

Ministry of Finance

Tax Bulletin



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Bulletin SST 089

www.fin.gov.bc.ca/rev.htm

On July 1, 2010, the provincial sales tax (PST) was replaced with the harmonized sales tax (HST). However, the information in this notice may still be applicable if, under the transitional rules, PST applies. For information on the transitional rules, please see www.sbr.gov.bc.ca/business/Consumer_Taxes/Harmonized_Sales_Tax/hst.html

Fabric and Craft Stores

Social Service Tax Act

Do you sell fabric and other sewing and craft supplies?

Do you offer classes on sewing or other crafts?

This bulletin provides specific tax information to help retailers of fabric and other craft supplies understand how the social service tax, also called the provincial sales tax (PST), applies to their businesses.

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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Sales

When to Charge PST

You charge PST on the following fabric and craft items.

- Equipment, such as sewing machines, sergers and quilting machines, as well as parts and accessories for the equipment.
- Individual patterns and instructions for non-clothing items.
- Kits consisting of yarn, fabric or floss, a pattern and/or instructions, and other supplies necessary to make a decorative item, such as a hooked rug, a wall hanging or a needlepoint pillow or picture.
- Notions, such as appliqués, bobbins, buttons, crochet hooks, cutting tools, drapery rods and fittings, dress shields, elastic, fabric dye, iron-ons, knitting needles, needles, pads, patches, pins, scissors, sewing boxes, snaps, stabilizers, tapes, velcro, zippers etc.
- Software, CDs and DVDs.
- Thread that is not generally suitable for making clothing or that is labelled for a non-clothing purpose, such as embroidery thread or floss and quilting thread.
- Trimming, such as binding, braid, fringe, lace, ribbon, tassels etc.
- Fabric that is packaged and sold as clothing, such as lengths of fabric packaged and sold as saris or sarongs.
- Fabric that is pre-cut from a bolt or roll and labelled for a purpose other than making clothing, such as for making quilts, pot holders, tablecloths, placemats or wall hangings.
- Fabric that is pre-printed with a design and/or instructions clearly not intended for making clothing, such as a growth chart, Christmas tree skirt or stocking, apron or children's books. This does *not* include fabric that is simply pre-printed with a pattern such as rectangles, that could be used to make pillows or labels, as well as clothing (commonly used by quilt makers).
- Fabric or material that is not generally suitable for making clothing because it is too heavy or too light, too thick or too thin, or has the wrong texture. This includes:
 - aluminized heat-resistant cloth
 - barrier or plasticized material intended for crib bumper pads, change pads, mattress pads etc.
 - batting, fibrefill and insulating materials
 - black-out or dim-out material

- carpeting for boats and RVs etc.
- cheesecloth
- drapery linings and sheers
- felt
- heavy canvas for awnings and sail covers etc.
- heavy leather and hides
- plastic
- rubber-backed material
- screening, mesh or netting
- vinyl

When Not to Charge PST

Some of the items you sell are exempt from PST. You do not charge PST on the following fabric and craft items.

- Fibres from animal or plant sources, such as wool or cotton that can be spun into yarn or woven into cloth.
- Instructions for knitting or crocheting a scarf, sweater, vest or other piece of clothing.
- Kits consisting of fabric or yarn, a pattern and/or instructions, and other supplies necessary to make a piece of clothing.
- Pattern and instructional books and magazines. For more information, please see **Bulletin SST 036, Publications: Books, Magazines, Periodicals and Newspapers.**
- Patterns for making clothes.
- Sewing threads and knitting yarns suitable for making clothing, such as cotton, nylon, polyester, metallic and rayon, unless they are specifically labelled for a purpose other than making clothing.
- Fabric cut from a bolt or roll of fabric that is suitable for making clothing – including corduroy, cotton, denim, faux leather, fur and suede, flannel, fleece, light-weight brocade, canvas and leather, lace, linen, lining, nylon, organza, polyester, rayon, satin, silk, taffeta, terry cloth, velour, velvet, wool, and fabrics to make clothing that offers UV protection to the wearer – even if the fabric was originally intended for another purpose, such as drapery or upholstery fabric.
- Fabric left over or pre-cut from a bolt or roll of fabric that is suitable for making clothing, such as bolt and roll ends, scraps, remnants, pre-cut lengths, strips or squares (including pieces cut into “fat eighths” or “fat quarters” for quilt makers), that you have not labelled for a non-clothing purpose or packaged as clothing. The pieces may be sold individually, packaged, or in scrap or “surprise” bags.

Bundled Goods and Services

Generally, if a non-taxable good or service, such as an instructional class, is bundled together with a taxable good or service, such as craft supplies, and sold together for a single price, you charge PST only on the fair market value of the taxable good or service. However, there are exceptions to this general rule. For more information, please see **Bulletin SST 119**, *Bundled Sales: Taxable and Non-taxable Goods or Services Sold Together for a Single Price*.

Purchases

When to Pay PST

You pay PST on the purchase or lease of new or used goods and services that you use in your business, such as:

- stationary, furniture and office equipment,
- advertising materials, such as flyers and brochures,
- items you purchase to give away as free promotions,
- cleaning supplies and equipment,
- computer hardware and software (unless custom software),
- equipment, such as cutting tools and sewing machines, and
- services to repair your equipment.

If your supplier does not charge you PST on the above items, you self-assess and record the PST due at Step 3 of your next tax return.

When Not to Pay PST

You do not pay PST on the following:

- items you purchase for resale or lease to your customers, and
- containers, labels or packaging materials that are included with your sales at no extra charge to your customers.

To purchase the above items without paying PST, give the supplier your PST registration number.

If you take taxable items from your resale inventory for business or personal use, you self-assess PST on your cost of the items.

If you use equipment from your rental inventory for business or personal use, you self-assess PST on the depreciated value of the equipment.

Purchases from Out-of-Province Suppliers

If you purchase taxable goods from an out-of-province supplier, you pay PST on the total amount that you pay to bring the goods into British Columbia, including charges for transportation, customs, excise, and any other costs, except the goods and services tax (GST). If the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return.

Services

If you offer sewing or other craft classes, you are providing a non-taxable service, which means you do not charge PST on the class fees.

One All-Inclusive Price

If you sell taxable materials and equipment to your students, and you include the price of the materials and equipment in the class fee, the bundled sales rules may apply. For complete information on the bundled sales rules, please see **Bulletin SST 119**, *Bundled Sales: Taxable and Non-taxable Goods or Services Sold Together for a Single Price*.

If you include the right to use taxable materials and equipment outside the class in the class fee, you charge PST on the fair market value of the lease of the materials and equipment. For example, you charge PST on the fair market value of the lease of a portable sewing machine that you permit your students to take home to complete assignments. In this case, you do not pay PST when you purchase the materials or equipment.

If you only include the right to use taxable materials and equipment inside the class in the class fee, then you do not charge PST; however, you are required to pay PST on your cost of the materials and equipment as you are the user of those goods.

Materials and Equipment Charged Separately From Class Fees

If you list the charges for the class fee, and the materials and equipment separately on the invoice, you charge PST on any taxable materials and equipment you sell or lease to class participants, regardless of whether they are used at home or inside the class. In this case, you do not pay PST when you purchase the materials and equipment.

For information on taxable services, please see **Bulletin SST 018**, Taxable Services.

Other Bulletins

The following are additional bulletins relevant to your business.

Bulletin SST 020, Containers, Labels and Packing Materials – information on how PST applies to packaging materials you buy or make to go with the goods you sell.

Bulletin SST 043, Goods Purchased from Out-of-Province Suppliers – information on how PST applies to your purchases or leases from outside the province.

Bulletin SST 080, Promotions and Special Offers – information on how PST applies to goods you use for promotion, demonstration or display.

Bulletin SST 082, Rentals and Leases of Tangible Personal Property – information on how PST applies to your equipment rentals and depreciation rates applied to equipment removed from your rental inventory.

Bulletin SST 119, Bundled Sales: Taxable and Non-Taxable Goods or Services Sold Together for a Single Price – information on how PST applies to your sales if you package taxable and non-taxable goods together and sell them for a single price, such as in a craft kit.

Need more info?

Toll free in Canada: 1 877 388-4440

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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 available on our website.

References: *Social Service Tax Act*, Sections 1, 5, 9, 19, 20, 70(g), 72 and 78, and Regulation 2.38