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Provincial Sales Tax Transitional Rules Highlights

The following is an overview of the general transitional rules related to the elimination of the provincial sales tax (PST). The PST is eliminated to coincide with the implementation of the harmonized sales tax (HST). The PST transitional rules are provided to avoid the imposition of PST on payments for goods and services on which the HST applies.

Taken together, the HST and PST transitional rules are complementary and are intended to provide for a smooth transition to the HST.

The following information provides the circumstances in which the PST is payable during the transition period. It does not include comprehensive information on the specific tax application. To fully understand the application of the transitional rules, it is important to understand the general application of the PST. Information on the general application of tax can be found at www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/pst.htm

Tangible Personal Property (Goods)

Sales of Tangible Personal Property (TPP) - General

The following transitional rules apply to sales of most TPP.

- ▶ When the TPP is delivered or ownership is transferred to the purchaser before July 1, 2010, PST applies to the full purchase price.
- ▶ When the TPP is delivered and ownership is transferred to the purchaser on or after July 1, 2010, PST applies to any amount of the purchase price that becomes due, or is paid without having become due, before May 1, 2010.

Effective July 1, 2010, a transitional refund of the PST paid on TPP after October 14, 2009 and before May 2010, is available to certain purchasers in specific circumstances.

Different rules apply to sales of specific TPP, such as subscriptions to periodicals, sales of software and software licenses, and sales of propane. Information related to these types of TPP can be found at www.sbr.gov.bc.ca/business/Consumer_Taxes/Harmonized_Sales_Tax/hst.html

Tangible Personal Property Brought into BC

Effective July 1, 2010, TPP brought into BC will not be subject to PST. However, the provincial component of the HST may apply to the TPP or, in the case of certain vehicles, boats and aircraft which are not subject to HST, the provincial tax on vehicles, boats and aircraft may apply.

Leases of Tangible Personal Property

The following transitional rules apply to leases of tangible personal property (TPP).

- ▶ When the lease interval (rental period) begins before July 1, 2010 and ends before July 31, 2010, PST applies to the full lease price for the rental period.

- ▶ When the rental period begins on or after July 1, 2010, PST applies to any amount of the lease price that becomes due, or is paid without becoming due, before May 1, 2010.
- ▶ When the rental period begins before July 1, 2010 and ends on or after July 31, 2010:
 - PST applies to any amount of the lease price that becomes due, or is paid without having become due, before May 1, 2010, and
 - When an amount of a lease price becomes due, or is paid without having become due, on or after May 1, 2010, PST applies to the part of that amount that is attributable to the rental period that occurs before July 1, 2010.

Effective July 1, 2010, a transitional refund of the PST paid on a lease of TPP after October 14, 2009 and before May 2010, is available to certain purchasers in specific circumstances.

Taxable Services, Legal Services and Telecommunication Services

The following transitional rules apply to the purchase of taxable services, legal services and telecommunication services.

- ▶ When 90% or more of the service is performed before July 1, 2010, PST applies to the full purchase price of the service.
- ▶ When less than 90% of the service is performed before July 1, 2010:
 - PST applies to any amount of the purchase price that becomes due, or is paid without having become due, before May 2010, and
 - When an amount of the purchase price becomes due, or is paid without having become due, on or after May 1, 2010, PST applies to the part of that amount that relates to the portion of the service that is performed before July 2010.

Effective July 1, 2010, a transitional refund of the PST paid on services after October 14, 2009 and before May 2010, is available to certain purchasers in specific circumstances.

Timing of Payments

The transitional rules generally operate on the basis of the earlier of when consideration, purchase price or lease price for tangible personal property, a taxable service, legal services, or a telecommunication service becomes due or is paid without having become due. The consideration, purchase price or lease price for tangible personal property, or a service service, other than where these are supplied by way of lease, license or similar arrangement under a written agreement, becomes due on the earliest of:

- the day the supplier first issues an invoice in respect of the supply;
- the date of the invoice;
- the day the supplier would have, but for undue delay, issued an invoice in respect of the supply; and

- the day the recipient of the property or service is required to pay the consideration pursuant to a written agreement.

Where tangible personal property or a service is supplied by way of lease, license or similar arrangement under a written agreement, the consideration, purchase price or lease price becomes due on the day the purchaser or lessee is required to pay that consideration, purchase price or lease price under the written agreement.

Deposits

Please note that deposits, including refundable and non-refundable deposits, are not considered part of the purchase price of TPP or services or part of the lease price of TPP unless and until the vendor applies the deposit against the purchase or the lease.

Exemptions

If PST is payable under the transitional rules, any applicable exemptions under the *Social Service Tax Act* will continue to provide relief from the PST payable.

Refunds

Refund provisions under the *Social Service Tax Act* will generally remain in effect and will allow refunds of PST to be claimed up to four years following the payment of the PST.

In limited circumstances, such as the transitional refunds for eligible business purchases, claims for refunds must be made earlier than four years following the payment of the PST.

Transitional Refund for Eligible Business Purchases

Effective July 1, 2010, a refund is provided for PST paid by a HST registrant after October 14, 2009 and before May 2010, for goods or services that are delivered or performed on or after July 1, 2010, and are for use exclusively in the course of the registrant's commercial activities as defined for purposes of the *Excise Tax Act* (Canada).

Under the *General Transitional Rules for British Columbia HST* (available at www.sbr.gov.bc.ca/business/Consumer_Taxes/Harmonized_Sales_Tax/notices.htm), these transactions are not subject to the HST even though the goods and services are delivered or performed on or after July 1, 2010 and, therefore, purchasers are not eligible for input tax credits.

The refund of PST is provided to ensure that tax is not payable by businesses that would have been eligible for input tax credits under HST had the timing of payment for these goods and services been on or after May 1, 2010.

In addition, effective July 1, 2010, a refund is provided for PST paid on goods and services after October 14, 2009 and before May 2010, by certain businesses and selected listed financial institutions which, under the *General Transitional Rules for British Columbia HST*, are required to self-assess HST on those purchases under Part IX of the *Excise Tax Act* (Canada).

Final PST Returns

Final PST returns for taxes and levies under the *Social Service Tax Act* collected before July 1, 2010 are required to be filed with the BC Ministry of Finance on or before July 23, 2010.

This applies regardless of a person's remittance frequency. Where an amount is collected or becomes payable as, or on account of, PST after June 2010, the vendor is required to account for that amount in a supplemental PST return to be filed on or before the 23rd day of the following month. Supplemental returns will be required to be filed no later than January 23, 2011. In limited circumstances, an extension may be provided.

Commissions

Vendors will be eligible for a commission on their final PST returns and on any supplemental returns filed on or before January 23, 2011. A commission will not be available where an extension has been provided.

Returns and Exchanges

The following rules apply where a person purchases tangible personal property (TPP) before July 2010 that is subject to PST, but returns it on or after July 1, 2010 and before November 2010.

- ▶ If the property is returned for a refund, the PST attributable to the amount of the refund will be provided by the vendor.
- ▶ If an exchange is made resulting in neither a refund, nor an additional payment, there would be no PST refund.

- ▶ If an exchange is made resulting in an additional payment, no PST would apply but the HST may apply to the additional payment.

For returns of TPP made on or after November 1, 2010, purchasers are required to apply directly to the Ministry of Finance for any refund of PST.

If the PST did not apply to TPP that was purchased before July 1, 2010, and an exchange is made on or after July 1, 2010, the B.C. component of the HST would apply to the full consideration for the replacement TPP.

Additional Information

For additional information on the PST transitional rules and the provincial hotel room tax transitional rules, please see www.sbr.gov.bc.ca/business/Consumer_Taxes/Harmonized_Sales_Tax/pst_transitional_rules.htm and www.sbr.gov.bc.ca/business/Consumer_Taxes/Harmonized_Sales_Tax/hrt_transitional_rules.htm

For questions about the PST or hotel room tax including the transitional rules, please contact the Ministry of Finance at **604 660-4524** in Vancouver, or toll-free at **1 877 388-4440**, or e-mail your questions to CTBTaxQuestions@gov.bc.ca



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