

Exemption for Prototypes

Provincial Sales Tax Act

This bulletin explains how the provincial sales tax (PST) applies to prototypes.

Table of Contents

Definition of a Prototype	1
Exemption for Prototypes	1
Change in Use	2
Production Machinery and Equipment Exemption	4

Definition of a Prototype

In this bulletin, a **prototype** means the first full-scale functional form of a new type or a new construction of tangible personal property (goods).

Please note: Software or improvements to real property cannot be prototypes.

Exemption for Prototypes

Prototypes and Copies of Prototypes

A prototype is exempt from PST if the prototype is a result of research and development activities aimed at developing a new or improved product or process.

Copies of a prototype are also exempt from PST if the copies are made for the sole purpose of testing the prototype as part of the research and development activities referred to above.

Goods or Software Incorporated into Prototypes

Goods or software that will be processed, fabricated or manufactured into, attached to or incorporated into the prototype or copy of the prototype (as mentioned above) are exempt from PST.

Please note: Software that is not specifically designed for the prototype does not qualify for this exemption.

Claiming Exemptions

To obtain the exemptions mentioned above, give the supplier your PST number or, if you do not have a PST number, a completed *Certificate of Exemption – General* ([FIN 490](#)).

Mock-ups

Generally, mock-ups are subject to PST if they do not qualify as prototypes (i.e. if the mock-up is not the first full-scale functional form of a new type or a new construction of goods). However, in certain situations, mock-ups may be non-taxable.

For example, the following mock-ups are not subject to PST:

- A scale model provided by an engineer or architect under a contract for professional services.
- Mock-ups that are incidental to the provision of a non-taxable service, provided that:
 - the main purpose of the contract is for the service and not for the mock-up,
 - there is no separate charge for the mock-up, and
 - the total price for the service, including the mock-up, is the same as or only marginally different from the price that would be charged if the mock-up was not provided.

Change in Use

You must self-assess PST if you claim one or more of the exemptions above and, for any period after the testing of the prototype or copy of the prototype, you become:

- a user (other than in the situations described below) of that prototype or copy of the prototype, or
- entitled to receive payment for the use of that prototype or copy of the prototype.

You must self-assess PST on the depreciated purchase price of the prototype or copy of the prototype.

Depreciated Purchase Price

The depreciated purchase price of a prototype or a copy of a prototype is the greater of:

- the depreciated value (as calculated below), and
- 50% of the purchase price.

The depreciated value is determined as follows:

$$\text{Depreciated value} = \text{Purchase price} - [\text{purchase price} \times \text{depreciation rate}]$$

You may only calculate the depreciated value on the following types of equipment using the depreciation rates listed below. Periods of less than 30 days must be computed to the nearest 30-day period. This means that 15 days or more is counted as one 30-day period and periods of less than 15 days are not counted.

Type of Goods	Depreciation Rate
Vehicles, including all trailers and self-propelled equipment	2.5% per 30-day period (30% per year)
Aircraft	2.0833% per 30-day period (25% per year)
Vessels	1.25% per 30-day period (15% per year)
Railway rolling stock	0.8333% per 30-day period (10% per year)
Other equipment, furnishings and affixed machinery	1.667% per 30-day period (20% per year)

You calculate the depreciated value of a prototype or copy of a prototype as of the earliest of the following dates:

- The date you first became a user of that prototype or copy of the prototype
- The date the payment for the use of that prototype or copy of the prototype is paid or becomes due (whichever is earliest)

Self-Assessing the PST Due

If you have a PST number, you must self-assess the PST due on your next PST return after the earliest of the dates above. If you do not have a PST number, you must self-assess the PST due using a *Casual Remittance Return* ([FIN 405](#)) on or before the last day of the month following the month in which the earliest of the dates above occurred.

Situations Where a Change in Use Does Not Occur

You are not required to self-assess PST in the following situations:

- The only use of the prototype or copy of the prototype was for demonstration and the payment received for the use of that prototype or copy of the prototype does not exceed the actual cost of that demonstration.
- The prototype was unsuccessful and you:
 - reused the prototype or copy of the prototype to build another prototype,
 - discarded the prototype or copy of the prototype at your own expense,
 - resold the prototype or copy of the prototype, or
 - processed, fabricated, manufactured, attached or incorporated the prototype or copy of the prototype into other goods for the sole purpose of sale or lease.

Production Machinery and Equipment Exemption

If you use a prototype on your production line, you do not qualify for the exemption for prototypes.

However, if you qualify for the production machinery and equipment (PM&E) exemption, you may obtain certain PM&E exempt from PST.

For more information, please see [Bulletin PST 110](#), *Production Machinery and Equipment Exemption*.

Need more info?

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The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation.

References: *Provincial Sales Tax Act*, sections 1 “lease”, “prototype”, “sale”, “software”, “use”, 25, 85, 113, 141, 145 and 192; *Provincial Sales Tax Exemption and Refund Regulation*, sections 1 “Part 3 software”, 41, 69 and 90-120; *Provincial Sales Tax Regulation*, sections 7 and 54.