

Motor Vehicle Dealers

About this Guide

This *Guide* provides tax information to help motor vehicle dealers understand how Retail Sales Tax (RST), including the Tax for Fuel Conservation (TFFC), applies to sales and leases of motor vehicles. Please note that this *Guide* has been rewritten and replaces the previous version dated July 1996.

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***.

Motor Vehicle Sales

Dealer Requirements

Motor vehicle dealers operating in Ontario are required to hold a valid dealer licence and a vendor permit that has been issued to the same legal entity. Dealer licences are issued by the Ontario Motor Vehicle Industry Council and vendor permits are issued by the Ministry of Revenue.

Dealers are required to charge 8 per cent RST on the total vehicle price of new or used motor vehicles delivered to customers in Ontario, unless the customer is entitled to an exemption from RST.

Total Vehicle Price

The total vehicle price is calculated as the manufacturer's suggested retail price, plus:

- all options and accessories
- pre delivery expenses
- freight charges
- federal air conditioning tax
- Tax for Fuel Conservation (TFFC)
- administration fees for licensing and preparing documents

less:

- the value of any trade-in.

RST does not apply to charges for fuel and licence (if they are shown separately on the bill of sale) or to the federal Goods and Services Tax (GST).

Trade-in Allowance

The total vehicle price of a new or used motor vehicle can be reduced if your customer trades-in a vehicle or other taxable item at the time they are purchasing another vehicle. RST applies to the net vehicle price provided the trade-in forms part of the vehicle purchase agreement and the trade-in is a taxable item (e.g., automobile, truck, or motorcycle). Administration charges to process a trade in are taxable.

Trade-in Allowance (continued)

If the trade-in is not registered in the name of the person trading it in on the purchase of another vehicle, Retail Sales Tax (RST) must be charged on the total vehicle price. However, if the vehicle's registration is transferred into the purchaser's name prior to being accepted as a trade-in, RST should be calculated on the reduced amount.

A dealer may, on behalf of a customer, sell the customer's vehicle to a third party and apply the proceeds to the subsequent purchase of another vehicle by the customer. RST must be charged on the total vehicle price of the new vehicle before the proceeds are applied as there was no vehicle traded in at the time of the sale. The sale of the customer's used vehicle to a third party is a separate transaction.

Tax for Fuel Conservation

Tax for Fuel Conservation (TFFC) must be charged on certain new passenger cars and new sport utility vehicles. If a vehicle is subject to the TFFC, it must be paid in full when the vehicle is purchased by a customer or is first put to use by the dealer.

For short term leases (less than one year), lessors have two options to account for the TFFC:

1. pay an amount equal to the TFFC when a taxable vehicle is purchased, or
2. collect and remit a portion of the total amount of the TFFC which represents each customer's use of the vehicle during its first 180 days.

For long term leases (one year or more), lessors must charge and collect the TFFC in full on the first lease payment made by the first customer who leases the vehicle.

Tax Credit for Fuel Conservation

A Tax Credit for Fuel Conservation (TCFFC) of up to \$100 is available to purchasers of new passenger cars that use less than 6.0 litres of gasoline or diesel fuel per 100 kilometres of highway driving. The credit is not available for sport utility vehicles. Dealers should deduct the TCFFC from the 8 per cent RST charged to a customer. If the 8 per cent RST is less than \$100, the credit equals the total RST charged.

For leases of new passenger cars, the amount of the full tax credit (up to \$100) should be provided to the lessee at the time the vehicle is acquired. The lessor should provide the tax credit amount to the lessee by deducting it from the RST payable.

Dealers must show the credit separately on the sale or lease agreement, as shown in the example below.

Finance		Lease	
Subtotal for finance	\$20,000	Subtotal for lease	\$20,000
- Trade in value	<u>\$ 5,000</u>	- Trade in value	<u>\$ 5,000</u>
Subtotal	\$15,000	Total Lease	\$15,000
GST 5%	\$ 750	Lease Payments	
RST 8%	\$ 1,200	Base Payments - monthly	\$ 500
TCFFC	<u>(\$100)</u>	GST 5%	\$ 25
Total	\$ 16,850	RST 8%	\$ 40
		TCFFC	<u>(\$100)</u>
		1st month's payment	\$ 465

If the dealer provides the full \$100 TCFFC to the purchaser, and the TCFFC exceeds the total Retail Sales Tax (RST) payable, the dealer may deduct the difference directly from its RST liability account.

TFFC and TCFFC Listing

A list of vehicles by model year, showing the amount of the TFFC payable or the TCFFC on each vehicle, is available on the Ministry of Revenue's website at ontario.ca/revenue.

For more information, see *RST Guide 513 - Tax for Fuel Conservation*.

Customer Incentive Programs

A variety of dealer's discount and manufacturer's rebate programs are offered to prospective purchasers of motor vehicles. Not all such programs reduce the taxable value of the vehicle to the customer.

Dealer's Discount

If a cash rebate or bonus is provided to customers by the dealer, the taxable value of the vehicle is reduced by the amount of the cash rebate or bonus.

If a cash rebate or bonus is provided to customers by the manufacturer, the taxable value of the vehicle is not reduced. The rebate or bonus should be treated as a partial cash payment on the total purchase price. This applies whether the rebate or bonus is paid directly to the customer or is assigned by the customer to the dealer.

Credits received by dealers from manufacturers for sales incentives are not subject to RST.

Manufacturer's Rebate

When dealers or manufacturers offer certain options free or at a reduced price as part of the sale of a vehicle, the dealer must charge the customer RST on the agreed vehicle price, including additional options. No RST is payable by either a dealer or a manufacturer on their cost for these options. However, if dealers give away free gifts to attract potential customers, they must pay RST on the cost of these gifts (e.g., cameras).

Other incentives, such as graduate recognition or credit card rewards do not reduce the taxable value of the vehicle but rather represent a partial payment towards the total purchase price of the vehicle.

Dealer's Own Use of Vehicles

Temporary Use

Dealers must account for and remit RST on vehicles that are purchased for resale, but used temporarily free of charge by:

- the dealer
- its staff
- owner's family members
- customers

If the dealer charges a fee for the use of its vehicles, the dealer must account for and remit RST on the charges as follows:

1. Customers – RST applies at the rate of 8 per cent on the amount charged by the dealer.

Temporary Use (continued)

- Staff or owner's family members – Retail Sales Tax (RST) applies at the rate of 8 per cent on the fair value, regardless of the amount charged to the staff or family member by the dealer. If the RST collected by the dealer is less than the RST payable on the fair value, then the dealer must pay the difference on line 3 of the RST return.

The applicable Tax for Fuel Conservation (TFFC) must also be paid in full at the time a vehicle from inventory is first put to temporary use. When these vehicles are subsequently sold to customers, TFFC should not be charged.

Temporary use means use for more than 12 days in a month but not for more than 12 consecutive months. For every 13 or more days of a month that a vehicle is temporarily used, RST is payable for a full month.

Calculating RST

Dealers may use the following formulas to calculate the RST payable on temporary use:

1. Vehicles Weighing 4,100 Kilograms or Less

For vehicles weighing 4,100 kilograms or less and used more than 12 days per month, the dealer must pay 8 per cent RST each month as follows:

$$\text{Tax Due} = \text{Average Monthly Sale Price}^* \times \text{Number of Vehicles Used}^{**} \times 3 \text{ per cent} \times 8 \text{ per cent RST}$$

* **“Average Monthly Sale Price”** means the total sales of all new and used vehicles sold in the month (including TFFC but before trade-in) divided by the total number of vehicles sold in the month. If no sales are made in the reporting month, the **“Average Monthly Sale Price”** is calculated using the last month in which sales were made.

** **“Number of Vehicles Used”** includes all vehicles that are temporarily removed from inventory for resale purposes and are used by staff or family members, with or without charge.

2. Vehicles Weighing More Than 4,100 Kilograms

For vehicles weighing more than 4,100 kilograms and used more than 12 days per month, the dealer must pay 8 per cent RST each month as follows:

$$\text{Tax Due} = 1/36 \times \text{Cost of Vehicle (including TFFC)} \times 8 \text{ per cent RST}$$

Use Over 12 Months

If a motor vehicle is taken from inventory and used for more than 12 consecutive months, the use is no longer considered temporary. The dealer must pay 8 per cent RST on the original total vehicle price, including the Tax for Fuel Conservation (TFFC), less any RST previously paid by the dealer under the temporary use formula.

Payment of RST

RST on own use of vehicles is reported on line 3 of the RST return and remitted with other tax payable.

Demonstrator Vehicles

Unregistered vehicles used solely for demonstration purposes are not taxable until they are sold. RST is to be collected at the time the vehicle is sold.

Repairs to Demonstrator Vehicles

Retail Sales Tax (RST) does not apply to parts and labour used to repair demonstrator vehicles (new or used) that are held for sale. For example, where a dealer purchases parts and uses its own labour to repair a demonstrator vehicle, it is not required to pay RST on the parts or labour. Even if the vehicle is sent out to be repaired, the parts and labour may be purchased exempt from RST by providing a valid Purchase Exemption Certificate to the repairer.

Leases

Total Lease Charge

Dealers leasing motor vehicles must collect 8 per cent RST on the total lease charge unless the lessee (e.g., Status Indian) is not required to pay RST.

The total lease charge includes:

- amounts billed for damages
- collision damage waiver
- delivery and handling
- finance or interest charges outlined in the lease agreement
- maintenance and repair
- service contract charges
- Tax For Fuel Conservation (TFFC), where applicable
- surcharges based on the length of the lease or distance travelled.

RST also applies to:

- all additional end of lease charges (including past due lease payments, charges for excess odometer or wear, etc.)
- the payment made to exercise an option to purchase.

Refundable security deposits are not taxable.

Remittance of RST

RST is collectable on the due date of each lease payment, and must be remitted even if the RST has not been paid by the lessee. If the first and last lease payments are made at the time the lease contract is entered into, RST must be collected and remitted on both payments on the RST return to be filed after the contract has been signed.

Trade-in Allowance

When a vehicle is accepted as part payment against a motor vehicle to be leased, RST applies to the net lease amount after allowance for trade-in. If the lessor pays off an existing lien for the lessee on the trade-in vehicle, the lessor can still allow a credit for the trade-in. The pay-out by the lessor must be treated as refinancing of an existing debt. RST will apply to the net lease payment billed to the lessee, provided the refinancing amount is identified separately on the monthly lease billing. If the amount is not separated on the bill, RST applies to the total lease payment.

Lease Termination Payment

A lease termination payment is not subject to RST, provided:

- use of the vehicle has ended and the vehicle was returned to the lessor
- lease payments have ceased
- the lease is repudiated, and
- the lease termination payment is made to terminate the lease and to provide compensation for the financial loss of the lessor.

**Leased
Vehicle
Moved Out
of Ontario**

When a lessee moves out of Ontario during the term of the lease, Retail Sales Tax (RST) does not apply on subsequent lease payments if:

- the lessee removes the vehicle for permanent use outside Ontario, and
- the vehicle is plated in another jurisdiction for the remaining term of the lease.

The lessor must keep documents on file to prove that the vehicle has been permanently removed from Ontario (e.g., a copy of the out-of-province motor vehicle registration, or proof that the applicable tax has been paid to another jurisdiction).

**Insurance
Loss or
Destruction**

Insurance proceeds paid to a lessor by the lessee's insurance company for the loss or destruction of a leased motor vehicle are not taxable. The lease contract may require a lessee to pay the lessor the "residual value" of the lease if the vehicle is destroyed. If the lessee is required to pay the difference between the residual value and the insurance settlement, the payment is subject to RST.

Exempt Sales

Purchasers claiming an exemption from RST must provide a valid Purchase Exemption Certificate (PEC) or identification card to the dealer.

Eligible purchasers include:

- foreign representatives or officials, foreign states or diplomatic missions. For more information, see ***RST Guide 803 – Foreign States, Representatives and Officials***.
- non-resident customers if:
 - the vehicle is shipped directly out of Ontario to the non resident customer (the dealer must keep records to prove the out-of-province shipment) or
 - the non resident customer takes delivery in Ontario and, at the time of purchase, gives the dealer licensing information from the customer's home province or state (the dealer must record the licence number and province or state on the sales document).
- Status Indians, Indian bands and band councils, who purchase or lease motor vehicles on-reserve, regardless of the address to which these vehicles are registered. Vehicles purchased or leased off-reserve are exempt from RST provided:
 - the vehicle is registered to a reserve address and the purchaser shows their "Certificate of Indian Status" identity card (individual Status Indians) or issues a valid PEC (Indian bands and band councils), or
 - the vehicle is registered to a non-reserve address and the purchaser shows their "Certificate of Indian Status" identity card (individual Status Indians) or issues a valid PEC (Indian bands and band councils), and the vendor or lessor arranges to have the vehicle delivered to the reserve.

The vendor or lessor must record the Status Indian's "Certificate of Indian Status" identity card number, name and Indian band or registry number to substantiate the non-collection of RST. Indian bands and band councils must provide the vendor or lessor with a valid PEC. For more information, see ***RST Guide 808 - Status Indians, Indian Bands and Band Councils***.

Recalls and Warranties

Recalls A manufacturer's recall occurs when all recorded purchasers or owners are informed of a potential defect in particular models of a vehicle and no payment whatsoever is required by any of the purchasers or owners to inspect, repair or replace the potentially defective vehicle. Parts and labour consumed in the handling of manufacturer's recall are not subject to Retail Sales Tax (RST).

Warranties RST must be charged on warranty, extended warranty, service or maintenance contracts. RST does not apply to parts and labour used to carry out repairs or replacements under warranty, extended warranty, service or maintenance contracts. If a person pays a deductible as part of the warranty repair, the deductible amount is subject to RST.

If a dealer does not bill for parts and labour provided in "no charge" adjustments on items they sold, the dealer must pay or account for RST on the cost of the parts used, but not on the repair labour. For more information, see **RST Guide 600 - Motor Vehicle Repairs**.

Refunds

By Dealers Dealers may refund RST and/or any Tax for Fuel Conservation (TFFC) to the customer if:

- a mistake was made in calculating the applicable tax
- the sale is cancelled and the motor vehicle is returned to the dealer
- the customer (in this case, a dealer) provides a valid Purchase Exemption Certificate after being charged RST on a motor vehicle purchased for resale
- the dealer reduces the original purchase price of the motor vehicle due to damage or defects.

Dealers can refund the TFFC only when the original purchase price is fully refunded.

Time Limits Refunds can be made to customers within four years from the date of the sale. Dealers can deduct the refund from the RST to be remitted on their RST return. The deduction must be made within four years from the date the refund was made to the customer.

RST Paid in Error Dealers cannot provide a refund to a customer if the customer was charged RST in error. Customers who paid RST in error may apply for a refund by completing a **General Application for Refund of Retail Sales Tax** form. All refund claims must be received by the Ministry of Revenue within four years from the date the RST was paid.

For more information, see **RST Guide 700 – Refunds, Rebates and Adjustments**.

More Information



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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*, Subsection 1(1), Sections 2, 4, 4.1, 4.2, and 7
- Regulation 1012, Sections 6 and 15.5
- Regulation 1013, Sections 11 and 12

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