

Manufacturers

Social Service Tax Act

Do you manufacture goods for use in your business or for sale?

Do you need to know how PST applies to your business?

This bulletin provides specific tax information to help manufacturers understand how the social service tax, also called the provincial sales tax (PST), applies to their businesses.

For general PST information that applies to all businesses, such as who needs to register, when general exemptions apply, and how to charge and collect the PST, please read our [Small Business Guide to Provincial Sales Tax \(PST\)](#).

Table of Contents

Overview.....	2
Qualifying Manufacturers.....	3
Qualifying Machinery and Equipment	8
Software Developers	16
Contractors.....	18
Local Governments	19
Claiming the PM&E Exemption.....	20
Other Exemptions.....	21
Taxable Goods	24
Services.....	28
Sales	29

The revision bar (|) identifies changes to the previous version of this bulletin dated September 2008.

Overview

As a manufacturer, you may qualify for a PST exemption when you purchase or lease certain production machinery and equipment (PM&E). The exemption includes replacement parts, materials and services for qualifying PM&E, parts and materials to assemble qualifying PM&E, and certain manufacturing services. To qualify for the exemption, you must be involved in a qualifying manufacturing activity and meet minimum levels of sales or manufactured costs.

Recent Changes to the PM&E Exemption

February 18, 2009 – exempts materials used to repair, maintain, modify or assemble qualifying machinery or equipment.

February 18, 2009 – exempts transformers, as well as converters, inverters, regulators, breakers and switches designed for use with transformers, for manufacturers of products other than electricity.

February 18, 2009 – clarifies that machinery and equipment used primarily to move material inputs and finished products within the manufacturing site, qualifies as PM&E.

February 20, 2008 – local government corporations and bodies may qualify for the PM&E exemption on the machinery and equipment they use for qualifying power generation activities.

February 22, 2006 – exempts parts used to assemble qualifying machinery or equipment.

February 22, 2006 – businesses that use machinery and equipment to provide manufacturing services to qualifying manufacturers may qualify for the PM&E exemption.

February 19, 2003 – contractors may qualify for the PM&E exemption on the machinery and equipment that they install on behalf of a manufacturer.

February 20, 2002 – exempts parts for use on exempt machinery or equipment.

July 31, 2001 to February 20, 2002 – exempts only parts that by design would likely be used as replacement parts for industrial machinery and equipment. Generic parts were taxable.

Effective July 31, 2001 – machinery and equipment used to generate heat is only exempt if the generation of heat is one step in a qualifying manufacturing activity (clarified retroactively in Budget 2009)

Qualifying Manufacturers

To qualify as a manufacturer, you must be involved in a qualifying manufacturing activity and meet minimum levels of sales or manufactured costs.

Qualifying Manufacturing Activities

The following activities qualify as manufacturing:

- fabricating or manufacturing tangible personal property to create a new product substantially different from the material or property from which it was made,
- processing tangible personal property 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 tangible personal property,
- developing software, or
- extracting or processing minerals, petroleum or natural gas.

Please note: Tangible personal property is personal property that you can see, weigh, measure or touch, or is in any other way perceptible to the senses. It includes natural or manufactured gas, software, heat and electricity.

Non-Qualifying Activities

The following activities do not qualify as manufacturing:

- growing, harvesting or producing agriculture or aquaculture products, or raising livestock,
- logging,
- producing television programs, radio programs, motion pictures, commercials, master films, master video tapes or any similar product in electronic format, and
- providing a service, other than manufacturing services described in the section below, Services.

The following activities by themselves do not qualify as manufacturing. However, these activities qualify as manufacturing when they are one step in, or occur immediately after, a qualifying manufacturing activity (other than software development). The following activities must also occur at a manufacturing site, mine site, well head, processing plant or refinery:

- cleaning, painting, staining, blending, combining, grading, grouping, mixing, packaging, re-packaging, sorting or testing tangible personal property, and
- transforming tangible personal property from a gas, liquid or solid state to another one of those states by means of a change in temperature or pressure.

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 you package your own products as one step in your manufacturing process, at your manufacturing site, the packaging activities qualify as manufacturing.

The generation of heat does not qualify as manufacturing, unless it occurs as one step in a qualifying manufacturing activity.

Minimum Sales or Manufactured Cost

You must meet any of the following criteria:

- the goods that you produce are for sale and it is expected that the total value of sales for that class of product will exceed \$30,000 per year,
- the goods that you produce are for lease or for your own business use, and it is expected that the total manufactured cost for that class of product will exceed \$30,000 per year, or
- the goods that you produce are for both sale, and lease or own business use; and it is expected that either the total value of sales for that class of product will exceed \$30,000 per year or the total manufactured cost for that class of product will exceed \$30,000 per year. To calculate the total manufactured cost, you may combine the costs of the goods that are for both sales, and lease or business use, as long as the goods are for the same class of product.

For example, assume you manufacture furniture that you both sell and lease to your customers. Your sales are less than \$30,000 per year, but the total manufactured cost for all the furniture that you produce (for both sales and leases) is more than \$30,000. In this example, you would meet the criteria, as the total manufactured cost exceeds \$30,000 per year. For details on how to calculate the manufactured cost, see the section below, *Calculating Manufactured Cost*.

Classes of products

To qualify as a manufacturer, you must exceed one of the above \$30,000 per year thresholds for each class of product that 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 would exceed the \$30,000 per year threshold if your combined sales, or manufactured cost, of the tables and bookshelves exceeded \$30,000. If you have operations outside British Columbia, you cannot include the value of goods manufactured outside of the province to reach the \$30,000 threshold.

However, if you manufacture furniture and you also develop software, you are producing two different classes of products. If you exceed the \$30,000 threshold for furniture manufacturing, you qualify for the exemption on the machinery and equipment used to manufacture the furniture. You also have to exceed the \$30,000 threshold for software development in order to qualify for the exemption on the machinery and equipment used to develop the software.

Calculating manufactured cost

To calculate the manufactured cost, 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, and
- 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 production machinery and equipment and 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 manufacturing sites,
- indirect labour (e.g. manufacturing supervision, material handling, inspection, repairs and maintenance),
- insurance on manufacturing sites and production machinery and equipment,
- power for production machinery and equipment,
- property and business taxes on manufacturing sites,
- rental of manufacturing sites,
- rental of production machinery and equipment, and
- royalties or licence fees for production processes or use of production machinery and equipment.

You do not include any general or administrative expenses to calculate your manufacturing overhead.

Please note: While energy costs may be considered as part of manufacturing overhead, it does not mean that energy costs are exempt. Energy is neither machinery nor

equipment. It is a consumable and does not qualify for the exemption. For details on the machinery and equipment that qualifies for the exemption, see the section below, Qualifying Machinery and Equipment.

Examples of Manufacturers that Qualify

The following are examples of the kinds of businesses that generally qualify as manufacturers for the PM&E exemption:

- abattoirs
- alternator and starter rebuilders (to the extent the alternator or starter is totally rebuilt; does not include repairs)
- boat builders
- book binders
- breweries
- cartographers
- copying and duplicating operations (where copies are produced for resale)
- 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)
- label producers
- meat processors
- mines
- monument makers
- musical instrument makers
- opticians (to the extent they grind lenses)
- photographers (to the extent they process photographs)
- picture framers (to the extent they build frames)
- potters
- printers
- pulp and paper mills
- refineries
- sawmills
- screen print makers
- sculptors
- sign makers
- software developers
- tire retreaders
- wine producers

Businesses/Public Bodies that Do Not Qualify

The following are specifically excluded from the PM&E exemption:

- schools, school boards and universities, including business, trade and vocational schools,
- hospitals,
- regional health boards and community health councils as designated under the *Health Authorities Act*,
- caterers,
- 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 prepared food products,
- the government and its agents, including agencies, boards and commissions,
- local government bodies, such as municipalities, regional districts, the South Coast British Columbia Transportation Authority and others that are defined in Schedule 1 of the *Freedom of Information and Protection of Privacy Act* (except as described in the section below, Local Governments), and
- corporations owned by Canada, a province or a municipality and who qualify for an exemption from income tax under section 149(1)(d) to (d.6) of the *Income Tax Act* (Canada) (except as described in the section below, Local Governments).

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, and
- Insurance Corporation of British Columbia (ICBC).

The following are examples of the kinds of businesses that generally do not qualify as manufacturers for the PM&E exemption:

- advertising agencies
- aerial photographers
- architects
- assemblers of gift baskets
- automobile repairers or customizers
- bicycle dealers (that assemble bicycles)
- blenders of tea and coffee
- insurance brokers
- laundries and dry cleaners
- lawyers, barristers and solicitors
- locksmiths
- medical doctors
- meat cutters (retail) and packers
- motion picture producers
- muffler and exhaust installers

- blenders of fertilizers and animal feed
- chiropractors
- cleaners
- cold storage plants
- commodity brokers
- computer dealers (that custom assemble from component parts)
- computer software service firms (where the service is configuring/installing)
- concrete breaking
- consultants
- dentists
- designers (that do not produce tangible personal property)
- drafters
- egg grading stations
- engineers
- engravers
- fish packers
- florists
- food/produce graders (if only grading and packaging)
- furniture assemblers or refinishers
- graphic designers (that do not produce tangible personal property)
- 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)
- repairers/reconditioners
- reupholsterers
- saw sharpening/repair shops
- shoe repairers
- steam cleaners
- surveyors
- taxidermists
- television program producers
- veterinarians
- video and audio producers (production of master copy)
- watch repairers
- web designers
- wine blenders

Qualifying Machinery and Equipment

Generally, if you are an eligible manufacturer, you may purchase or lease qualifying machinery or equipment tax-exempt provided the machinery and equipment is located at an eligible manufacturing site and used:

- **primarily** and **directly** in a manufacturing process, or
- **primarily** to move material inputs or finished products.

Material inputs include raw materials and partially finished goods or similar items that are incorporated into the finished product.

Please note: For pollution control or waste management equipment and transformers, the qualifying criteria is different. See the sections below, Pollution Control and Waste Management, and Transformers, for more information.

Primarily

Primarily means used over 50%. How you make the measurement of primarily depends on the nature of the machinery and equipment. You may measure in terms of time, volume, production value or some other measurement that is appropriate for that particular type of equipment.

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

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

Directly

Directly means machinery and equipment must be a part of, or an integral component of, the process that transforms the raw material into the finished product.

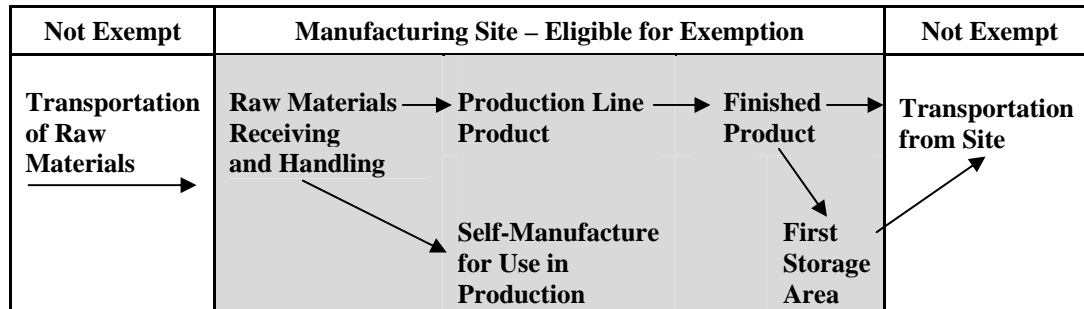
For example, sawmill machinery and equipment used on the production line, such as saws and planers, are a direct and integral part of the process that transforms the logs into a finished product. Therefore, the production line equipment qualifies for the exemption. However, machinery and equipment, such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

Eligible Manufacturing Sites

An eligible manufacturing site is:

- 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.

The diagram below illustrates the scope of the exemption. All machinery and equipment located within the gray shaded area (i.e. the eligible manufacturing site) that is used primarily and directly in the manufacturing process, or is used primarily to move material inputs or finished products, qualifies for the 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 manufacturing site is limited to the area, such as a mobile shop, within which the item is actually manufactured. Machinery and equipment used to install the manufactured item does not qualify for the exemption unless it is used over 50% in the manufacturing process at the manufacturing site.

Transportation of raw materials to the site

Vehicles, trains, boats or other machinery and equipment used to transport raw materials to the manufacturing site do not qualify for the exemption.

Raw materials area

The raw materials receiving area is generally within the manufacturing site. If the machinery and equipment is used primarily to receive, handle and store the raw materials, it qualifies for the exemption.

Production line

All machinery and equipment in the production line used primarily and directly in processes related to transforming raw materials into a finished product, or used primarily to move material inputs or finished products, qualify for the exemption.

Storage

Provided the first storage area is on the manufacturing site, machinery and equipment used primarily to transport the finished product from the production line to the first storage area, including bins or shelving within the first storage area, qualify for the exemption. As shown in the diagram above, the first storage area is within the gray

shaded area and is the point where the qualifying manufacturing site ends. Machinery and equipment used after the first storage area does not qualify for the exemption.

A first storage area may be a warehouse on the manufacturing site or an open area within the manufacturing site, such as a dock or loading yard, where the finished product is accumulated before removal from the site.

Machinery or equipment that is used to transport the finished product **from** the first storage area to the means of transportation that will transport the product from the manufacturing site does not qualify for the exemption as this area is outside the qualifying manufacturing site. As shown in the diagram above, this area is outside the gray shaded area.

Machinery or equipment that is used to transport the finished product **to** and **from** the first storage area, is only exempt if it is used primarily in transporting the product **to** the first storage area.

For example, you may have a forklift that is used to transport finished goods from the production line to the first storage area. This is an exempt use of the forklift as the first storage area is within the manufacturing site (i.e. within the gray shaded area of the diagram above).

The same forklift is used to transport the goods from the first storage area to a loading area for transportation from the manufacturing site. This is a taxable use of the forklift as the loading area is outside the manufacturing site (i.e. outside the gray shaded area of the diagram above). In this case, the forklift is eligible for exemption if it is used primarily (over 50%) to transport the finished goods from the production line to the first storage area.

Transportation from the site

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

Examples of Qualifying PM&E

The following machinery and equipment are exempt when used primarily and directly in the manufacturing process and used at the manufacturing site:

- machinery and equipment used to store raw materials (e.g. bins, vats and shelving),
- machinery and equipment used on the production line (e.g. lathes, drills, saws and blades, digesters, paper dryers, sawdust cookers and lumber kilns, including kiln strips),

- computers used to monitor the operation of production machinery and equipment (e.g. computers used by a pulp mill in its control center to monitor pulp production),
- hand-held tools used in the manufacturing process but not for repairs or maintenance (e.g. electric drills, hammers and grinders), and
- machinery and equipment used to package the finished product, provided it is part of the line operation.

The following machinery and equipment are exempt when used primarily to move material inputs or finished products within the manufacturing site:

- machinery and equipment used to receive raw materials (e.g. forklifts, conveyor belts, and cranes),
- machinery and equipment used to move raw materials or partially finished goods through the production line, or to move the finished product to the first storage site (e.g. conveyors, forklifts, cranes and pallets).

If the finished product is not stored before removal from the site, the machinery and equipment used to move the finished product directly onto a vehicle, train or other means of transportation that will transport it from the site, qualifies for the exemption.

Software and hardware used in a manufacturing process

Software is exempt if designed and integrated with eligible production machinery and equipment. It must be an integral part of the equipment and necessary for its operation. It can be purchased separately from the equipment without paying PST. However, software is not eligible for the PM&E exemption unless it is an integral part of exempt production machinery.

Computer hardware not used directly in manufacturing does not qualify for the PM&E exemption.

For more information on software and hardware including services, please see [Bulletin SST 040, Computer Software and Hardware](#).

Please note: If you are a software developer, you may qualify as a manufacturer. Please see the section below, Software Developers.

Self-Manufacture for Own Use

If you manufacture goods for your own use, the machinery and equipment that you use to make the goods may qualify for the 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 manufactured cost of the goods must exceed \$30,000. If you meet the \$30,000 threshold, you do not pay PST on the machinery and equipment used primarily and directly to make the goods.

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 manufactured cost of the signs exceeds \$30,000, you do not pay PST on the machinery and equipment 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 the section above, Calculating Manufacturing Cost.

2. **Goods for production line – no cost threshold**

If you manufacture goods for use in your production line, you do not pay PST on machinery and equipment used primarily and directly to manufacture the goods if they are used in the manufacture of the finished product. For these goods, there is no minimum cost threshold to qualify.

This applies only to the machinery and equipment used to produce goods that are used in the production line at that manufacturing site.

For example, chlorine dioxide generators produce chlorine dioxide for use in the bleaching process of pulp and paper production. Therefore, you do not pay PST on the chlorine dioxide generators.

Similarly, if a manufacturing process requires the use of molds, which are produced at the manufacturing site, you do not pay PST on the machinery and equipment used to make the mold. However, you pay PST on the materials that become part of the mold because the materials are used to manufacture, and not assemble machinery and equipment. For more information on materials, see the section below, Materials for Exempt Machinery and Equipment.

Parts for Exempt Machinery and Equipment

If you are eligible for the PM&E exemption, you do not pay PST on leased or purchased parts for use on exempt machinery or equipment.

Effective February 22, 2006, if you are eligible for the PM&E exemption, you do not pay PST on leased or purchased parts that you use to assemble qualifying machinery or equipment.

Materials for Exempt Machinery and Equipment

Effective February 18, 2009, if you are eligible for the PM&E exemption, you do not pay PST on leased or purchased materials, provided they:

- are used to repair, maintain, modify or assemble qualifying machinery or equipment, and
- remain part of, or attached to, the machinery or equipment.

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

Taxable Materials

PST applies to materials that are used:

- to self-manufacture machinery and equipment for own use,
- primarily to lubricate machinery or equipment (e.g. grease), or
- primarily to repair, maintain, modify or assemble:
 - scaffolding, walkways, catwalks and similar structures, unless these items are an integral part of machinery or equipment, and are sold or leased as part of machinery and equipment that is exempt, and
 - bases and foundations, that are, or become, a part of realty for machinery or equipment.

Inventory of Parts and Materials

If you have an inventory made up of both taxable and exempt parts and materials, you may make a reasonable estimate of the portion used on exempt machinery or equipment and purchase that portion without paying PST. Reconcile this estimate to your actual usage. If the reconciliation shows you used more parts and/or materials for taxable purposes than estimated, you self-assess the PST owing on the portion purchased exempt, but used for taxable purposes.

If you have a PST registration number, you self-assess and record the PST due at Step 3 of your next tax return. If you do not have a PST registration number, you self-assess the PST due using the *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form ([FIN 428P](#)).

If the reconciliation shows you used more parts and/or materials for exempt purposes than estimated, you can claim a PST refund from the ministry for the tax paid on the portion used for exempt purposes. For more information on refunds, please see [Bulletin GEN 008](#), *Refunds of Overpayments of Tax*.

Pollution Control and Waste Management

Manufacturers may purchase or lease machinery and equipment if used exclusively (over 90%) and directly for either pollution control and/or waste management.

There are three conditions, as well as limitations, specific to each exemption. All three conditions must be met.

1. The exemption is available only to manufacturers eligible for the PM&E exemption or their contractors.
2. The machinery and equipment is used only at an eligible manufacturing site.
3. The pollutants and waste result from the manufacture of goods (see limitations below).

Pollution control limitations

The machinery and equipment must be used in the detection, prevention, measurement, treatment, reduction or removal of pollutants in the water, soil or air.

Waste management limitations

The machinery and equipment must be used to carry refuse or waste from production machinery and equipment, or to exhaust dust or noxious fumes produced by production machinery and equipment. Basic clean-up equipment for a manufacturing plant does not qualify.

Transformers

Effective February 18, 2009, transformers, as well as converters, inverters, regulators, breakers and switches that are designed for use and used with transformers, are exempt provided that:

- they are purchased or leased by an eligible manufacturer,
- they are located at a manufacturing site and used exclusively (over 90%) in the transmission or distribution of electricity within the manufacturing site, and
- more than 50% of the electricity is used to power exempt machinery or equipment, or used as an integral component of a qualifying manufacturing activity, such as electroplating or electrolysis.

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

Eligible manufacturers of electricity continue to qualify for exemption on the purchase or lease of transformers and equipment designed for use with transformers, provided they are used primarily and directly in the manufacture of electricity within the manufacturing site.

Software Developers

If you **develop** software, you may qualify as a manufacturer for the PM&E exemption. As a software developer, you must meet the same qualifications as other manufacturers for minimum levels of sales or manufactured costs. The machinery and equipment must also be used primarily and directly in software development and used at an eligible manufacturing site.

For more details on the qualifications for manufacturers, please see the sections above, Qualifying Manufacturers and Qualifying PM&E.

Qualifying PM&E Used for Software Development

Machinery and equipment that qualify for exemption includes computers and related hardware provided that the equipment is used primarily and directly in the development of software.

For example, you may have a computer that is used for both software development and accounting. The computer may qualify for the exemption if it is used primarily in software development. However, if the computer is used primarily for accounting, it will not qualify for the exemption.

Examples of qualifying PM&E

- computers and related hardware,
- printers,
- pre-manufactured cables, and
- operating system software that is necessary to make the computer functional (considered an integral part of the computer equipment).

Please note: This does not include any other software (see section below, Software Other Than Operating System Software).

Non-Qualifying Machinery and Equipment

Office equipment

Office furnishings, photocopiers, and other general and administrative machinery and equipment do not qualify for the exemption.

Machinery and equipment used to distribute software

Machinery and equipment used to distribute software to your customers does not qualify for the exemption because it is not used directly to develop software. 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.

Software other than operating system software

Software that is not necessary for the computer to function as a computer does not qualify for the PM&E exemption. This includes software, such as an application development program, that is used to develop other software. It also includes any other software, such as word processing, spreadsheets, e-mail, photo editing and anti-virus software. These types of software are neither machinery nor equipment, nor are they integral to the operation of the computer.

However, you may be eligible for other software exemptions, such as exemptions for non-executable software or software incorporated into other software.

Eligible Manufacturing Site

The eligible manufacturing site for software developers is the location where you develop the software. This may include a business location or a home office.

However, the manufacturing site does not include your customer's location. If you make additional changes to the software at the customer's location, the equipment used to modify the software does not qualify for the exemption as it is not used at the manufacturing site.

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

For more information on software and hardware, please see [Bulletin SST 040](#), *Computer Software and Hardware*.

Contractors

If you are a contractor, you may qualify for the PM&E exemption on the machinery and equipment that you install on behalf of an eligible manufacturer. The exemption does not include any tools or equipment that you use to install the qualifying machinery and equipment.

To qualify for the exemption, the manufacturer (i.e. your customer) must provide you with a completed certificate, certifying that the manufacturer:

- is eligible to receive the exemption on the machinery, equipment, parts or materials, and
- the machinery, equipment, parts or materials, once installed, are used for an exempt purpose.

For contracts that you **enter into before October 1, 2008**, the manufacturer is required to complete a *Certificate of Exemption – Production Machinery and Equipment* form ([FIN 453/M](#)). For contracts that you **enter into on, or after, October 1, 2008**, the manufacturer is required to complete a *Certificate of Exemption – Contractors* form ([FIN 453/C](#)).

You purchase the machinery and equipment for resale without paying PST by giving the supplier your PST registration number. If you do not have a PST registration number, give the supplier a copy of the applicable certificate completed by the manufacturer (you only complete Part B). To show why you did not pay PST, keep a copy of the completed certificate for your records.

If you claim this exemption and you have a completed certificate, and it is later found that the manufacturer or the machinery or equipment did not qualify for the exemption, it is the manufacturer, not you, who is liable for the tax that should have been paid on the purchase. However, if you claim the exemption without receiving a completed certificate, you are liable for the tax due.

For more information on improvements to real property, please see [Bulletin SST 072, Real Property Contractors](#).

Local Governments

Effective February 20, 2008, local governments, and eligible local government corporations, may qualify for the PM&E exemption on machinery and equipment used to generate:

- electricity at a manufacturing site, or
- electricity and heat at a cogeneration plant.

Eligible machinery and equipment includes:

- turbines,
- generators,
- cogenerating reciprocating engines,
- heat exchangers, and
- boilers.

The exemption also includes machinery and equipment used:

- primarily and directly in the manufacture of material inputs for use in the generation of electricity (or the generation of electricity and heat), or
- primarily to move material inputs in the generation of electricity (or the generation of electricity and heat).

Local governments and eligible local government corporations must meet the same qualifications as manufacturers for minimum levels of sales or manufactured costs (see the section above, Minimum Sales or Manufactured Cost).

The machinery and equipment must be used primarily and directly to generate electricity at a manufacturing site or to generate electricity and heat at a cogeneration plant (see the section above, Qualifying Machinery and Equipment. The exemption applies from the point where the raw material is received, up to the point where the finished product is first stored or is available for use.

To qualify as an eligible local government, 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 an eligible local government corporation, the organization's taxable income must be exempt from income tax under section 149(1)(d.5) or (d.6) of the *Income Tax Act* (Canada).

Claiming the PM&E Exemption

Provide the supplier with a completed *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)) when you purchase or lease:

- exempt production machinery or equipment, or
- parts, materials or taxable services for exempt machinery or equipment.

This requirement applies whether or not you have a PST registration number. There is the option of using an alternative approved certification (see below in this section).

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

If you are purchasing parts or materials for eligible machinery, include what piece of exempt equipment the part or material will be attached to. For example, on the certificate, state “filters or seals used on a circulating system” not only “filters or seals”.

When you purchase or lease a large quantity of machinery or equipment, you may attach an itemized list or a copy of the sales invoice to the completed certificate.

The invoice must clearly describe the machinery or equipment 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. However, when you are making frequent purchases or leases (rentals) 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) that you are claiming an exemption for. You can make future exempt purchases/leases of the same item(s) from that supplier based on the one certificate.

You use the *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)) only for claiming exemption on production machinery, equipment, and related parts, materials and taxable services. It does not replace the *Certificate of Exemption* form ([FIN 453](#)).

As an alternative to using the *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)), you may claim an exemption by stamping or printing a certification on the purchase order.

The purchase order must clearly indicate the purchaser/lessee's name, address, registration number where applicable, and the goods or services being acquired. Stamp or pre-print on the form a certification using the following wording:

Production Machinery and Equipment Exemption:

We certify that the goods and services purchased are eligible for exemption from social service tax under section 76(1)(k) of the *Social Service Tax Act*, and division 13 of the regulations to the Act.

You may also write to us with suggested alternative wording. We must approve the suggested wording before you use it.

Please note: Effective April 1, 2008, you may qualify for a Special Registration Number (SRN) if you regularly purchase production machinery and equipment. You use this number instead of the *Certificate of Exemption – Production Machinery and Equipment* form ([FIN 453/M](#)) to claim the PM&E exemption. For more information on the SRN, please see [Bulletin SST 010](#), *Special Registration Number*.

Other Exemptions

Materials Incorporated into a Finished Product

You do not pay PST when you purchase goods that will be processed, fabricated, or manufactured into, attached to, or incorporated into other goods for resale or lease.

To purchase the above items without paying PST, give the supplier your PST registration number. If you do not have a PST registration number and you qualify, give the supplier a completed *Certificate of Exemption* form ([FIN 453](#)).

Containers, Labels and Packing Materials

You do not pay PST on containers, labels and packing materials that are considered a part of the merchandise sold; these may be purchased without paying PST when certain conditions are met. This exemption does not apply if the containers are returnable to the seller. For more information, please see [Bulletin SST 020](#), *Containers, Labels and Packing Materials*.

For details on how to claim this exemption, see the section above, Materials Incorporated into a Finished Product.

Materials Consumed in the Production Process

You do not pay PST on specific items that are consumed or used in the manufacture, production, service or repair of tangible personal property.

The following specific materials qualify for this exemption:

- abrasive papers, emery paper or other fabric-backed abrasives suitable for use by hand or for use with hand held tools,
- dies, jigs and molds,
- grinding wheels and discs (excluding refiner plates and discs used for manufacturing pulp),
- patterns,
- polishing wheels,
- rotary steel brushes,
- sand used for sand blasting,
- steel, plastic and glass shot, and similar materials used for blasting a surface clean, and
- steel wool.

Please note: You pay PST on all other items consumed in the production process, such as grease, cleaners, oil and rags etc. For more details, see the section below, Consumables.

Catalysts and Direct Agents

Effective February 20, 2008, the exemption for catalysts and direct agents is expanded to include catalysts, direct agents and chemical substances used to produce or modify a reaction that is essential for the processing or manufacture of a product for sale or lease.

As a result of this expansion:

- the reaction produced or modified by catalysts, direct agents and chemical substances may now be physical or chemical, and
- catalysts, direct agents and chemical substances no longer need to come into direct contact with, or be temporarily incorporated into, the material being processed or manufactured.

Please note: If a catalyst or direct agent was tax-exempt prior to these changes, it remains exempt.

This means that you do not pay PST on catalysts, direct agents and chemical substances provided they:

- are used to produce or modify a physical or chemical reaction,
- are essential for the processing or manufacture of a product for sale or lease, and
- are used in the manufacture of a product, or used in a series of operations or as part of a complex process that results in a substantial change to the material being processed.

For a substance to qualify as a catalyst, the substance must remain unchanged at the end of the reaction. For a substance to qualify as a direct agent, the chemical reaction must make the substance useless for any other purpose (i.e. it reaches its point of destruction or dissipation). Chemical substances qualify for the exemption, as long as they meet the criteria listed in the paragraph above.

Please note: The following substances remain taxable:

- substances that are used **only** to transform matter from one state to another (for example, gaseous, liquid or solid state) by applying pressure or changing,
- temperature, unless the transformation is one step in, or occurs immediately after, a series of operations or a complex process,
- substances that are used primarily to maintain, lubricate or prolong the life of machinery and equipment,
- substances that are added to waste after it is removed from the production process,
- substances that are added to a tailing or settling pond,
- substances that are used for testing purposes, and
- substances that are used to produce energy, other than electricity used in an electrolytic process.

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](#).

For details on how to claim this exemption, see the section above, Materials Incorporated into a Finished Product.

Materials Used to Make Prototypes

You do not pay PST on most materials used to make qualifying prototypes. For information on what qualifies as a prototype and the criteria for this exemption, please see [Bulletin SST 109](#), *Exemption for Prototypes*.

Work-Related Safety Items

Effective February 20, 2008, all work-related safety equipment and protective clothing, designed to be worn by, or attached to, a worker, will be tax exempt if they **meet provincial work safety legislation** and are purchased by an employer, self-employed person, or school board or similar authority. The definition of work gloves has also been expanded to include all gloves with built-in safety features, such as reinforced thumbs, cuffs or palms designed to protect a worker from physical harm, including traffic safety gloves to enhance visibility.

There are also safety items that are exempt to everyone, such as gas detection monitors, portable fire extinguishers and their refills.

For more detailed information, please see the Safety Equipment and Protective Clothing Industry website at www.sbr.gov.bc.ca/industry_specific/safety/safety.htm

Taxable Goods

Unless exempt, your purchase of machinery, equipment or other goods purchased in the province are taxable. 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

When you purchase goods within British Columbia, the purchase price includes charges for transportation and installation, interest, finance, service, customs and excise. When these charges happen at, or before the time, that the title passes to the purchaser, the charges remain part of the purchase price even if the charges are listed separately on the invoice. Include fuel surcharges for delivery but do not include the GST.

When the charges occur after the purchaser receives title to the goods, the charges are not taxable, as they do not form part of the purchase price, even if the charges are listed separately on the invoice.

For information on goods purchased from out-of province, see the section below, Purchases from Out-of-Province Suppliers.

Examples of Taxable Machinery and Equipment

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

- Bases and foundations that become part of the land or buildings.
- Boats (other than boom boats), trains and non-turbine helicopters or aircraft.
- Buildings, furnishings, machinery or equipment related to the use of a building.
- Construction materials, such as lumber and steel.
- Fuel storage tanks. The degree to which a fuel storage tank is integrated with exempt equipment is a factor in determining if it may be exempt. For example, if a fuel storage tank is fully integrated with other exempt components, and serves as the direct fuel supply, the fuel tank could qualify as a component of the processing plant and would be exempt.
- General, administrative and office 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.
- Generators and alternators (portable or mobile). This includes stand-by and electric generators and alternators and drive motors for them.
- Machinery and equipment that is used to move material inputs or finished products outside the manufacturing site.
- Machinery and equipment that is not directly used in the manufacturing process, such as electrical cables not integrated into exempt PM&E.
- Machinery and equipment used to repair, maintain or service exempt PM&E.
- Machinery and equipment used in providing a service, such as laundry, dry cleaning and security alarm services.
- Machinery and equipment used in construction, such as backhoes, bulldozers, air hammers and excavators.
- Machinery and equipment used to generate heat, such as a boiler (other than when the generation of heat is an integral component of a qualifying manufacturing process).
- Scaffolding, walkways, catwalks and similar structures, unless these items are an integral part of machinery or equipment, and are sold or leased as part of machinery and equipment that is exempt.
- Storage tanks, unless they are used as the first storage area for a finished product on a manufacturing site (please see section above, Eligible Manufacturing Sites).
- Telecommunication equipment, such as satellite equipment, cell phones and radio antennas.
- Vehicles designed for public highway use, such as transport trucks.

Goods for Own Use

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

- stationery, furniture and office equipment,
- advertising materials, such as flyers and brochures,
- goods you purchase to give away as free promotions,
- computer hardware and software (unless custom software),
- services to repair your equipment, and
- cleaning cloths, paper towels and cleaning supplies.

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

If you do not have a PST registration number, you self-assess the PST due using the *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered Under the Social Service Tax Act* form ([FIN 428P](#)).

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

Consumables

Consumables are often called supplies. A good consumed or used up in the operation or maintenance of machinery or equipment is a consumable, even if it is necessary for that item's operation or maintenance.

The following are examples of taxable consumables:

- oils, lubricants, grease and hydraulic fluid,
- heating fuel,
- cleaning solutions, rags, carpenters' chalk and masking tape, and
- oxygen or acetylene gas.

Although most consumables are taxable, there are some that qualify for exemption. Two examples of exempt consumables are water, which is exempt to everyone, and catalysts or direct agents used in a production process. For more information about exemptions, see the section above, Other Exemptions.

Please note: Effective September 1, 2007, a provincial Innovative Clean Energy (ICE) Fund levy of 0.4% applies to purchases of electricity, natural gas, fuel oil and propane sold on a grid system. The levy does not apply to fuel taxed or exempted from tax under the *Motor Fuel Tax Act* (e.g. fuel used in a motor vehicle, generator or chainsaw).

The maximum levy payable by one customer over a 12-month period beginning September 1, 2007 is \$100,000. This means that you can claim a refund from the ministry for amounts you pay over the maximum.

For general information on claiming refunds, please see our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/refunds.htm

For more information on the ICE Fund levy, please see our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/ICE_Fund_Levy.htm

Tax on Coal and Coke

You pay PST on coal and coke except when purchased for use in a residential dwelling.

A transitional refund of PST paid is available in some situations where you have purchased coal or coke under a fixed-price contact for non-residential purposes. To qualify for the refund, the purchase must meet **all** of the following:

- the coal or coke was purchased under a written fixed-price contact that cannot be adjusted to account for the PST,
- the fixed-price contract was entered into prior to February 20, 2008, and
- the coal or coke is delivered before February 20, 2009.

For general information on claiming refunds, please see our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/refunds.htm

Change in Use

If you purchase an item exempt and later use that item for a taxable purpose, PST applies from the moment the use changes. You calculate and self-assess PST on the greater of the depreciated value or 50% of the original purchase price. For information on depreciation rates, please see our website at www.sbr.gov.bc.ca/individuals/Consumer_Taxes/Provincial_Sales_Tax/depreciation_rates.htm

Purchases from Out-of-Province Suppliers

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

If you do not have a PST registration number and the supplier does not charge PST at the time of the sale, you self-assess the PST due using the *Casual Remittance Return for Provincial Sales Tax (PST) Due on Taxable Tangible Personal Property by a Purchaser Not Registered under the Social Service Tax Act* form ([FIN 428P](#)). Do this at the time you bring or ship the goods into British Columbia.

For more information, please see [Bulletin SST 043](#), *Goods Purchased from Out-of-Province Suppliers*.

Services

Taxable and Non-Taxable Services

Generally, you pay PST for services you receive that are related to your goods. This includes services to install, assemble, construct, dismantle, repair, adjust, restore, recondition, refinish or maintain. As a general rule, if the good is taxable when purchased, services provided to the good are also taxable.

However, if you are eligible for the PM&E exemption, you do not pay PST on services to exempt production machinery and equipment that you purchased or leased. For details on how to claim the exemption, see the section above, *Claiming the PM&E Exemption*.

For information on taxable and non-taxable services, please see [Bulletin SST 018](#), *Taxable Services*.

Manufacturing Services

Effective February 22, 2006, businesses that use machinery and equipment to provide manufacturing services to qualifying manufacturers are eligible for the PM&E exemption.

A manufacturing service is a service provided to a qualifying manufacturer where the service provider manufactures tangible personal property, **at the service provider's site**, for the manufacturer as one step in a larger manufacturing process.

A manufacturing service also includes a service that is not manufacturing in and of itself that is provided **at the manufacturer's site** as one step in the manufacturer's manufacturing process.

To qualify as a manufacturing service:

- the service is provided to, or results in the creation of, tangible personal property that will be, or will become part of, the qualifying tangible personal property of the manufacturer,
- the machinery and equipment is used primarily and directly in providing the service,
- the service is performed at either the service provider's or the manufacturer's qualifying manufacturing site, and
- there is a reasonable expectation that the total value of sales of the services will exceed \$30,000 per year.

In the following two examples, the service providers qualify for the exemption on the qualifying machinery and equipment that they use to manufacture or service the goods for the manufacturer.

Example 1

A sawmill receives rough lumber from a qualifying manufacturer. The sawmill cuts, planes and kiln dries at the sawmill's manufacturing site as one step in the 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 manufacturing process.

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

Sales

Sales to Wholesalers and Retailers

You do not charge PST on goods sold to wholesalers or retailers if they provide their PST registration number. When you sell to wholesalers and retailers, you record their PST registration number on each invoice and keep it in your records to show why you did not charge PST.

If the wholesaler or retailer does not have a PST registration number, they may claim an exemption by completing a *Certificate of Exemption* form ([FIN 453](#)). You must keep a copy of the completed certificate in your records to show why you did not charge PST.

Sales to Out-of-Province Customers

If you sell to out-of-province customers and ship the goods to an out-of-province location, you do not charge PST. To show why you did not charge PST, your records must show that the goods were shipped out of the province. For more information, please see [Bulletin SST 030, Purchases by Non-Residents of British Columbia](#).



Need more info?

Manufacturers website: www.sbr.gov.bc.ca/industry_specific/manufacturers/manufacturers.htm

Telephone (Vancouver): 604 660-4524

Toll free in Canada: 1 877 388-4440

E-mail: CTBTaxQuestions@gov.bc.ca

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/legislation.htm

Acknowledgments

We wish to acknowledge and thank the *Canadian Manufacturers & Exporters* for consulting with us on public information for the manufacturing industry. By working with us, they help us better serve their members and work towards making British Columbia the best place to do business.

References: *Social Service Tax Act*, Sections 1, 9, 11, 19, 68.01, 70(b), 71(k), 76(1)(b) to (c.1), 76(1)(d), 76(1)(h), 76(1)(k), 76(2), 76(5) to 76(7) and 77(c), and Regulations 2.10, 2.38, 2.54, 3.26, 3.28(3), 3.38, 13.1, 13.2, 13.2.1, 13.7 to 13.11, 13.13, 13.14, 17.1, 17.2 and 17.3; *Budget Measures Implementation Act*, 2009