

Municipalities

About this Guide

This *Guide* provides tax information to help municipalities understand how Retail Sales Tax (RST) applies to their sales and purchases.

A municipality means the corporation of a county, city, town, village, township or improvement district, local board, commission or other local authority exercising any power with respect to municipal affairs or purposes. For the purpose of this guide “municipalities” will be all encompassing.

For general RST information that applies to all businesses such as registration for vendor permits, general exemptions, and how to charge and collect tax, see ***Small Business Pointer 901 - The Basics of Retail Sales Tax***.

Contents

General Information on:

Sales	2
Purchases.....	2
Non-Taxable Services.....	2
Admissions	3
Aggregates	3
Asset Transfers	3
Blue Box and Green Bin Distribution.....	4
Construction and Repair of Real Property	4
Emergency Medical Service Operations	5
Fire Fighting Vehicles	5
Fleet Vehicles	7
Libraries	7
Manufacturing Operations	7
Parking Fees.....	8
Refunds.....	9
Water and Sewage Treatment Plants.....	9
More Information	9

Sales

Taxable Sales Municipalities that sell taxable goods or provide taxable services are required to register for a vendor permit with the Ministry of Revenue.

Retail Sales Tax (RST) at the rate of 8 per cent must be charged on the fair value of all taxable goods sold, rented or leased and on any taxable services rendered in Ontario. Examples of taxable sales include:

- composters, blue boxes, organic bins, rain gauges
- compost and recycled materials
- equipment rentals at recreational facilities
- maps
- general merchandise sold in gift shops
- pet adoption fees
- snack foods and prepared food products
- parking (please see pg.8 of this *Guide* for more information).

For more information on the sale of food products see ***RST Guides 300 - Prepared Foods and 501 - Snack Foods.***

Purchases

Taxable Purchases Municipalities are required to pay RST on their purchases of any taxable goods and taxable services purchased for their own consumption or use in Ontario unless a specific exemption is available under the *Retail Sale Tax Act*. Municipalities that acquire taxable goods from non-registered out-of-province suppliers are required to remit RST on line 3 of their return at the time the materials are purchased. Examples of taxable purchases include:

- telecommunication services and equipment
- office furniture and supplies
- computers and computer programs (excluding custom programs)
- swimming pool chemicals
- tools and equipment
- plants, shrubs & seeds
- sandbags
- insurance premiums (excluding automobile insurance)
- imported goods for own use
- warranties for taxable goods.

Items Purchased for Resale Goods purchased for resale may be purchased exempt from RST by providing the supplier with a valid Purchase Exemption Certificate (PEC). See ***Guide 204 - Purchase Exemption Certificates.***

Non-Taxable Services

Provision of a Non-Taxable Service Municipalities that provide non-taxable services must pay RST on any taxable equipment or services used to supply their service. Examples of services that are not subject to RST include:

- | | |
|--|---|
| <ul style="list-style-type: none"> • garbage collection • animal control • pet licensing • licenses, permits, certificates • transit operations | <ul style="list-style-type: none"> • property inspections • marriage ceremonies • water analysis • library services |
|--|---|

Professional Services Where municipalities are acquiring professional services such as those rendered by engineers, architects, lawyers, these fees are not subject to Retail Sales Tax (RST).

Admissions

Places of Amusement Municipalities operating places of amusement such as museums, arenas, stadiums, theatres and zoos must charge, collect and remit RST at the rate of 10 per cent where the price of the admission exceeds \$4.00. Municipal surcharges added to the price of a ticket are also subject to RST at the rate of 10 per cent.

RST is not applicable on the price of certain admissions. Examples include:

- live entertainment held at theatres with 3200 seats or less
- events held under the auspices or sponsorship of various organizations.

See **RST Guide 303 – Admissions** for a listing of qualifying organizations and additional exemptions.

Aggregates

Supply Only The sale of sand, soil, clay, gravel and unfinished stone is taxable to all purchasers, including municipalities. Where municipalities sell such materials, delivery charges are not subject to RST provided the customer is made aware of the amount of the delivery charges included in the invoice price (e.g. the contract between the municipality and the customer shows a breakdown between the gravel and the charge for delivery).

The exemption on delivery charges does not apply where these items are mixed together with other ingredients. For example, if a mixture of salt and sand are sold, then RST would apply to the sale and to any related delivery charges.

Supply and Installation Contracts Where municipalities enter into a contract which involves the spreading, grading and leveling of aggregate by a contractor, the municipality has entered into a real property contract and should not be charged RST on the invoice. The contractor is responsible for paying RST on its cost of the aggregates.

Asset Transfers

Restructuring Activities RST is not payable on the acquisition of assets, including motor vehicles, from another municipality, public commission, the Government of Ontario or an agency of the province resulting from:

- an amalgamation, or
- a restructuring or realignment of responsibilities under the *Municipal Act*.

Water and Sewage Works Acquisition of assets as the result of the transfer of any water or sewage works is not subject to RST, provided the assets are for the:

- collection, production, treatment, storage, supply and distribution of water, or
- collection, transmission, treatment and disposal of sewage.

The exemption does not extend to plumbing to which the *Building Code Act* applies.

Blue Box and Green Bin Distribution

Tax Exempt Inventory Municipalities that purchase blue boxes and green bins exempt from Retail Sales Tax (RST) are required to remit the applicable RST on this inventory at the time it is given away or sold to their constituents.

Where the goods are given away free of charge, RST must be remitted on the amount paid by the municipality when it acquired the goods.

Where the goods are sold, RST must be collected and remitted on the selling price.

Tax Paid Inventory Where tax-paid inventory is sold, RST must be collected and remitted on the selling price. The municipality may apply for a refund of the RST paid when they acquired the goods.

Predominant Use of Inventory In cases where municipalities hold a combined inventory (i.e. goods for resale and own use), the intended predominant use of the inventory (more than 50%) will determine whether the inventory should be purchased on a tax-paid or exempt basis.

Construction and Repair of Real Property

Repairs by Municipalities Municipalities may contract with another party or use their own employees to construct or repair real property such as:

- roads
- buildings
- gardens and lawns
- playground equipment
- bridges & tunnels
- traffic signs and parking meters
- street lights.

Real Property Contractors RST must be paid by municipalities on any materials purchased by them to construct or repair real property.

Where the construction or repair of real property is performed by another party (i.e., all material and labour is supplied by the other party), RST should not be shown on the invoice to the municipality. The contractor is considered the end user of any goods and services consumed in the performance of the contract and should include RST as an element of cost when determining the contract price.

Non-Resident Contractors Contracts performed by non-resident contractors, are subject to the provisions outlined in **RST Guide 804 - Non-Resident Contractors**.

Farm Drainage Systems RST is not payable on farm drainage systems including tiles when used by a municipality to carry out drainage projects for persons engaged in the business of farming. To purchase the items exempt, a written statement signed by an official certifying that the items will be used exclusively in the business of farming must be provided to the supplier. See **RST Guide 807 - Farmers** for more information on this topic.

Maintenance Agreements Maintenance or service agreements for real property are not subject to RST.

Tax Paid in Error

If a contractor charges Retail Sales Tax (RST) in error on a real property contract, the municipality may be eligible for a refund of 12 per cent of the RST paid. The refund is intended to return only the amount in excess of the tax which is properly payable by the contractor. If the actual costs of all materials consumed by the contractor can be established, the municipality or local board may apply for a full refund of the RST paid on the cost of the materials.

Where materials and labour are shown separately, the refund will be comprised of the full amount of RST charged on the labour in addition to 12 per cent of the RST charged on the materials.

Example:

Amount Invoiced:		Refund Amount:	
Materials:	\$2 000	$2\ 000 \times 8\% \times 12\%$	\$ 19.20
Labour:	4 000	$4\ 000 \times 8\%$	<u>320.00</u>
Total:	<u>6 000</u>		\$339.20
RST charged:	\$ 480		

See *RST Guide 206 - Real Property and Fixtures* for more information on this topic.

Emergency Medical Service (EMS) Operations

Exempt Supplies

RST is not payable on supplies (drugs and medicines) used in EMS operations provided:

- the supplies are purchased under the prescription of a physician, or
- the purchase order for the supplies is signed by a physician and
- the supplies are of a disposable nature.

Examples of qualifying medical supplies include:

- latex gloves
- cotton batting
- disposable hypodermic needles
- foam pads
- disposable drugs
- gauze
- sponges
- tongue depressors
- surgical adhesives.

Taxable Supplies

Reusable instruments or equipment do not qualify for an exemption, even if they are purchased under the prescription of a physician.

Fire Fighting Vehicles

Exempt Vehicles

Fire fighting vehicles purchased by a municipality at a price of more than \$1,000 and repairs to such vehicles are exempt from RST. To qualify for the exemption, the vehicles must be specifically designed and equipped at the time of purchase for use primarily in fire-fighting, rescue and emergency response operations. Examples of qualifying vehicles include:

- pumpers
- initial attack fire apparatus
- mobile water supply apparatus
- aerial ladder and elevating platform fire apparatus

**Exempt
Vehicles**
(continued)

- wildland fire apparatus
- light, medium and heavy rescue units
- hazardous materials apparatus
- mobile command post units
- support vehicles.

**Vessels and
Aircraft**

Commercial fire-fighting vessels and aircrafts specifically equipped for fire fighting may also qualify for an exemption.

**Taxable
Vehicles**

Fire chief's vehicles, ambulances and police vehicles are taxable at a rate of 8 per cent.

**Exempt Fire
Fighting
Equipment**

Equipment purchased for fire fighting vehicles can be classified into two distinct categories:

1. Integral components which are permanently attached or incorporated into the vehicle at the time the vehicle is purchased such as lights, sirens, light bulbs and tires.

Provided such components were a part of the vehicle when it was purchased by the municipality, any repairs to or replacement of such equipment may be purchased exempt from Retail Sales Tax (RST). Any acquisition of new equipment and enhancements made to the vehicle after its purchase are taxable.

2. Ancillary equipment such as detachable hoses, portable extinguishers, automated external defibrillators.

Where the cost of this equipment is factored into the purchase price of the vehicle, it becomes part of the vehicle's fair value and may be acquired exempt from RST. Repairs to such equipment will also be exempt from RST. Any acquisition of new equipment after the vehicle is purchased is taxable.

**Taxable Fire
Fighting
Equipment**

Municipalities must pay RST on the acquisition of new equipment that is not a replacement of an integral component of the vehicle as well as any ancillary equipment that was not originally purchased with the vehicle. The replacement of any ancillary equipment is taxable. Please see the following chart.

How RST Applies	Integral Components	Ancillary Equipment
Replacement of equipment purchased with the vehicle	Exempt	Taxable
Acquisition of completely new equipment/ enhancements to initial vehicle	Taxable	Taxable
Repairs to equipment purchased separately from vehicle	Taxable	Taxable

Fleet Vehicles

- Own Use** Retail Sales Tax (RST) is payable by municipalities on the purchase or lease of fleet vehicles i.e., transit buses, snow ploughs, sand and salt spreaders, graders. If the vehicles are sent out for repairs the repair parts and labour are subject to RST.
- In-House Repairs** Motor vehicle repairs which are performed in-house by municipalities on their own vehicles are subject to tax. RST must be paid on any costs incurred for repair parts, equipment or consumables used to repair the vehicles. In-house labour is not subject to RST. For more information see ***RST Guide 600 - Motor Vehicle Repairs***.

Libraries

- Exempt Publications** In addition to the exemptions for qualifying publications, municipalities that operate public libraries administered under the *Public Libraries Act* may also purchase the following items exempt from RST, provided they are of an educational nature and not for commercial exhibition for profit:
- films and filmstrips
 - audio tapes and audio discs
 - video tapes and video discs
 - CD-ROM and DVD-ROM that are not primarily a computer programs
 - phonograph records
 - 35MM slides.

RST does not apply to materials and labour used to repair, maintain or recondition exempt publications. RST is however, payable on items such as book pockets, bar code labels, as these items do not originally form part of the publication.

For more information on exempt publications see ***RST Guide 507 – Publications***.

Manufacturing Operations

- Manufacturing Thresholds** A manufacturer or producer is a person who produces goods:
- for sale to others (without installation) and total sales exceed \$5,000 in a fiscal year, or
 - for their own use and the “manufactured cost” of those goods exceeds \$50,000 in a fiscal year.
- Manufacturing Activities** Manufacturing activities for municipalities include:
- production of road signs
 - production of compost
 - the treatment of water at treatment facilities
 - production of electricity
 - printing
 - extraction of sand, gravel or unfinished stone
 - the mixing of sand and salt.

For more information on manufacturers see ***RST Guide 400 - Manufacturers***.

**Tax on
Manufacturing
for Own Use**

Municipalities are required to account for Retail Sales Tax (RST) on the manufactured cost of taxable goods produced for own use if the manufactured cost of the goods produced exceeds \$50,000 in a fiscal year. Manufactured cost includes direct materials, direct labour and manufacturing overhead.

Municipalities are not required to account for RST on the manufactured cost of goods which are exempt under the *Retail Sales Tax Act*. For example:

- printing of books
- production of electricity.

For more information on manufacturing costs see ***RST Guide 401- Manufacturing Contractors***.

**Manufacturing
Equipment**

An exemption cannot be claimed for production machinery and equipment as municipalities are specifically excluded from receiving this exemption. RST must be paid at the rate of 8 per cent on these purchases.

**Exempt
Consumables**

Municipalities may purchase processing materials that are used or expended in their manufacturing operations exempt from RST. Examples of processing materials include:

- boiler compounds
- masters, artwork, other imaged articles
- cleaning solution, cleaner sheets
- cotton pads, paper and ink.

To purchase the processing materials exempt from RST, a valid PEC must be provided to the supplier at the time of purchase.

Note: The heating and cooling of water to be used to heat or cool buildings is not considered a manufacturing operation. Where municipalities produce electricity that is used to offer such heating and cooling services, RST is payable on the consumables unless the consumables are used primarily in manufacturing operations.

Parking Fees

Municipalities are required to charge RST on the provision of commercial parking spaces. If municipalities operate parking meters or other devices requiring exact change they may use tax-included pricing. Municipalities that operate full service parking lots have the option of using tax-included pricing or tax-extra pricing as exact change is not required.

The RST to be remitted is calculated as follows:

- $8/113 \times$ total charges (GST included in the charge) or
- $8/108 \times$ total charges (GST excluded from the charge).

See ***RST Guide 208 - Tax Included Pricing*** for more information on this topic.

RST should not be charged on residential street parking obtained under a special permit.

Refunds




Municipalities may claim a refund where Retail Sales Tax (RST) has been paid in error on goods and services that qualify for exemption. All refund claims must be received by the Ministry of Revenue within four years from the date the RST was paid.

See *RST Guide 700 – Refunds and Adjustments* for more information on this topic.

Water and Sewage Treatment Plants

Municipalities that operate water and sewage treatment plants may purchase chlorine and other chemicals (used in the treatment of sewage and water) exempt from RST by providing their supplier with a valid PEC at the time of purchase.

More Information

-  Telephone:
1 866 ONT-TAXS (1 866 668-8297)
Teletypewriter (TTY) 1 800 263-7776
-  Online:
To obtain the most current version of this publication visit our website at ontario.ca/revenue and enter **2760** in the find page field at the bottom of the webpage
-  Written Interpretation:
To obtain a written interpretation on a specific situation not addressed in this publication, please send your request in writing to:

Ministry of Revenue
Tax Advisory Services Branch
Retail Sales Tax Section
33 King Street West, 3rd Floor
Oshawa ON L1H 8H5

Disclaimer and References

The information contained in this publication is provided only as a guideline and is not intended to replace the legislation.

Legislative References:

- *Retail Sales Tax Act*: subsections 2(1), 2(5), 9(4) and 9(6); paragraphs 7(1)19, 23, 31, 40, 44 and 62
- Regulation 1012 s.14(1),(3),(4),(5) s.1(3), (4)
- Regulation 1013 s.1

