



## Production Machinery and Equipment Exemption

### Provincial Sales Tax Act

Latest Revision: The revision bar ( | ) identifies changes to the previous version of this bulletin dated June 2014. For a summary of the changes, see Latest Revision at the end of this document.

This bulletin provides information to help manufacturers, software developers, service providers (businesses that provide manufacturing services to manufacturers), and local governments involved in certain power generation activities understand how the production machinery and equipment exemption (PM&E exemption) applies to their activities.

Businesses in the logging, mining, and oil and gas industries are also eligible for the PM&E exemption. The application of the PM&E exemption for these businesses is described in the bulletins referenced on page 2 of this bulletin.

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## Overview

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In this bulletin:

- **goods** means tangible personal property as defined in the *Provincial Sales Tax Act*. Tangible personal property is personal property that can be seen, weighed, measured, felt or touched, or that is in any other way perceptible to the senses, and includes:
  - natural or manufactured gas,
  - electricity,
  - heat,
  - affixed machinery, and
  - an improvement to real property or part of an improvement to real property that is removed from the site at which it is affixed or installed, while it is removed from that site.
- **obtain** means:
  - purchased or leased in BC,
  - brought or sent into BC,
  - received in BC, or
  - received as a gift.
- **substantially** means more than 90% (except in the Qualifying Manufacturing Activities section below).

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

The PM&E exemption includes replacement parts, materials and services for qualifying PM&E, parts and materials to assemble qualifying PM&E, certain PM&E used by service providers, and certain PM&E used by local governments involved in certain power generation activities.

To qualify for the PM&E exemption, you must be involved in a qualifying activity and, for most activities, you need to perform the qualifying activity at a qualifying location and meet minimum levels of sales, manufacturing costs (for goods) or development costs (for software).

The following activities qualify for the PM&E exemption and are discussed in this bulletin.

- Manufacturing
- Software development
- Pollution control and waste management
- Transmission or distribution of goods or software
- Transmission or distribution of electricity
- Providing services to manufacturers, oil and gas producers or mine operators
- Local government power generation

The following activities qualify for the PM&E exemption and are discussed in the referenced bulletins.

- Logging – see [Bulletin PST 112](#), *Logging Industry*

- Exploration for, discovery of or development of, petroleum or natural gas – see [Bulletin PST 114](#), *Oil and Gas Industry – Exploration, Discovery and Development*
- Extraction or processing of petroleum or natural gas – see [Bulletin PST 113](#), *Oil and Gas Industry – Producers and Processors*
- Exploration for minerals or development of mines, or extraction or processing of minerals – see [Bulletin PST 111](#), *Mining Industry*
- Geophysical surveying – see [Bulletin PST 114](#), *Oil and Gas Industry – Exploration, Discovery and Development* and [Bulletin PST 111](#), *Mining Industry*

## **Manufacturers**

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If you manufacture goods, you may qualify for the PM&E exemption as a manufacturer.

Manufacturers may obtain qualifying PM&E exempt from PST.

To qualify, you must:

- be involved in a qualifying manufacturing activity,
- meet minimum levels of sales or manufacturing costs, and
- perform the qualifying activity at a qualifying part of a manufacturing site.

### **Qualifying Manufacturing Activities**

The following activities qualify as manufacturing.

- Fabricating or manufacturing goods to create a new product substantially different from the goods from which it was made.
- Processing goods by performing a series of operations, or a complex operation, that results in a substantial change in the form or other physical or chemical characteristics of the goods.

The following activities by themselves do not qualify as manufacturing. However, these activities qualify as manufacturing if they are combined with a qualifying manufacturing activity as described above and occur at the qualifying part of a manufacturing site.

- Cleaning, painting, staining, blending, combining, grading, grouping, mixing, packaging, re-packaging, sorting, storing, screening, cutting, drying or testing goods.
- Transforming goods from a gaseous, liquid or solid state to another one of those states by means of a change in temperature or pressure.
- Generating heat.
- Changing the voltage of electricity.
- Crushing, dismantling, compressing, breaking down or shredding goods for the purposes of recycling those goods.
- Disposing of goods.

For example, if your business is to package other manufacturers' products, you are not involved in a qualifying manufacturing activity as packaging on its own does not qualify as manufacturing. However, if, at the qualifying part of your manufacturing site, you package your own products after you manufacture them, the packaging activities qualify as manufacturing.

## Non-Qualifying Activities

The following activities do not qualify as manufacturing.

- Growing, harvesting or producing agricultural or aquaculture products, or raising livestock
- Logging (see [Bulletin PST 112](#), *Logging Industry*)
- The production of television programs, radio programs, motion pictures, commercials, master films, master video tapes or any similar product in electronic format
- Providing a service, except services described in the Service Providers section below

## Minimum Sales or Manufacturing Costs

To qualify as a manufacturer, you must meet **any** of the following criteria.

- The goods you produce are for sale and there is a reasonable expectation that the total value of sales for that class of product will exceed \$30,000 per year (worldwide).
- The goods you produce are for lease or for your own business use, and there is a reasonable expectation that the total manufacturing costs (see Calculating Manufacturing Costs below) for that class of product will exceed \$30,000 per year.
- The goods you produce are for sale, lease or own business use, and there is a reasonable expectation that the total manufacturing costs for that class of product will exceed \$30,000 per year. To calculate the total manufacturing costs, you may combine the costs of the goods that are for sale, lease or business use, as long as the goods are for the same class of product.

For example, you manufacture furniture that you both sell and lease to your customers. Your sales are \$30,000 or less per year, but the total manufacturing costs for all the furniture you produce (for both sales and leases) are more than \$30,000. In this example, you would meet the criteria, as the total manufacturing costs exceed \$30,000 per year.

## Classes of Products

To qualify as a manufacturer, you must exceed one of the minimum sales or manufacturing cost thresholds described above for each class of product you produce. For example, if you manufacture tables and bookshelves, you are a manufacturer of furniture and the product class in this case is furniture. You exceed the \$30,000 per year threshold if your combined sales or manufacturing costs of the tables and bookshelves exceed \$30,000.

However, if you manufacture furniture and you also process lumber for sale, you are producing two different classes of products (furniture and lumber). If you exceed the \$30,000 threshold for furniture manufacturing, you qualify for the exemption on the PM&E used to manufacture the furniture. You also have to exceed the \$30,000 threshold for processing lumber in order to qualify for the exemption on the PM&E used to process lumber.

## Calculating Manufacturing Costs

To calculate manufacturing costs, include the following costs and expenses – excluding the goods and services tax (GST) – that are directly related to the manufacture of your product.

- Direct cost of materials
- Direct cost of labour
- Manufacturing overhead

## Manufacturing Overhead

You include the following types of overhead costs and expenses provided they are directly related to the manufacture of your product.

- Depreciation or amortization expenses for PM&E and the qualifying part of manufacturing sites
- Employee benefits on direct and indirect labour (e.g. vacation pay and pension plans)
- Engineering and drafting costs for own use
- Heat and light for the qualifying part of manufacturing sites
- Indirect labour (e.g. manufacturing supervision, material handling, inspection, repairs and maintenance)
- Insurance for the qualifying part of manufacturing sites and PM&E
- Power for PM&E
- Property and business taxes for the qualifying part of manufacturing sites
- Rental of the qualifying part of manufacturing sites
- Rental of PM&E
- Royalties or licence fees for production processes or the use of PM&E

You do not include any general or administrative expenses to calculate your manufacturing overhead (e.g. heat and light for areas occupied by administrative staff, such as human resources).

**Note:** While energy costs are part of manufacturing overhead, this does not mean that energy costs are exempt from PST. Energy is not machinery or equipment, and does not qualify for the PM&E exemption. For details on the PM&E that qualifies for the exemption, see Qualifying PM&E below.

## Qualifying PM&E

Generally, if you qualify as a manufacturer, you may obtain qualifying PM&E exempt from PST provided the PM&E is for use in BC:

- **primarily** and **directly** in the manufacture of qualifying goods, and
- primarily at the qualifying part of a manufacturing site.

## Qualifying Goods

Qualifying goods means goods that are from the particular class of products for which you qualify for the PM&E exemption that:

- are manufactured by you, and
- are either for sale by you or are for your own business use.

**Note:** The qualifying criteria is different for the PM&E exemptions for pollution control or waste management equipment, and for machinery and equipment used to transmit or distribute electricity, goods or software. For more information, see Pollution Control and Waste Management, Transmission or Distribution of Goods or Software, and Transmission or Distribution of Electricity below.

## Primarily

Primarily means used more than 50%. How you make the measurement of primarily depends on the nature of the PM&E. You may measure in terms of time, volume, production value or some other measurement that is appropriate for that particular type of PM&E.

In some cases, you may use the PM&E seasonally or during specific production phases. When this happens, the time when the PM&E is idle or in storage is not considered use. You calculate primarily based on the actual usage.

For example, you may have PM&E that is used for three months and is stored for the remainder of the year. To qualify, the PM&E needs to be used primarily (more than 50%) during that three-month period.

## Directly

Directly means PM&E must be a part of, or an integral component of, the process that transforms the raw material into the finished product.

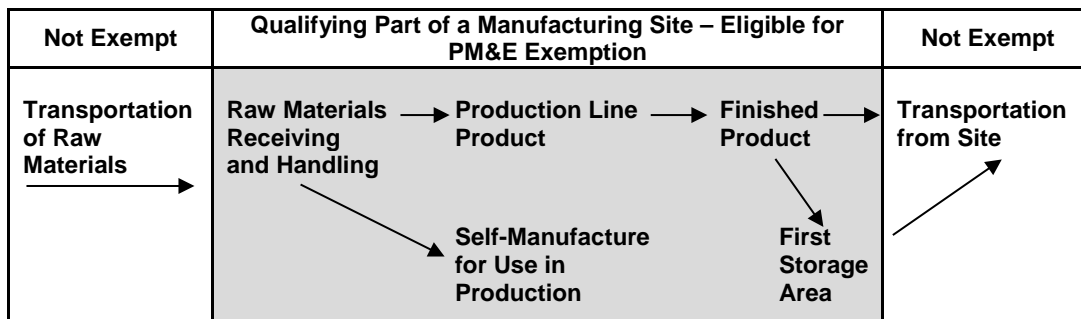
For example, sawmill PM&E used on the production line, such as saws and planers, are a direct and integral part of the process that transforms the logs into a finished product. Therefore, the production line PM&E qualifies for the PM&E exemption. However, PM&E such as wrenches and screwdrivers used to maintain or repair the production line PM&E are not directly part of the production process and do not qualify for the PM&E exemption.

## Qualifying Part of a Manufacturing Site

The qualifying part of a manufacturing site is:

- the part of the manufacturing site from the point where the raw material is received,
- throughout the production process, and
- up to the point where the finished product is first stored or is first placed on a vehicle, train, boat, aircraft or other means of transportation for removal from the manufacturing site (whichever comes first).

The diagram below shows the scope of the PM&E exemption. All PM&E obtained for use primarily within the gray shaded area (i.e. the qualifying part of a manufacturing site) and for use primarily and directly in the manufacture of qualifying goods qualifies for the PM&E exemption.



The diagram above applies to most manufacturing operations. However, in some cases, the manufacturing may occur at a construction site. Where this is the case, the exemption only applies if the item is manufactured at a location other than the installation site. The qualifying area of a manufacturing site is limited to the area, such as a mobile shop, within which the item

is actually manufactured. PM&E used to install the manufactured item does not qualify for the PM&E exemption unless it is obtained for use primarily at the qualifying part of a manufacturing site and is used more than 50% in the manufacturing process.

### **Transportation of raw materials to the site**

Vehicles, trains, boats or other machinery or equipment used to transport raw materials to the qualifying part of a manufacturing site do not qualify for the PM&E exemption.

### **Raw materials area**

The raw materials receiving area is generally within the qualifying part of a manufacturing site. If the PM&E is used primarily to receive, handle and store the raw materials, it qualifies for the PM&E exemption.

### **Production line**

All PM&E in the production line used primarily and directly in processes related to transforming raw materials into a finished product qualifies for the PM&E exemption.

### **Storage**

Provided the first storage area is within the qualifying part of a manufacturing site, PM&E used primarily to store the finished product at the first storage area, including bins or shelving within the first storage area, qualifies for the PM&E exemption. As shown in the diagram above, the first storage area is within the gray shaded area and is the point where the qualifying part of a manufacturing site ends. PM&E used after the first storage area does not qualify for the PM&E exemption.

A first storage area may be a warehouse within the qualifying part of a manufacturing site or an open area within the qualifying part of a manufacturing site, such as a dock or loading yard, where the finished product is accumulated before removal from the site. Once the finished product is first stored, PM&E used to load the finished product onto vehicles or other conveyances does not qualify for the PM&E exemption.

### **Transportation from the site**

Vehicles and other means of transportation, such as boats and trains, used to transport the finished product from the qualifying part of a manufacturing site do not qualify for the PM&E exemption.

### **Examples of Qualifying PM&E**

The following PM&E is exempt when obtained for use primarily at the qualifying part of a manufacturing site and is used primarily and directly in the manufacture of qualifying goods. This is not an all-inclusive list.

- Hand-held tools used in the manufacturing process but not for repairs or maintenance (e.g. electric drills, hammers and grinders)
- Machinery and equipment used to store raw materials (e.g. bins, vats and shelving)
- PM&E used on the production line (e.g. lathes, drills, saws and blades, digesters, paper dryers, sawdust cookers and lumber kilns, including kiln strips)
- PM&E used to package the finished product, provided it is part of the line operation



## Self-Manufacture for Own Use

If you manufacture goods for your own use, the PM&E you use to make the goods may qualify for the PM&E exemption under one of the following two provisions, only one of which requires that you meet the \$30,000 cost threshold.

### 1. Goods for own business use – \$30,000 cost threshold

If you manufacture goods for your own use but they are not used in the manufacture of your finished products, the total manufacturing cost of the goods must exceed \$30,000. If you meet the \$30,000 threshold, the PM&E used primarily and directly to make the goods qualifies for the PM&E exemption.

For example, you may be a boat manufacturer and you produce signs for advertising your business. Signs are not used in the manufacture of your boats; therefore, if the manufacturing cost of the signs exceeds \$30,000, you are exempt from PST on the PM&E used to make the signs. However, you pay PST on the materials used to make the signs.

For more details on the \$30,000 cost threshold, see Calculating Manufacturing Costs above.

### 2. Goods or software for use in your production line – no cost threshold

If you qualify as a manufacturer, the PM&E you obtain for use in BC primarily and directly to manufacture goods or develop software qualifies for the PM&E exemption if the goods or software are for use in BC in the manufacture of qualifying goods. There is no minimum cost threshold to qualify.

This applies only to the PM&E used to produce the goods or develop the software that is obtained for use primarily at the qualifying part of a manufacturing site.

For example, chlorine dioxide generators produce chlorine dioxide for use in the bleaching process of pulp and paper production. Therefore, the chlorine dioxide generators may qualify for the PM&E exemption.

Similarly, if a manufacturing process requires the use of graphite moulds, which are produced at the qualifying part of a manufacturing site, the PM&E used to make the graphite moulds qualifies for the PM&E exemption. However, you pay PST on the materials that become part of the graphite moulds because the materials are used to manufacture, and not assemble, PM&E. For more information on materials, see Materials for PM&E below.

## Examples of Manufacturers that Qualify

The following are examples of the kinds of businesses that generally qualify as manufacturers for the PM&E exemption. This is not an all-inclusive list.

- Abattoirs
- Boat builders
- Book binders
- Breweries (including the brewery portion of a brewpub – not the restaurant portion)
- Cartographers
- Copying and duplicating operations (where copies are produced for resale)
- Label producers
- Meat processors
- Monument makers
- Musical instrument makers
- Opticians (to the extent they grind lenses)
- Photographers (to the extent they produce goods)



- Custom shoemakers
- Dairies that produce milk products (does not include dairies that only perform the pasteurization process)
- Decorative iron works
- Dental laboratories
- Denturists
- Distilleries
- Dock makers
- Engine rebuilders (to the extent the engine is totally rebuilt; does not include repairs)
- Film developers
- Foundries
- Jewellers (does not include jewellery repairs)
- Picture framers (to the extent they build frames)
- Potters
- Printers
- Pulp and paper mills
- Refineries
- Sawmills
- Screen print makers
- Sculptors
- Sign makers
- Tire retreaders
- Wholesale food producers (e.g. bakeries)

While public bodies are generally excluded from the PM&E exemption, the following corporations are not excluded and may qualify for the exemption.

- BC Hydro
- British Columbia Railway Company
- Columbia Power Corporation
- Insurance Corporation of British Columbia (ICBC)

### **Businesses/Public Bodies that Do Not Qualify**

The following are specifically excluded from being eligible for the PM&E exemption.

- Caterers
- Corporations owned by Canada, a province or a municipality and who qualify for an exemption from income tax under paragraphs 149(1)(d) to (d.4) of the *Income Tax Act* (Canada) (except as described in the Local Government Power Generation section below)
- Hospitals
- Local government bodies, such as municipalities, regional districts, the South Coast British Columbia Transportation Authority and others that are included in the definition of local government body in Schedule 1 of the *Freedom of Information and Protection of Privacy Act* (except as described in the Local Government Power Generation section below)
- Regional health boards and community health councils as designated under the *Health Authorities Act*
- Restaurateurs or others who prepare food products for retail sale on the premises where the food is prepared, unless retail sales of those food products make up less than 10% of that person's total sales of food products
- Schools, school boards and universities, including business, trade and vocational schools
- The Government of BC and its agents, including agencies, boards and commissions (other than the corporations listed above)

The following are examples of the kinds of businesses that generally do not qualify as manufacturers for the PM&E exemption. This is not an all-inclusive list.

- Advertising agencies
- Architects
- Assemblers of gift baskets
- Automobile repairers or customizers
- Bicycle dealers (that assemble bicycles)
- Blenders of tea and coffee
- Blenders of fertilizers and animal feed
- Chiropractors
- Cleaners
- Cold storage facilities
- Commodity brokers
- Computer dealers (that custom assemble from component parts)
- Computer software service firms (where the service is configuring/installing)
- Concrete breaking
- Consultants
- Dentists (however, dentists may qualify as manufacturers to the extent that they manufacture crowns, implants or dentures)
- Designers (that do not produce tangible personal property)
- Drafters
- Egg grading stations
- Engineers
- Engravers
- Florists
- Food/produce graders (if only grading and packaging)
- Furniture assemblers or refinishers
- Graphic designers (that do not produce tangible personal property)
- Insurance brokers
- Laundries and dry cleaners
- Lawyers, barristers and solicitors
- Liquefied natural gas (LNG) producers (however, LNG producers may qualify as manufacturers to the extent that they extract or process natural gas – see [Bulletin PST 113, Oil and Gas Industry – Producers and Processors](#))
- Locksmiths
- Medical doctors
- Meat cutters (retail) and packers
- Motion picture producers
- Muffler and exhaust installers
- Notaries
- Optometrists
- Packaging services
- Paint dealers (to the extent they mix paint)
- Painters
- Pharmacists
- Plumbers and steam fitters
- Prosthetic fitters/customizers
- Recording services (production of master copy, including in electronic or digital format)
- Recycling depots
- Repairers/reconditioners
- Reupholsterers
- Saw sharpening/repair shops
- Shoe repairers
- Steam cleaners
- Scrap yards
- Surveyors
- Taxidermists
- Television program, radio program and commercial producers
- Veterinarians
- Video and audio producers (production of master copy, including in electronic or digital format)
- Watch repairers
- Web designers
- Wine blenders

## Software Developers

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If you develop software, you may qualify for the PM&E exemption as a software developer.

Software developers may obtain qualifying PM&E exempt from PST.

To qualify, you must:

- be involved in a qualifying activity,
- meet minimum levels of sales or development costs, and
- perform the qualifying activity at a qualifying part of a software development site.

### Qualifying Activity and Minimum Sales or Development Costs

To qualify, you must develop software in an intangible format (e.g. downloadable from the Internet) that is:

- for sale, if there is a reasonable expectation that the total value of sales of that intangible software will exceed \$30,000 per year (worldwide),
- for your own business use, if there is a reasonable expectation that the total development costs (see Calculating Development Costs below) of that intangible software will exceed \$30,000 per year, or
- for both sale and own business use, if there is a reasonable expectation that the total development costs will exceed \$30,000 per year. To calculate the total development costs, you may combine the costs of developing both the software that is for sale and for own business use.

**Note:** For the purposes of the PM&E exemption for software developers, software development does not include:

- providing services to software, or
- testing software, unless the testing is one step in, or occurs immediately after, the development of the software and occurs at the software development site.

### Calculating Development Costs

To calculate development costs, include the following costs and expenses – excluding the goods and services tax (GST) – that are directly related to the cost of developing software in an intangible format.

- Direct cost of materials
- Direct cost of labour
- Software development overhead

### Software Development Overhead

You include the following types of overhead costs and expenses provided they are directly related to the development of software.

- Depreciation or amortization expenses for PM&E and software development sites
- Employee benefits on direct and indirect labour (e.g. vacation pay and pension plans)
- Heat and light for the software development sites
- Indirect labour (e.g. supervision, repairs and maintenance)
- Insurance for software development sites and PM&E

- Licence fees for processes or the use of PM&E
- Power for PM&E
- Property and business taxes for software development sites
- Rental of PM&E
- Rental of software development sites

You do not include any general or administrative expenses to calculate your software development overhead (e.g. heat and light for areas occupied by administrative staff, such as human resources).

**Note:** While energy costs are part of software development overhead, this does not mean that energy costs are exempt from PST. Energy is not machinery or equipment, and does not qualify for the PM&E exemption. For details on the PM&E that qualifies for the PM&E exemption for software developers, see Qualifying PM&E below.

## Qualifying PM&E

Generally, if you qualify as a software developer, you may obtain qualifying PM&E exempt from PST provided the PM&E is for use in BC:

- **primarily** and **directly** in the development of qualifying software, and
- primarily at the software development site.

## Qualifying Software

Qualifying software means software in an intangible format developed by the software developer:

- for sale by the software developer, or
- for the software developer's own business use.

## Primarily

Primarily has the same meaning as provided for manufacturers in the Primarily section above.

## Directly

Directly means PM&E must be a part of, or an integral component of, the software development process.

## Software Development Site

The software development site means the place at which the software developer is located when the software developer is developing the software. The software development site does not include a place at which the purchaser of that software is located. If you make additional changes to the software at the customer's location, this is a non-qualifying use, as the PM&E is not used at the software development site.

If you use the same PM&E at the customer's location and the software development site, such as a laptop, the PM&E qualifies if it is used primarily for software development at the software development site.

## Examples of Qualifying PM&E

PM&E that qualifies for the PM&E exemption includes computers, related hardware and cables provided the equipment is obtained for use primarily at the software development site and for use primarily and directly in the development of software. For example, you may have a

computer that is used for both software development and for servicing the software of customers. The computer may qualify for the PM&E exemption if it is used primarily in software development. However, if the computer is used primarily to provide services, it will not qualify for the PM&E exemption.

### **Non-Qualifying PM&E**

Machinery and equipment used to transmit or distribute software to your customers does not qualify for the PM&E exemption. For example, you may use web servers to distribute software to your customers over the internet. The web servers do not qualify for the exemption.

### **Self-Manufacture for Own Use**

If you manufacture goods or software for your own use, the PM&E you use to make the goods or software may qualify for the PM&E exemption under one of the following two provisions, only one of which requires that you meet the \$30,000 cost threshold.

#### **1. Software for own business use - \$30,000 cost threshold**

If you develop software in an intangible format for your own use but the software is not used in the development of qualifying software, the total development costs of the software must exceed \$30,000. If you meet the \$30,000 software development cost threshold, the PM&E used primarily and directly to develop the software qualifies for the PM&E exemption.

#### **2. PM&E for use in the manufacture of PM&E for use in the development of qualifying software – no cost threshold**

If you qualify as a software developer, the PM&E you obtain for use in BC primarily and directly to manufacture PM&E qualifies for the PM&E exemption if the PM&E you manufacture is for use in BC in the development of qualifying software. There is no minimum cost threshold to qualify.

This applies only to PM&E obtained for use primarily at the software development site.

## **Pollution Control and Waste Management**

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### **Pollution Control**

Machinery and equipment obtained for use substantially and directly in the detection, prevention, measurement, treatment, reduction or removal of pollutants in the water, soil or air qualify for the PM&E exemption if:

- the pollutants are attributable to the manufacture of goods, or the extraction or processing of petroleum, natural gas or minerals,
- the machinery and equipment are obtained by a person eligible for the PM&E exemption (e.g. manufacturers), and
- the machinery and equipment are obtained for use substantially at:
  - the qualifying part of a manufacturing site, processing plant, refinery or mine site,
  - a well site, or
  - a tailings pond related to the mining of minerals.

## Waste Management

Machinery and equipment obtained for use in BC substantially and directly in carrying refuse or waste from exempt PM&E, or for exhausting dust or noxious fumes from exempt PM&E, qualify for the PM&E exemption if:

- the refuse, waste, dust or noxious fumes are attributable to the manufacture of goods, or the extraction or processing of petroleum, natural gas or minerals,
- the machinery and equipment are obtained by a person eligible for the PM&E exemption (e.g. manufacturers), and
- the machinery and equipment are obtained for use substantially at:
  - the qualifying part of a manufacturing site, processing plant, refinery or mine site,
  - a well site, or
  - a tailings pond related to the mining of minerals.

The exemption includes waste gas machinery and equipment obtained by an oil and gas producer. For more information, see [Bulletin PST 113, Oil and Gas Industry – Producers and Processors](#).

**Note:** Basic clean-up equipment for a manufacturing plant does not qualify.

## Transmission or Distribution of Goods or Software

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### Manufacturers

Manufacturers qualify for the PM&E exemption for machinery and equipment used to transmit or distribute goods or software in an intangible format if:

- the machinery and equipment are obtained by a manufacturer for use in BC primarily and directly in the transmission or distribution of goods or software at the qualifying part of the manufacturing site,
- the machinery and equipment are obtained for use primarily at the qualifying part of the manufacturing site, and
- the goods or software to be transmitted or distributed are primarily:
  - qualifying goods,
  - goods or software in an intangible format that are to be attached to or processed, fabricated, manufactured or incorporated into qualifying goods, or
  - goods or software in an intangible format that are to be attached to or processed, fabricated, manufactured or incorporated into goods or software in an intangible format for use in the manufacture of qualifying goods.

PM&E that qualifies for this exemption includes PM&E, such as forklifts, used to move material inputs or finished products. For example, if you use a forklift to transport finished goods from the production line to the first storage area, the forklift qualifies for the PM&E exemption. However, if you also use the same forklift to transport the goods from the first storage area to a loading area for transportation from the manufacturing site, the forklift only qualifies for the PM&E exemption if it is obtained for use primarily at the qualifying part of a manufacturing site and is used primarily to transport the finished goods from the production line to the first storage area.

## Software Developers

Software developers qualify for the PM&E exemption for machinery and equipment used to transmit or distribute goods or software in an intangible format if:

- the machinery and equipment are obtained by a software developer for use in BC primarily and directly in the transmission or distribution of goods or software at the software development site,
- the machinery and equipment are obtained for use primarily at the software development site, and
- the goods or software to be transmitted or distributed are primarily:
  - qualifying software,
  - software in an intangible format that is to be incorporated into qualifying software, or
  - goods or software in an intangible format that are to be attached to or processed, fabricated, manufactured or incorporated into goods or software in an intangible format for use in the development of qualifying software.

To qualify, the transmission or distribution of the goods or software must occur at the software developer's software development site. Machinery and equipment used to transmit or distribute goods or software to customers does not qualify.

## Oil and Gas Producers and Mine Operators

Oil and gas producers and mine operators also qualify for the PM&E exemption for transmission or distribution of qualifying petroleum or natural gas, qualifying minerals, other goods or software. For more information, see [Bulletin PST 113](#), *Oil and Gas Industry – Producers and Processors* and [Bulletin PST 111](#), *Mining Industry*.

## Transmission or Distribution of Electricity

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In this section, **electrical machinery and equipment** means transformers, and converters, inverters, regulators, breakers and switches that are designed for use with transformers.

**Note:** The exemptions described below are for machinery and equipment, not electricity. Electricity is not machinery or equipment, and does not qualify for the PM&E exemption, even when used in the processes described below.

## Manufacturers

Manufacturers qualify for the PM&E exemption for electrical machinery and equipment if:

- the electrical machinery and equipment are obtained by a manufacturer of qualifying goods other than electricity,
- the electrical machinery and equipment are for use in BC substantially in the transmission or distribution of electricity at or to the qualifying part of the manufacturing site,
- the electrical machinery and equipment are to be situated at a manufacturing site, and
- the electricity is for use
  - primarily and integrally in the manufacture of qualifying goods (e.g. electroplating or electrolysis), or



- primarily to power PM&E that is exempt under the PM&E exemptions for:
  - manufacturers,
  - pollution control,
  - waste management,
  - transmission or distribution of goods or software, or
  - PM&E used to operate, control or monitor exempt PM&E.

**Note:** Eligible manufacturers of electricity may also qualify for the PM&E exemption for manufacturers and may obtain PM&E, such as transformers and equipment designed for use with transformers, exempt from PST if the PM&E is used primarily and directly in the manufacture of electricity within the qualifying part of a manufacturing site.

## Software Developers

Software developers qualify for the PM&E exemption for electrical machinery and equipment if:

- the electrical machinery and equipment (e.g. cables) are obtained by a software developer for use in BC substantially in the transmission or distribution of electricity at or to the software developer's software development site,
- the electrical machinery and equipment are to be situated at the software development site, and
- the electricity is for use:
  - primarily and integrally in the development of qualifying software, or
  - primarily to power machinery and equipment that are exempt under the PM&E exemptions for:
    - software development
    - transmission or distribution of goods or software
    - PM&E used to operate, control or monitor exempt PM&E

## Oil and Gas Producers and Mine Operators

Oil and gas producers and mine operators also qualify for the PM&E exemption for electrical machinery and equipment. For more information, see [Bulletin PST 113](#), *Oil and Gas Industry – Producers and Processors* and [Bulletin PST 111](#), *Mining Industry*.

## Electricity Used Primarily for a Non-Qualifying Purpose

If 50% or more of the electricity is used for a purpose other than the above purposes, such as the general use of a building, the transformer and other equipment for use and used with transformers is not eligible for the PM&E exemption.

## Service Providers

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### Manufacturing Services Provided to Manufacturers

Businesses that use machinery and equipment to provide manufacturing services to manufacturers are eligible for the PM&E exemption for service providers.

Machinery and equipment obtained by a person who provides a service to a manufacturer qualify for the PM&E exemption if:

- the service consists of manufacturing goods for the manufacturer in BC and is provided to, or results in the creation of, goods that will be, or will become part of, the manufacturer's qualifying goods,
- the machinery and equipment are obtained for use primarily and directly in providing the service,
- the service is provided primarily at either the qualifying part of the manufacturer's manufacturing site, or the qualifying part of the service provider's manufacturing site, and
- there is a reasonable expectation that the total value of sales of the service will exceed \$30,000 per year.

A manufacturing service includes services provided to manufacture goods for the manufacturer as one step in a larger manufacturing process. However, to qualify, the service provided by the service provider must be a qualifying manufacturing activity (see Qualifying Manufacturing Activities above).

In the following two examples, the service providers qualify for the PM&E exemption on the machinery and equipment they use to manufacture the goods for the manufacturer.

#### **Example 1**

A sawmill receives rough lumber from a furniture manufacturer. At the sawmill, the sawmill operator cuts, planes and kiln dries the lumber as one step in the furniture manufacturer's manufacturing process.

#### **Example 2**

An embroiderer embroiders crests onto clothing for a qualifying manufacturer at the manufacturer's site as one step in the manufacturer's manufacturing process.

**Note:** The manufacturing services exemption does not apply to telecommunication services or legal services.

### **Services Provided to Oil and Gas Producers or Mine Operators**

Businesses that use machinery and equipment to provide manufacturing services or services to extract or process petroleum, natural gas or minerals to oil and gas producers or mine operators are also eligible for the PM&E exemption for service providers. For more information, see [Bulletin PST 115](#), *Oil and Gas Industry – Service Providers* and [Bulletin PST 111](#), *Mining Industry*.

## **Local Government Power Generation**

In this section, to qualify as a **local government body**, the organization must fall within the definition of local government body in Schedule 1 of the *Freedom of Information and Protection of Privacy Act*. To qualify as a **local government corporation**, the organization's taxable income must be exempt from income tax under paragraphs 149(1)(d.5) or (d.6) of the *Income Tax Act* (Canada).

Local government bodies and local government corporations are eligible for the following PM&E exemptions.

## **Machinery and Equipment for Use to Generate Electricity, or Electricity and Heat at a Cogeneration Plant**

Machinery and equipment obtained for use in BC by a local government body or local government corporation qualify for the PM&E exemption if the machinery and equipment are for use primarily and directly:

- to generate electricity,
- to generate electricity and heat at a cogeneration plant, or
- in the manufacture of goods for use to generate:
  - electricity, or
  - electricity and heat at a cogeneration plant.

## **Machinery and Equipment for Transmission or Distribution**

Machinery and equipment obtained by a local government body or local government corporation qualify for the PM&E exemption if the machinery and equipment are for use:

- primarily and directly in the transmission or distribution of goods at a manufacturing site where electricity, or electricity and heat at a cogeneration plant, is generated, if the goods transmitted or distributed are primarily:
  - electricity generated by the local government body or local government corporation,
  - electricity and heat generated by the local government body or local government corporation at a cogeneration plant, or
  - goods that are to be attached to or processed, fabricated, manufactured or incorporated into goods for use as an input in the generation of electricity, or the generation of electricity and heat at a cogeneration plant.

## **General Qualifying Criteria**

To qualify, the machinery and equipment must be obtained for use primarily at the manufacturing site where the electricity, or electricity and heat at a cogeneration plant, is generated, from the point at which goods or a power source that is an input in the generation is received to the point at which the electricity, or electricity and heat, is first stored or first available for use, whichever comes first.

Additionally, the PM&E exemption for local government bodies and local government corporations only applies if the power generation is:

- for sale, if the local government body or local government corporation has a reasonable expectation that the total value of sales will exceed \$30,000 per year,
- for its own use, if the local government body or local government corporation has a reasonable expectation that the total manufacturing cost of the electricity, or electricity and heat, will exceed \$30,000 per year, or
- for both sale and own use, if the local government body or local government corporation has a reasonable expectation that the total manufacturing cost of the electricity, or electricity and heat, will exceed \$30,000 per year.

## Examples of Qualifying Machinery and Equipment

Examples of qualifying machinery and equipment for local government bodies and local government corporations include the following (not an all-inclusive list).

- Boilers
- Cogenerating reciprocating engines
- Generators
- Heat exchangers
- Turbines

## PM&E and Software Used to Operate, Control or Monitor Exempt PM&E

If you are eligible for the PM&E exemption, you are exempt from PST on:

- PM&E and software obtained for use primarily to operate, control or monitor exempt PM&E, or
- software obtained for use to operate PM&E for use primarily to operate, control or monitor other exempt PM&E, if the PM&E is for use substantially at the qualifying part of a manufacturing site, processing plant, refinery, well site or mine site.

**Note:** Software is not PM&E and does not qualify for the PM&E exemption unless it is obtained for use as described in this section. This includes word processing, spreadsheet, email, photo editing and anti-virus software.

However, you may be eligible for other software exemptions, such as exemptions for non-executable software or software incorporated into other software. For more information, see [Bulletin PST 105, Software](#).

## Parts, Materials and Services for PM&E

### Parts for PM&E

If you are eligible for the PM&E exemption, you are exempt from PST on parts you obtain for use on exempt PM&E, or to assemble qualifying parts or qualifying PM&E.

### Materials for PM&E

If you are eligible for the PM&E exemption, you are exempt from PST on materials you obtain, provided they:

- are used to repair, maintain or modify exempt PM&E, or to assemble exempt parts or exempt PM&E, and
- remain part of, or attached to, the qualifying parts or qualifying PM&E.

Materials eligible for exemption include sheet metal, bulk wire and bulk conveyor belting material.

## Taxable Items

The following are not exempt parts or materials for PM&E.

- Gases, liquids or consumable solids (e.g. sealants, lubricants such as grease)
- Parts and materials used to self-manufacture qualifying PM&E for own use
- Parts and materials obtained for use primarily for repairing, maintaining, modifying or assembling:
  - scaffolding, walkways, catwalks and similar structures, unless these items are an integral part of exempt PM&E and were obtained as part of the exempt PM&E
  - bases and foundations that are, or become a part of, real property, for exempt PM&E

## Inventory of Parts and Materials

If you use the same parts and materials for both taxable and exempt purposes, you **must not** purchase all the parts and materials exempt from PST (unless you have a tax payment agreement – see Tax Payment Agreements below).

However, you may make a reasonable estimate of the portion used on exempt PM&E and obtain that portion exempt from PST. Reconcile this estimate to your actual usage. If the reconciliation shows you used more parts or materials for taxable purposes than estimated, you must self-assess (pay directly to us) the PST owing on the portion obtained exempt but used for taxable purposes.

If you have a PST number, you must self-assess the PST due on your next PST return. 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 you used the parts or materials for a taxable purpose.

If the reconciliation shows you used more parts or materials for exempt purposes than estimated, you can claim a refund from us for the PST paid on the portion used for exempt purposes. For more information, see **Bulletin PST 400**, *PST Refunds*.

## Related Services for Exempt PM&E

If you are eligible for the PM&E exemption, you are exempt from PST when you purchase related services provided to exempt PM&E. For details on how to claim the exemption, see Claiming the PM&E Exemption below.

For more information, see **Bulletin PST 301**, *Related Services*.

## Claiming the PM&E Exemption

You must, at or before the time of sale or lease, provide your supplier with a completed *Certificate of Exemption – Production Machinery and Equipment* (**FIN 492**) when claiming the following exemptions.

- Purchases or leases of exempt PM&E
- Purchases or leases of exempt parts or materials for PM&E
- Purchases of related services for exempt PM&E

This requirement applies whether or not you have a PST number (i.e. you cannot use your PST number instead of the *Certificate of Exemption – Production Machinery and*

*Equipment* ([FIN 492](#)). However, you do have the option of using an alternative certification (see below in this section).

You must complete all parts of the certificate. Where a description of the items purchased or leased is required, you list each type of machinery, equipment, parts and materials. It is not enough to simply state “production machinery and equipment”. For example, if you are purchasing drills, lathes, saws, drill bits and bolts, you list each as a specific item on the form.

If you are purchasing related services for PM&E, specify what PM&E the related service will be provided to. For example, state “repair services for a forklift” and not just “repairs”.

When you purchase or lease a large quantity of PM&E, you may attach an itemized list or a copy of the purchase order to the completed certificate.

The purchase order must clearly describe the PM&E being purchased or leased and it must indicate which is exempt.

You are generally required to provide a completed certificate to the supplier for each purchase or lease. However, when you are making frequent purchases or leases of the same item(s) from the same supplier, you may provide one completed certificate to the supplier along with a list of item(s) you are claiming an exemption for. You can make future exempt purchases or leases of the same item(s) from that supplier based on the one certificate, provided the information on the certificate is still correct. You must complete a new exemption certificate if the information has changed.

You only use the *Certificate of Exemption – Production Machinery and Equipment* ([FIN 492](#)) for claiming an exemption under the PM&E exemption (i.e. for PM&E and related parts, materials and related services). This certificate does not replace the *Certificate of Exemption – General* ([FIN 490](#)).

## Suppliers

If you do not obtain a completed *Certificate of Exemption – Production Machinery and Equipment* ([FIN 492](#)) or an alternative to the exemption certificate (see below) at or before the time of the sale or lease, you must charge and collect the PST on that sale or lease and remit it to us with your return for the reporting period. If your customer provides the required information after the sale or lease but within 180 days of the sale or lease, you may refund or credit the PST you charged. For more information on providing refunds and credits to your customers, see [Bulletin PST 400](#), *PST Refunds*.

**Note:** If your customer claims this exemption with an exemption certificate and it is later found they did not qualify for the exemption, your customer is liable for any tax, interest and penalties associated with the purchase or lease. However, if you had reason to believe your customer was not entitled to the exemption (e.g. the item purchased was not eligible for the PM&E exemption or your customer mentioned the equipment was actually for personal use) and you provided the exemption, you may also be subject to an assessment.

## Alternative to the Exemption Certificate

As an alternative to using the *Certificate of Exemption – Production Machinery and Equipment* ([FIN 492](#)), you may develop your own certification, provided all the required information and the declaration statement from the exemption certificate are included.

Providing the required information and the declaration statement in an electronic format is acceptable if the format includes an electronic signature. An electronic signature may include an electronic acceptance or agreement of the declaration statement, or a statement indicating that transmitting the information and declaration electronically by the purchaser or lessee is agreement of the declaration.

## **Other Exemptions**

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### **Goods Incorporated into Other Goods for Resale or Lease**

You are exempt from PST on goods you obtain solely for processing, fabricating, manufacturing, attaching or incorporating into other goods for resale or lease. To purchase these items exempt from PST, give the supplier your PST number. If you do not have a PST number and you qualify, give the supplier a completed *Certificate of Exemption – General* ([FIN 490](#)).

For more information, see [Bulletin PST 208](#), *Goods for Resale*.

### **Containers and Packaging Materials**

You are exempt from PST on containers and packaging materials (except reusable containers) you obtain solely for packaging goods for sale or lease, or if you provide them to your customers with their purchases of goods. However, you must pay PST on containers and packaging materials if you use them for other purposes, such as storing, handling or shipping goods, or you use them to provide a service.

Generally, you are not required to charge PST on the containers and packaging materials you provide with goods and services, unless you separately charge your customers for them. However, in limited circumstances, you may be required to charge PST on the fair market value of the containers and packaging materials.

For more information, see [Bulletin PST 305](#), *Containers and Packaging Materials*.

### **Abrasives and Other Materials Used in the Production Process**

You are exempt from PST on the following items if they are obtained for use in the manufacture, production, service or repair of goods or real property.

- Abrasive paper, emery paper or other fabric-backed abrasives suitable for use by hand or for use with hand-held tools
- Dies
- Grinding wheels
- Jigs
- Moulds, except moulds designed for use in food production when used for a non-business use
- Patterns
- Polishing wheels
- Rotary steel brushes
- Sand for use in sand blasting
- Steel, plastic and glass shot and similar material for use in blasting clean a surface
- Steel wool



You do not need to provide any documentation to claim this exemption. However, the supplier's records must clearly show the reason why the goods were sold exempt from PST (i.e. the supplier documented on the receipt that the grinding wheels were purchased exempt for manufacturing).

## **Catalysts, Direct Agents and Chemical Substances**

Subject to the exceptions below, you are exempt from PST on catalysts, direct agents and chemical substances if they are obtained for use:

- in the processing or manufacturing of goods for sale or lease, and
- to produce or modify a physical or chemical reaction that is essential for that processing or manufacturing.

For a substance to qualify as a **catalyst**, the substance must produce or modify a chemical reaction and must remain unchanged at the end of the reaction. For a substance to qualify as a **direct agent**, the substance must produce or modify a chemical reaction and must be consumed in the chemical reaction to the point of destruction, dissipation or uselessness for any other purpose. Chemical substances qualify for the exemption as long as they meet the criteria listed in the bullets above.

The reaction produced or modified by catalysts, direct agents and chemical substances may be physical or chemical. To qualify for the exemption, catalysts, direct agents and chemical substances do not need to come into direct contact with, or be temporarily incorporated into, the material being processed or manufactured.

## **Exceptions**

Catalysts, direct agents and chemical substances do not qualify for the exemption if they are used:

- to produce energy or as a source of energy, except:
  - electricity for use in an electrolytic process
  - exothermic sleeves obtained for use in the casting of metal or metal alloys,
- to process goods, unless the processing is one step in, or occurs immediately after, a series of operations or a complex operation that results in a substantial change in the form or other physical or chemical characteristics of the goods,
- to transform goods from one state to another (gaseous, liquid or solid state) by applying pressure or a change in temperature, unless the transformation is one step in, or occurs immediately after, a series of operations or a complex operation that results in a substantial change in the form or other physical or chemical characteristics of the goods,
- for the primary purpose of maintaining, lubricating or prolonging the life of machinery and equipment,
- for adding to waste removed from the production process,
- for adding to a tailings pond or settling pond,
- for testing purposes, or
- for cleaning or sanitizing (e.g. for sanitizing equipment or facilities), unless the catalyst, direct agent or chemical substance is for use for the primary purpose of cleaning or sanitizing the goods.

If you have any questions, or if you need further information on whether a catalyst, direct agent or chemical substance qualifies for the exemption, please contact us.

You do not need to provide any documentation to claim this exemption. However, the supplier's records must clearly show the reason why the goods were sold exempt from PST (i.e. the supplier documented on the receipt that the items were purchased exempt as catalysts).

## Materials Used to Make Prototypes

You are exempt from PST on most materials used to make qualifying prototypes. For information on what qualifies as a prototype and the criteria for this exemption, see [Bulletin PST 209](#), *Exemption for Prototypes*.

## Safety Equipment and Protective Clothing

The following safety equipment and protective clothing are exempt from PST:

- work-related safety equipment and protective clothing designed to be worn by, or attached to, a worker if required under specified provincial work safety legislation and purchased or leased by an employer, self-employed person or educational institution,
- specifically listed work-related safety equipment and protective clothing designed to be worn by a worker, including safety goggles and steel-toed boots, and
- specifically listed general safety equipment and protective clothing.

For more information, see [Bulletin PST 100](#), *Safety Equipment and Protective Clothing*.

## Refunds

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If you are eligible for the PM&E exemption and you paid PST on exempt PM&E, or on exempt parts, materials or related services for exempt PM&E, you may be eligible for a refund.

### Requesting a Refund from your Supplier

If you paid PST to your supplier on exempt PM&E because you did not provide a completed *Certificate of Exemption - Production Machinery and Equipment* ([FIN 492](#)) at the time of sale or lease, your supplier may provide you with a refund or credit of the PST paid if you provide a completed certificate within 180 days of the date the PST was paid.

### Requesting a Refund from Us

To apply for a refund from us, provide us with a completed *Application for Refund of Provincial Sales Tax (PST) Paid on Production Machinery and Equipment* ([FIN 355/PME](#)) and the required supporting documentation listed in the form instructions. Send your refund application and supporting documents to the address provided on the application form.

We must receive your refund claim within four years of the date you paid the PST. If you receive a refund from your supplier, you cannot also apply for a refund from us.

## Taxable Goods

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Unless an exemption applies, you must pay PST when you purchase or lease machinery, equipment or other goods in BC. You pay PST on the full purchase price at the time of purchase. If the goods are leased, you pay PST on each lease payment either when the

lease payment is paid or when the lease payment becomes due under the terms of the lease agreement, whichever is earlier.

## What is Included in the Purchase Price

PST must be calculated on the total purchase price paid by the purchaser to receive title to goods that are subject to PST. This includes the value of services accepted by the seller on account of the purchase price and any charges for financing, interest, customs and excise, as well as any delivery or other transportation charges (including shipping and handling) incurred at or before the time that title to the goods passes to the purchaser. This applies whether or not the charges are shown separately on the sales invoice.

PST does not apply to delivery or transportation charges if title to the goods passes to the purchaser at the seller's premises because the delivery charge does not form part of the purchase price of the taxable goods. If the seller charges the customer for delivery of the goods to another location, and this charge is separately stated on the sales invoice, PST applies only to the purchase price of the goods.

For information on what is included in the purchase price, see [Bulletin PST 302, Delivery Charges](#).

## Examples of Taxable Goods

The following do not qualify for the PM&E exemption.

- Bases and foundations that become a part of real property.
- Boats (except boom boats or qualifying vessels for use in underwater logging operations), trains and non-turbine aircraft.
- Buildings, furnishings, camp equipment or machinery and equipment related to the use of a building as a building (except shelters for use as protective coverings for exempt PM&E used in the exploration for, discovery of or development of petroleum or natural gas).
- Cleaning supplies, such as cleaning solution and rags.
- Gases, such as oxygen and acetylene, that are not exempt as catalysts, substances and direct agents (see Catalysts, Substances and Direct Agents above).
- General, administrative and office machinery or equipment, such as desks, phones, computers, photocopiers and fax machines. However copying and duplicating equipment used directly to produce copies for resale qualify for the exemption.
- Machinery and equipment (e.g. pallets) used to move material inputs or finished products outside the qualifying part of a manufacturing site, processing plant, refinery or mine site.
- Machinery and equipment not directly used in the manufacturing process, such as electrical cables not integrated into exempt PM&E.
- Machinery and equipment used in construction, such as backhoes, bulldozers, air hammers and excavators.
- Machinery and equipment used in providing a service, such as laundry, dry cleaning and security alarm services.
- Machinery and equipment obtained for use in:
  - the construction of buildings,
  - the construction or maintenance of roads (except certain machinery and equipment used within the qualifying part of a mine site - see [Bulletin PST 111, Mining Industry](#)),

- site preparation (except machinery and equipment exempt under the exemptions for PM&E for use in the exploration for, discovery of or development of petroleum or natural gas, or for logging operations).
- Machinery and equipment used to generate heat, such as a boiler (except when the generation of heat is an integral component of a qualifying manufacturing process).
- Machinery and equipment used to repair, maintain or service exempt PM&E.
- Portable or mobile generators and alternators (except specified exempt generators and alternators for use at a well site, for use in the exploration for minerals or development of mines, or for use in underwater logging operations). This includes stand-by and electric generators and alternators and drive motors for them.
- Scaffolding, walkways, catwalks and similar structures, unless these items are an integral part of exempt PM&E, and are sold or leased as part of exempt PM&E.
- Software, except software used primarily to operate, control or monitor certain PM&E (see PM&E and Software Used to Operate, Control or Monitor Exempt PM&E above).
- Storage tanks, unless they are used as the first storage area for a finished product at the qualifying part of a manufacturing site.
- Telecommunication equipment, such as satellite equipment, cell phones and radio antennas.
- Vehicles designed for public highway use (except truck-mounted service rigs, and bulldozers, backhoes and excavators for use in the exploration for minerals or development of mines), such as transport trucks.

## Change in Use

If you obtain PM&E, parts, materials or other goods exempt and later use them for a taxable purpose, PST applies as of the date you use the item for a taxable purpose.

You calculate and self-assess PST on the greater of the **depreciated value** or 50% of the original purchase price. This calculation must be done separately for each item.

You must self-assess the PST due on your next PST return. 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 you used the PM&E, parts, materials or other goods for a taxable purpose.

## Calculating Depreciation

The **depreciated value** is determined on a straight-line basis 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. Goods not listed below **cannot** be depreciated.

| Type of Equipment   | Depreciation Rate   |
|---|---|
| Vehicles, including all trailers and self-propelled equipment | 30% per year, plus 2.5% per 30-day period for partial years |

| Type of Equipment                                  | Depreciation Rate  |
|--|--|
| Aircraft   | 25% per year, plus 2.0833% per 30-day period for partial years |
| Vessels  | 15% per year, plus 1.25% per 30-day period for partial years   |
| Railway rolling stock                              | 10% per year, plus 0.8333% per 30-day period for partial years |
| Other equipment, furnishings and affixed machinery | 20% per year, plus 1.667% per 30-day period for partial years  |

To calculate the depreciation rate, follow these steps.

1. Calculate the number of whole years between the date you acquired the goods and the date you used them for a taxable purpose.
2. After calculating #1 above, calculate the number of days remaining in the partial year (if any) between the date you acquired the goods and the date you used them for a taxable purpose. Both the first and last days should be counted.
3. Divide the number of days calculated under #2 by 30 and round to the nearest whole number (0.5 and above is rounded up to 1). This is the number of 30-day periods.
4. Calculate the depreciation rate by multiplying the applicable rates in the table above by the number of years and 30-day periods.

## Goods from Out-of-Province Suppliers

If you purchase or lease taxable goods from an out-of-province supplier, you must pay PST on the total amount you pay to bring the goods into BC, including charges for transportation, customs, excise and any other costs, except the goods and services tax (GST).

If your supplier does not charge you PST and you have a PST number, you must self-assess the PST due on your next PST return. 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 you brought, sent or received goods into BC.

## Goods Brought Into BC

Generally, PST applies if you bring or send goods into BC, or receive delivery of goods in BC, for use, unless a specific exemption applies.

If you own the goods and you brought or sent the goods into BC, or received delivery of the goods in BC for **temporary use** in BC, see [Bulletin PST 307](#), *Goods Brought Into BC for Temporary Use*.

If you own the goods and they are not for temporary use in BC, see [Bulletin PST 310](#), *Goods Brought Into BC*.

If you lease the goods, see [Bulletin PST 315](#), *Rentals and Leases of Goods*.

## Sales

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### Sales to Wholesalers and Retailers

You do not charge PST on goods sold to wholesalers or retailers if they claim they are making the purchase solely for resale and they provide you with their PST number. If they are a wholesaler or a vendor who has not yet received a PST number, they may claim an exemption by completing a *Certificate of Exemption – General* ([FIN 490](#)).

If they do provide their PST number and you issue a bill, invoice or receipt, you must record the wholesaler's or retailer's PST number on the bill, invoice or receipt to show why you did not collect the tax. Alternatively, you may record your customer's PST number on a written agreement that you have entered into related to that sale. If an exemption certificate is provided, you must keep a copy of the certificate in your records to show why you did not collect the tax. If you do not document why you did not collect the tax, you may be assessed the tax, penalty and interest.

### Sales to Out-of-Province Customers

If you sell to out-of-province customers and ship the goods to an out-of-province location, PST does not apply to either the purchase price or the delivery charges, provided no use whatsoever is to be made by the purchaser of the goods while the goods are in BC, other than storage by the seller. To substantiate why you did not collect PST on these sales, you must retain proof that you caused the goods to be shipped to an out-of-province location (e.g. bills of lading, shipping invoices or similar documentation).

## Real Property Contracts and Affixed Machinery

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Real property is land and anything that is attached to the land so it becomes part of real property upon installation (i.e. ceases to be personal property at common law). This would normally include buildings, structures and things, such as machinery or equipment, that are attached to the land (or to buildings or structures) by some means other than their own weight.

Real property contractors must pay PST on taxable goods they obtain to fulfil a contract to supply and affix, or install, goods to real property. They do not charge their customers PST on the charge for the contract.

**Exception:** Contractors are exempt from PST on goods they use to fulfil a contract if the contract is with certain persons who are exempt from PST. They may also be exempt if they have an agreement that states their customer agrees to pay the PST on the goods and that agreement meets specific conditions.

For more information, see [Bulletin PST 501](#), *Real Property Contractors*.

### Affixed Machinery

Affixed machinery is machinery, equipment or apparatus that is:

- used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of goods, or in the provision of software or a service, and

- affixed to, or installed in, a building, a structure or land so that it becomes part of real property.

Certain machinery, equipment and apparatus are excluded from the definition of affixed machinery. For more information on the exclusions, see [Bulletin PST 503](#), *Affixed Machinery*.

For the purpose of the PST, affixed machinery that is already installed is tangible personal property (goods).

This means if you purchase or lease real property in which affixed machinery is already installed, you are purchasing or leasing goods (the affixed machinery) and must pay PST on the purchase price or lease price of that affixed machinery, unless a specific exemption applies.

For more information, see [Bulletin PST 503](#), *Affixed Machinery*.

## **Tax Payment Agreements**

Eligible businesses may apply to enter into a voluntary tax payment agreement (TPA) with us.

A TPA allows eligible businesses to defer paying PST when they purchase or lease certain items for business use, and to self-assess and pay the PST due on any items later used for a taxable purpose.

For more information, see [Bulletin PST 317](#), *Tax Payment Agreements*.





## Need more info?

Online: [gov.bc.ca/pst](http://gov.bc.ca/pst)

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### Latest Revision

August 2016

- Added information on claiming refunds if you pay PST on exempt PM&E
  - Added scrap yards, recycling depots and liquefied natural gas producers to the list of businesses that generally do not qualify as manufacturers for the PM&E exemption
  - Clarified that brewpubs may qualify as manufacturers for the brewpub portion of their operations
  - Clarified the information in the Catalysts, Direct Agents and Chemical Substances section
  - Clarified when real property contractors may be exempt from paying PST on goods they use to fulfill a contract
  - Clarified that you are exempt from PST on:
    - goods you obtain solely for processing, fabricating, manufacturing, attaching or incorporating into other goods for resale or lease
    - containers and packaging materials (except reusable containers) you obtain solely for packaging goods for sale or lease, or if you provide them to your customers with their purchases
  - Clarified the example on page 8 that discusses moulds because some types of moulds (e.g. sand moulds) may qualify for the exemption for materials used to assemble exempt PM&E
  - Other minor revisions
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References: *Provincial Sales Tax Act*, sections 1 “affixed machinery”, “software”, “substantially”, 10, 25, 37, 80.1, 82, 82.1, 141, 145, 147, 148 and 153; *Provincial Sales Tax Exemption and Refund Regulation*, sections 26, 32-35, 38, 39 and 90-120; *Provincial Sales Tax Regulation*, sections 10, 21, 48, 49 and 86.