

PST-43 Issued: March 1995

Revised: June 2015

THE PROVINCIAL SALES TAX ACT

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INFORMATION FOR INDUSTRIAL AND CONSTRUCTION EQUIPMENT DEALERS AND SUPPLIERS

This bulletin has been prepared to help you apply and collect the Provincial Sales Tax (PST). It is a general guide and not a substitute for the legislation.

Changes to this bulletin are indicated by a bar (|) in the left margin.

The contents of this bulletin are presented under the following sections:

- A. Sales of New and Used Equipment
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- C. Calculating the Tax
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A. SALES OF NEW AND USED EQUIPMENT

On the sale of new and used equipment, tax applies to the cash difference between the selling price and the price allowed for the trade-in. Tax applies to the total selling price of new and used equipment where a trade-in is not involved. In addition, the tax applies to repair labour charges and to the sale of used parts.

Exempt Equipment Sales

The following equipment sales are not subject to tax:

- Equipment dealers purchasing for resale (the purchaser's PST licence number must be recorded on the sales invoice).

- Federal government departments and agencies (**Note:** sales to federal government Crown corporations and provincial government ministries, agencies and Crown corporations are taxable).
- Leasing companies (the purchaser's PST licence number must be recorded on the sales invoice).
- Non-resident purchases, providing the equipment is shipped by common carrier or delivered outside the province by the vendor who must retain evidence of shipment. Tax must be collected from non-residents who pick up the equipment in Saskatchewan.
- Sales made to status Indians or Indian bands providing the sale is finalized on reserve, the equipment is delivered to the reserve by the dealer, and the *Certificate of Indian Status* card or band name and number are recorded on the invoice. The complete 10 digit card number must be recorded on the sales invoice. If the federal identification card number is only three to five digits, record the number and the name of the band on the sales invoice. An Exempt Sales Certificate must also be completed (see below).

Status Indian and Indian Band Exempt Sales Certificate

I acknowledge that the above described equipment was purchased by _____ the transaction was finalized and delivery was taken on reserve number _____, location _____, and is for my own use or for approved band management activities on the ____ day of 20___. I have provided a copy of my *Certificate of Indian Status* card or band name and number to the dealer.

Date

Signature of Purchaser or Authorized
Representative

When a status Indian or Indian band purchases equipment and takes delivery of the equipment off reserve or finalizes the transaction off the reserve, tax is applicable.

The sale of parts and repair labour made to Indians and Indian bands off reserve is taxable.

No exemption is provided where the purchase is made in the name of an Indian corporation. A joint purchase between a status Indian and non-status individual is also subject to tax. Additional information on sales to First Nations individuals and organizations can be located in Information Bulletin PST-63, *Information Regarding Sales to First Nations Individuals and Organizations*.

- Farmers can purchase tax exempt certain industrial equipment for use in a primary farming activity. For further information on what equipment would qualify, please refer to our Information Bulletin PST-16, *Information for Farm Implement and Farm Supply Dealers*. Completion of a Farm Exemption Certificate is required.

In lieu of a Farm Exemption Certificate, the dealer may print, type, write or apply by rubber stamp on the sales invoice or other document supporting the sale, the following information:

Land Description Sec ____ Twsp ____ R ____ M ____.

I hereby certify the goods listed on this invoice will be used solely in the operation of my farm.

Date

Signature of Farmer

The completed Exemption Certificates should be retained by the dealer for a minimum of three years in the event of an audit and should not be forwarded to the Revenue Division.

Note: Industrial equipment and supplies purchased by farmers for purposes other than farming activities are subject to tax. For a listing of equipment and supplies farmers can purchase exempt for use in a primary farming activity, please refer to Information Bulletin PST-16, *Information for Farm Implement and Farm Supply Dealers*.

B. TRADE-IN ALLOWANCE AND GST REGISTRANTS

Tax is payable on the cash difference between the purchase price and trade-in allowance under the following conditions:

- The tax was previously paid in full on the trade-in
- The trade-in is owned by the same person purchasing the equipment or vehicle as indicated in the commercial transaction

For GST purposes, GST registrants are required to show a trade-in as a sale. To accommodate this requirement, dealers must complete two invoices (one showing the sale of the new vehicle and one showing the purchase of the trade-in). In order to qualify for the trade-in allowance, the dealer invoice should include the notation "trade-in by GST registrant". Both invoices must show the same date and have the GST registrants number recorded for cross reference purposes. The PST is then calculated by the dealer on the cash difference.

C. CALCULATING THE TAX

Tax applies on the total selling price of new and used equipment, less the value of any tax paid trade-in. For example, if a backhoe is traded in on a grader, the tax applies to the total selling price of the grader after the deduction of the value allowed for the backhoe being traded in. The backhoe traded in is subject to tax upon resale.

If the price allowed for the trade-in exceeds the total price of the unit being acquired, no tax is payable and no refund of tax is allowed.

Documentation charges, freight, pre-delivery and accessories installed by the dealer at the time of the sale are taxable. Cash discounts should be deducted before calculation of the tax.

To qualify for a trade-in allowance, the applicable PST must have been paid on the item traded-in. For example, equipment from out of province cannot be accepted for a trade-in credit until documentation is submitted indicating the unit is fully tax paid in Saskatchewan.

The following examples illustrate the correct method of calculating the tax on vehicle sales:

| | | |
|-----|---|---------------|
| (1) | Total Selling Price (excluding the GST) | \$100,000 |
| | Less: Trade-in | <u>40,000</u> |
| | Cash Difference | \$ 60,000 |
| | Tax at 5% | \$ 3,000 |
| (2) | Total Selling Price (excluding the GST) | \$100,000 |
| | Less: 10% Cash Discount | <u>10,000</u> |
| | | \$ 90,000 |
| | Less: Trade-in | <u>40,000</u> |
| | Cash Difference | \$ 50,000 |
| | Tax at 5% | \$ 2,500 |

Invoicing The Tax On Equipment Sales

The customer's sales invoice for new and used equipment must separate the total selling price, the amount of the trade-in, and the amount of PST collected. This invoice **cannot show the cash difference only.**

Manufacturers' Cash Bonuses Or Rebates

Tax must be calculated on the selling price of equipment before the deduction of a manufacturer's cash bonus or rebate which is offered as an incentive to a purchaser.

The following example illustrates the correct method of calculating the tax:

| | |
|---|---------------|
| Total Selling Price (excluding the GST) | \$100,000 |
| Less: Trade-in | <u>40,000</u> |
| | \$ 60,000 |
| Tax at 5% | <u>3,000</u> |
| | \$ 63,000 |
| Less: Manufacturer's Cash Bonus | <u>10,000</u> |
| Net Price | \$ 53,000 |

D. USED EQUIPMENT RECONDITIONING

A dealer is not required to pay the tax on parts or labour used to repair equipment which is in inventory for resale. Tax will be charged on the full selling price of the equipment when sold, excluding the GST.

E. NEW AND USED LEASED EQUIPMENT¹

The lease/rental of new and used equipment is subject to tax on the total lease/rental charge. The following outlines some examples of taxable/exempt charges:

Taxable Lease/Rental Charges And Fees

- Fixed fees, time and distance charges
- Damage fees, (exempt if optional)
- Liability insurance fees (exempt if optional)
- Drop off charges
- Security deposit charges (exempt if optional)
- Accessory charges
- Accident deductible charges and loss or damage charges
- Repair parts and repair labour
- Extended warranty charges
- Down payments
- Standby charges

Exempt Lease/Rental Charges And Fees

- Replacement parts and repair labour provided by the lessor at no charge to the customer
- Lease termination charges that are in the nature of a penalty or a settlement for terminating a lease early (termination charges that are applied to lease arrears are subject to tax)

The sale of new and used equipment upon termination of the lease/rental is subject to tax on the total selling price after the deduction of any trade-in. Parts and labour invoiced to the lessee are subject to tax.

Leasing/rental firms are not required to pay the tax on the cost of new and used leased/rental equipment. The purchase of repair parts, including oil and grease and repair labour, are not subject to tax providing these items are paid for by the leasing/rental firm and form a part of the total lease/rental charge.

Leasing/rental firms must quote their PST Tax number to their suppliers in order to purchase equipment and repair parts and labour tax exempt.

¹ Information Bulletin PST-72, *Information for Rental Businesses*

Calculation Of Tax On Leases Involving Trade-ins/Downpayments

Tax paid equipment traded in as a down payment on a lease or as part payment against future lease payments can be used to reduce the amount of tax payable on leased equipment. The lease value subject to tax is calculated on the trade difference before any down payment or manufacturer's rebate. Tax must be charged on each lease billing at the time the payment becomes due under the terms of the lease agreement. The following example illustrates the correct method of calculating the tax:

| | |
|--|---------------|
| Total Price (excluding the GST) | \$100,000 |
| Less: Trade-in | <u>40,000</u> |
| Lease value subject to tax | \$ 60,000 |
| Downpayment | <u>10,000</u> |
| *Balance of lease | \$ 50,000 |
| | |
| Tax payable at 5% on downpayment of \$10,000 | \$ 500 |

*Balance of lease is subject to tax

F. WARRANTIES AND INSURANCE CONTRACTS

When applying PST to an equipment service contract it is important to distinguish a warranty contract from an insurance contract.

(1) Manufacturer's Extended Warranty Contracts:

PST applies to the selling price of optional manufacturer's extended warranty contracts as well as the deductible charges related to that contract. This applies to contracts for **new and used** equipment and contracts sold subsequent to the purchase or lease of the equipment. Charges to transfer an existing contract to another owner are also subject to tax.

Since tax applies to the sale of the warranty, no tax will apply to parts and labour used to repair the equipment, when those repairs are completed under the terms of the extended warranty or factory warranty.

Tax will apply to any of the charges that are billed directly to the customer including deductible charges and charges for parts or labour that are not covered under the terms of the warranty contract.

(2) Equipment Warranty Insurance Contracts:

Equipment Warranty Insurance Contracts (such as Mechanical Breakdown Insurance) are different than a Manufacturer's Extended Warranty. Equipment Warranty Insurance Contracts are underwritten by an insurance company and the dealer selling these contracts must be licensed with the Insurance Councils of Saskatchewan.

Dealers selling Equipment Warranty Insurance Contracts for new and used equipment are not required to collect the PST on the sale of these contracts, as the tax is paid when the customer or insurance provider is billed for the repair.

Dealers who are not certain about the type of contract being sold can contact the Insurance Councils of Saskatchewan for clarification between an extended warranty contract and an insurance contract.

G. REPAIR PARTS, REPAIR LABOUR AND SERVICE LABOUR

Repair services are subject to tax, including charges for labour and charges for new and used parts that are used in the repair. Taxable repairs include services such as installation, assembly, dismantling, adjusting, restoring, examining, testing, reconditioning, tire repairs, lubrication, inspections, battery charging and diagnostic charges.

Used Parts

Used parts sold or itemized in repairs for individuals for personal use, are subject to PST on the selling price of the parts less a deduction of \$300 per item.

If a trade-in is involved, the purchaser is entitled to the \$300 deduction or the value of the trade-in, whichever is greater. The \$300 deduction does not apply to sales of items for business use or on used parts from outside Canada.

Reconditioned Or Remanufactured Parts

Reconditioned or remanufactured items, such as motors, transmissions, alternators, starters, brake shoes, fuel pumps, water pumps and retreaded tires are subject to tax on the total selling price. If an exchange unit is traded in, the tax must be calculated on the cash difference. **A refund of tax is permitted on core credits** when the item is subsequently returned.

On the sale of a used part to an **individual** who receives credit for a core charge, the greater of the \$300 personal exemption **or** the actual core charge may be deducted, but **not** both.

Non-Resident Equipment Repairs

Repairs to equipment owned by non-residents of Saskatchewan are subject to tax.

H. SHOP SUPPLIES

Charges to the customer for shop supplies are subject to PST. This includes charges invoiced to the customer as a fixed percentage of the total labour charge to cover the shop supplies used.

If these charges are shown as a separate line item on the invoice to the customer, the repair shop is required to collect the PST on the charge and may purchase these items exempt from tax by quoting their vendor's licence number to their suppliers.

If the shop supplies are not invoiced as a separate line item to the customer, the repair shop is required to pay PST on the purchase of these goods.

Shop supplies include the following:

- Abrasive stones and discs
- Acid core solder and bits
- Adhesive sealant
- Bearing grease
- Bench lubricant
- Bolts, nuts and pins – assorted
- Brake fluids
- Brass rods
- Carburetor solvent
- Chassis grease
- Choke cleaner
- Clevis pins – assorted
- Copper fittings – assorted
- Cotter pins – assorted cutting fluids
- Door ease
- Electric rods
- Electrical tape
- Engine shampoos and degreasers
- Fibreglass
- Gasket material
- Gasket sealer compound
- Glue
- Lubriplate
- Masking paper
- Mechanical wire
- Parts cleaning solvent
- Penetrating solvent
- Permatex compound
- Plastic ties
- Protective material
- Resin
- Rivets
- Sandpaper
- Screws – assorted
- Silicone spray
- Snap rings – assorted
- Solder
- Steel rods
- Steel wool
- Undercoat
- Upholstery cleaner
- Welding rods and wire
- Window weld
- Wiping rags
- Wire and wire ends
- Wood ruff keys – assorted

I. ENVIRONMENTAL HANDLING FEES

Environmental handling fees imposed by the Government of Saskatchewan are **not subject to tax when they are segregated on the customer's invoice.**

Exempt environmental handling fees include charges billed to a customer for disposal of oil, oil filters, antifreeze, diesel exhaust fluid containers, diesel fuel filters and tires.

J. GOODS AND SERVICES FOR YOUR OWN USE

Businesses are required to pay tax on the cost of new and used equipment, supplies and taxable services purchased for use in their business operations. Tax is payable as follows:

- When purchased from a licensed supplier, the tax must be paid to the supplier at the time of purchase.
- When taken from an exempt resale inventory, the tax must be self-assessed and remitted with the regular tax return. This includes goods taken for personal or business use.

- When purchased from a supplier who did not collect the tax, such as an unlicensed supplier located outside Saskatchewan, the tax must be self-assessed and remitted with the regular tax return. Tax is payable on the laid-down cost, which includes currency exchange, transportation charges, customs and excise duties and importation charges, but not the GST.

K. SALES OF USED BUSINESS ASSETS

Businesses are required to collect tax on the sale of used assets, such as taxable vehicles and equipment. When used assets are being sold as part of the closure of a business, the purchaser is required to self-assess and report the tax.

When individuals purchase used goods for personal use, other than vehicles, tax applies to the selling price of the goods less a deduction of \$300 per item. If a trade-in is involved, the purchaser is entitled to a deduction of \$300 or the value of the trade-in, whichever is greater. If the goods are for commercial use, the \$300 deduction does not apply.²

L. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

The Ministry of Finance has made it possible to report and remit tax electronically through the use of a standard Internet connection. The Saskatchewan Electronic Tax Service (SETS) offers a secure, fast, easy and convenient alternative to filing returns in paper format. Several E-File services are currently available through SETS.

Businesses may use SETS to file and pay returns for PST and other provincial taxes.

SETS allows businesses to:

- file and pay returns or make payments on account;
- file a return and post-date the payment to the due date;
- view account balance and statement information;
- authorize your accountant to file on your behalf; and,
- subscribe to an Email Notification Service that allows the option to be notified by email that a tax return should be filed. This replaces the paper forms normally received in the mail.

² Information Bulletin PST-58, *Information on the Taxation of Used Goods*

FOR FURTHER INFORMATION

Write: Ministry of Finance
Revenue Division
PO Box 200
REGINA SK S4P 2Z6

Telephone: Toll Free 1-800-667-6102
Regina 306-787-6645

Email: sask.tax.info@gov.sk.ca

In-Person: Ministry of Finance
Revenue Division
2350 Albert St
REGINA SK S4P 4A6

Fax: 306-787-9644

Internet: PST bulletins, forms and information are available on the Internet at:
<http://www.finance.gov.sk.ca/taxes/pst>

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