payable before reduction on both the down payment and all of the lease payments under the term of the lease.
2. Calculate the total amount of the PST reduction.
3. Allocate the PST reduction first to the PST payable on the down payment. Then allocate any remaining amount of the PST reduction equally to the PST payable on all lease payments under the term of the lease.

Provided that your customer enters into the lease before March 31, 2011, the PST reduction continues to apply to lease payments that your customer makes after March 31, 2011.

### Alternative Fuel Vehicles

#### Example:

Your customer leases an alternative fuel vehicle that qualifies as a passenger vehicle, but is not a hybrid electric vehicle, passenger bus, shuttle bus or hydrogen fuel-cell bus. The maximum reduction is the lesser of 50% of the PST payable and \$1,000.

The tax rate value of the vehicle is \$30,000. Therefore, the vehicle is not subject to a higher rate of PST and you do not adjust the PST rate.

The down payment is \$5,000, monthly lease payments are \$380 and the term of the lease is 48 months.

#### Calculate total amount of PST normally payable before reduction

Down payment	\$5,000
PST payable on down payment before reduction (7% x \$5,000)	<b>\$350 (A)</b>
Amount payable on all monthly lease payments (\$380 x 48)	\$18,240

PST payable on all monthly lease payments (7% x \$18,240)	<b>\$1,276.80 (B)</b>
Total PST payable before reduction (A + B)	\$1,626.80
<b>Calculate total available PST reduction</b>	
Lesser of 50% of \$1,626.80 and \$1,000	<b>\$813.40 (C)</b>
<b>Calculate reduced PST payable by lessee</b>	
Total available PST reduction (C)	\$813.40
Less PST payable on down payment (A)	- <u>\$350.00</u>
Remaining PST reduction for monthly payments	<b>\$463.40 (D)</b>
PST payable on each monthly lease payment (B ÷ number of months in lease term)	\$26.60
Less PST reduction available for each monthly lease payment (D ÷ number of months in lease term)	- <u>\$ 9.65</u>
<b>PST due on each monthly lease payment</b>	<b><u>\$16.95</u></b>
<p>In this example, you do not charge your customer PST on the down payment as the total PST reduction is greater than that amount. Your customer is required to pay \$16.95 in PST on each of the 48 lease payments under the lease agreement.</p>	

### Fuel Efficient Vehicles

**Example:**

<p>Your customer leases a light truck with a CFCR of 7.3 litres per 100 kilometres. The maximum PST reduction is the lesser of 100% of the PST payable and \$2,000. The tax rate value of the vehicle is \$40,000.</p> <p>The down payment is \$6,000, monthly lease payments are \$450 and the term of the lease 48 months.</p>	
<b>Calculate the total amount of PST normally payable before reduction</b>	
Down payment	\$6,000
PST payable on down payment before reduction (7% x \$6,000)	<b>\$420 (A)</b>

Amount payable on all monthly lease payments (\$450 x 48)	\$21,600
PST payable on all monthly lease payments (7% x \$21,600)	<b>\$1,512 (B)</b>
Total PST payable before reduction (A + B)	\$1,932
<b>Calculate total available PST reduction</b>	
Lesser of 100% of \$1,932 and \$2,000	<b>\$1,932</b>
In this example, you do not charge your customer PST on the down payment or on the monthly lease payments because the reduction is 100% of the PST normally payable.	

## Documentation of Reduced PST

If you sell or lease a vehicle with a PST rate adjustment or PST reduction, you need to make sure that:

- the amount of the rate adjustment or reduction is clearly documented on the sale or lease invoice, and
- you keep records to show the vehicle qualifies for a rate adjustment or reduction, and to show how you calculated the PST payable.

## Vehicles Converted to Alternative Fuel Use

You do not charge PST on kits to convert:

- motor vehicles to operate exclusively on electricity, or
- motor vehicles or stationary engines to operate on natural gas or propane.

This exemption applies to all parts required for a conversion and all repair parts required to maintain a conversion. For electric conversions, this includes the following:

- adapter plates and couplers
- ammeters and shunts
- batteries
- charger interlock relays
- circuit breakers
- contactors

- controller cooling kits
- fuel gauges
- fuses
- heater kits
- motor controllers
- motor mounts
- motors
- onboard battery chargers
- power steering kits (to restore power steering)
- rev systems
- reversing contactors
- throttle pot boxes
- upgraded charging systems
- vacuum pump kits (for restoring power brakes)
- welding cable and lugs

For natural gas or propane conversion kits, this includes the following:

- adapters
- brass fittings
- converters
- engine supply tanks
- fuel lock-offs
- mixers
- piping
- pressure release valves
- regulators

You also do not charge PST on the cost of labour to install, maintain or repair conversion kits.

To qualify for this exemption when taxable parts or services are provided at the same time, the non-taxable charges must be separately stated from the taxable charges on the sale invoice.

You charge PST on the following:

- parts that are sold at the same time as a conversion kit or repair parts, but are not related to the conversion, and
- services that are provided at the same time as the installation, repair or maintenance of a conversion kit, but are not related to the conversion.

For electric conversions, this includes optional items, such as battery watering systems, even if they may enhance the operation of the vehicle as an electric vehicle.

## **Hybrid Electric and Hydrogen-Enriched Compressed Natural Gas (HCNG) Bus Conversions**

There is no point-of-sale exemption for hybrid electric and HCNG bus conversions, but your customer may apply for a refund of PST paid on parts and labour. For more information, please see the section below, Refunds.

## **Refunds**

### **Refunds for Motor Vehicles**

#### **Motor vehicles purchased or leased out-of-province**

If you purchase or lease a motor vehicle outside of British Columbia, you are required to pay PST when you register the vehicle with the Insurance Corporation of British Columbia (ICBC).

If the vehicle that you register is a qualifying **alternative fuel vehicle**, you can apply to the ministry for a refund. If the vehicle you register is a qualifying **fuel efficient vehicle**, you can apply to the ministry for a refund, provided that you purchased the vehicle from a motor vehicle dealer **in Canada**.

The refund amount is the same as the point-of-sale PST rate adjustment and PST reduction described in this bulletin. For information on how to apply, please see the section below, Applying for a Refund.

#### **Fuel efficient vehicles**

Sometimes the fuel consumption figures for a vehicle can change after Transport Canada and Natural Resources Canada verify the figures. Therefore, it may be

determined that a vehicle qualifies for a PST reduction as a fuel efficient vehicle after the vehicle has already been sold or leased. If you purchase or lease a vehicle that:

- does not qualify for a PST reduction as a fuel efficient vehicle on the day of purchase or lease, and
- would have qualified for a PST reduction if you had purchased or leased it within six months after the day of purchase or lease,

you may apply to the ministry for a refund.

The refund amount is the same as the point-of-sale PST reduction described in this bulletin.

### **Applying for a Refund**

To apply for a refund of PST paid on a motor vehicle, you need to complete the *Application for Refund of Social Service Tax Paid on a Motor Vehicle* form ([FIN 413MV](#)).

The form is available on our website at [www.sbr.gov.bc.ca/business/Consumer\\_Taxes/Provincial\\_Sales\\_Tax/forms.htm](http://www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm)

Include the following with your application.

- If you **purchased** the vehicle, a copy of the motor vehicle purchase agreement showing the date of purchase, the name and address of the motor vehicle dealer and the amount of PST charged.
- If you **leased** the vehicle, a copy of the lease agreement showing the date you entered into the lease, the terms of the lease and the lease price. Also, include copies of the lease invoices that show the name and address of the lessor and the amount of PST charged.
- If you purchased or leased the vehicle **out-of-province**, a copy of the validated ICBC *Transfer/Tax Form* (APV9T) showing the amount of PST charged when you registered and transferred the vehicle.
- A copy of the ICBC *Vehicle Registration* (APV250) showing the make, model, year and fuel type of the vehicle.
- Proof that you paid the PST, such as a copy of your cancelled cheque.
- For **alternative fuel vehicles**, provide documentation from the motor vehicle dealer confirming the type of fuel the vehicle is designed to consume.
- For **fuel efficient vehicles**, provide a copy of the vehicle specification sheet that outlines the make, model engine specifications and the CFCR.

## Refund for Hybrid Electric and HCNG Bus Conversions

Effective February 22, 2006, you are eligible for a refund of PST paid on parts and labour to convert a shuttle bus or passenger bus to operate as a hybrid electric vehicle or to operate on HCNG. There is a maximum refund of \$5,000 for each shuttle bus conversion and \$10,000 for each passenger bus conversion.

The refund applies to all parts and labour required for the vehicle to run as a hybrid electric vehicle or to operate on HCNG.

For hybrid electric conversions, this includes transmissions, electric motors and power-cells.

For HCNG conversions, this includes the following:

- belt guards
- fans
- filters
- hoses
- mufflers
- piping
- power steering pumps or motors
- transmissions

To qualify for a refund when taxable parts or services are provided at the same time, the non-taxable charges must be separately stated from the taxable charges on the sale invoice.

You are **not** eligible for a refund on any parts that may be installed at the same time as the conversion but are not related to the conversion. You also are **not** eligible for a refund on repair or maintenance services provided after the conversion, or on repair parts installed after the conversion.

To apply for a refund, you need to complete the *Application for Refund of Social Service Tax or Hotel Room Tax* form (**FIN 413**). The form is available on our website at [www.sbr.gov.bc.ca/business/Consumer\\_Taxes/Provincial\\_Sales\\_Tax/forms.htm](http://www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm)

Include supporting documentation with your refund application, such as invoices showing the date of purchase and the amount of PST paid.

## Where to Send Your Refund Application

Send your refund application and supporting documents to:

Consumer Taxation Branch  
Refund Section  
PO Box 9628 Stn Prov Govt  
Victoria BC V8W 9N6

The ministry must receive your refund claim within four years from the date you paid the tax.



### Need more info?

Motor Vehicle Dealers website: [www.sbr.gov.bc.ca/industry\\_specific/motor\\_vehicle/motor\\_vehicle\\_dealers.htm](http://www.sbr.gov.bc.ca/industry_specific/motor_vehicle/motor_vehicle_dealers.htm)

Telephone (Vancouver): 604 660-4524

Toll free in Canada: 1 877 388-4440

E-mail: [CTBTaxQuestions@gov.bc.ca](mailto:CTBTaxQuestions@gov.bc.ca)

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)

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References: *Social Service Tax Act*, Sections 1, 6, 20, 74(e), 75(2) and (3), 77(c) 90.3, 90.4 and 130(h), (i), (j), (k), (l), and Regulations 2.45(b), 3.20(1) and Division 11