Ministry of Finance

British Columbia
The Best Place on Earth

www.gov.bc.ca/sbr

Subscribe

Bulletin SST 082

ISSUED: March 1987 REVISED: September 2009

Rentals and Leases of Tangible Personal Property

Social Service Tax Act

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

For information on motor vehicle leases in British Columbia, please see **Bulletin SST 103**, *Lessors of Motor Vehicles and Trailers*.

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

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

Definitions

Lease

An agreement under which a person is given a right to use tangible personal property.

Lease Price

Includes the total consideration paid for each lease period as well as any cash down payments, licence fees, royalty fees, fees for a right to use property (e.g. exhibit a motion picture), fees based on a measure of use, finance charges, any payment such as membership fees where a substantial benefit is the reduction of the lease price, or any other consideration paid by the lessee in order to obtain the right to use the leased item. Please note, a lessee may **not** use a trade-in to reduce the taxable lease price.

Registration Requirements for Lessors

Lessors under the *Social Service Tax Act*

Persons who act as lessors of taxable tangible personal property are required to be registered under the *Social Service Tax Act* and to collect and remit PST due on the lease price of each lease. PST must be collected on each lease payment at the time the lease payment is paid or payable, whichever is earlier.

If you are not registered, you can register online on our website at
www.sbr.gov.bc.ca/business/Consumer_Taxes/Provincial_Sales_Tax/forms.htm
Applications may also be obtained from the ministry or from any Service BC Centre.

Application of PST to Rentals and Leases

PST applies to **all** leases of tangible personal property regardless of the period of the lease (e.g. hourly, daily, weekly, monthly), unless the item leased is specifically exempt under the *Social Service Tax Act*.

Examples of Taxable Rentals and Leases

Rentals and leases of the following types of items are taxable. Please note, this is not an all-inclusive list.

- Video tapes, compact discs, VHS recorders, and TV sets.
- Camera equipment, display lighting, and sound equipment.
- Tuxedos, formal wear, costumes (exempt when rented for children under 15 years of age).

- Industrial gas cylinders.
- Boats and non-turbine aircraft (when not rented or leased as part of a flying or sailing course).
- Uniforms, towels, and linens.
- Furniture, decorations, glasses, and cutlery when itemized separately by caterers.
- Amounts paid by an exhibitor for the right to exhibit a motion picture to others.
- Sports clothing and equipment (e.g. golf carts, golf clubs, ski boots, ski equipment, bowling balls, bowling shoes).
- Office equipment and furniture.
- Computers and business machines.
- Construction equipment and tools.

Examples of Exempt Rentals and Leases

The following are not considered leases of tangible personal property and the charge for use is not taxable. This is not an all-inclusive list.

- Fees to use equipment and play games or sports (e.g. coin-operated video game machines, pitching machines for baseball or tennis).
- Fees for instruction or lessons where the single fee also includes the use of equipment.
- Fees for the use of facilities under supervision (e.g. swimming pools).
- Coin-operated services where no property is purchased (e.g. laundromats).
- Charges for garbage removal when the container is supplied by the servicing company.
- Charges for movies in hotels or motels unless a video cassette is provided to the guest.
- Charges for use of equipment, where the owner of the equipment operates it or provides a person to operate it (if you are a lessor, see the section below, PST Payable by the Lessor).

Option to Purchase

When a lessee exercises an option-to-purchase provision contained in a lease agreement, the purchase is considered to be a separate transaction. PST must be charged on the amount paid by the lessee to obtain title to the leased item.

Repair Fees

A lessee may pay a repair fee or loss of use fee if they damage rental property. The repair fee is intended to reimburse the lessor for the cost of repairing damaged rental property. The loss of use fee is intended to compensate the lessor for the rental revenue that is lost while property is being repaired.

If the lessee pays either of these fees because of a contractual obligation to reimburse the lessor for damage to rental property, or for lost revenue while the rental property is being repaired, the lessor does not charge PST on the fee. This is because the lessee is not purchasing a repair service or paying for the right to use the property. The lessee is only reimbursing the lessor for the repair expense or lost revenue.

The lessor also does not charge PST on any administration fees solely related to the repair fee or loss of use fee.

Leased Equipment Brought into the Province by the Lessee

Where equipment is leased from an out-of-province lessor who is not registered as a lessor in British Columbia, the lessee is required to self-assess and remit the PST due on all lease payments to the ministry.

If the out-of-province lessor is registered as a lessor in British Columbia, the lessee is required to pay the PST to the lessor. The lessor is responsible for reporting and remitting the PST to the ministry.

Motor Vehicles Rented or Leased from Out-of-Province Lessors

When a lessee brings a vehicle into British Columbia that has been leased for a period of more than 28 days from an out-of-province lessor, and registers it in their name or in their name and the lessor's name, PST applies as follows.

- **Long-term Leases From Lessors Who Collect PST on Lease Payments:** If the lessor is registered to collect PST and has confirmed in writing, either in the lease or by letter, that they will collect and remit the required tax, the lessee may register the vehicle without paying PST. The lessee's autoplan agent will ask to see the written confirmation.
- **Long-term Leases From Lessors Who Do Not Collect PST on Lease Payments:** If the lessor is not registered to collect PST or, if registered, has not confirmed in writing that they will collect the required tax, the lessee will be required to pay PST on the value of the vehicle at the time of registration. The lessee's autoplan agent will collect the PST when the vehicle is registered.

The value of the vehicle is the price at which the legal and beneficial interest in the vehicle would be conveyed by a willing seller acting in good faith to a willing buyer acting in good faith in an arm's length retail sale in the open market on the day in which the lessee registers the vehicle in British Columbia.

Upon expiration or termination of the lease, or removal of the vehicle for registration out-of-province, the lessee may claim a refund of the difference between the PST paid on the vehicle when it was registered and the PST that would otherwise have been payable on the lease payments while the vehicle was used in the province.

For information on claiming a refund, please see **Bulletin GEN 008**, *Refunds of Overpayments of Tax*.

Leases of Multi-Jurisdictional Vehicles

For information on the application of PST to leased vehicles licensed for inter-provincial or international trade for the commercial carriage of passengers or goods, please see **Bulletin SST 073**, *Multi-Jurisdictional Vehicles*.

Property Financed Through a Sale/Leaseback Arrangement

Where a person purchases tangible personal property and sells it to a leasing company for immediate leaseback, PST does not apply to the lease payments provided that one of the following conditions is met.

- The lessee paid the applicable PST on the initial purchase of the item.
- The initial purchase of the item by the lessee qualified for exemption under the Act.
- The lessee paid the reduced PST payable on conveyances used in inter-provincial commercial trade (other than multi-jurisdictional vehicles) and the percentage of use in the province during the lease periods is not greater than that on which PST was paid.

If the use of the conveyance in the province is greater than that on which PST was initially paid, PST is payable on the percentage of increased use.

The lessee must provide the lessor with documented proof of payment of the PST or qualification for exemption at the time of purchase.

Taxable Services

Definition

A taxable service is any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish, or maintain tangible personal property. PST applies to purchases of these services.

Exemption

Persons who are registered vendors or lessors under the Act are not required to pay PST on purchases of taxable services applied to goods that will be leased. For example, a registered lessor is not required to pay PST on charges for repairs to equipment held in its dealer's lease inventory. To substantiate non-collection of PST on such sales, the person providing the taxable service must record the customer's vendor registration number on the sales invoice.

Installation and Delivery Charges

Installation of tangible personal property is a taxable service, therefore installation charges are taxable.

Where delivery or removal by the lessor is a mandatory condition of the lease agreement, PST applies to charges for such services. Optional delivery charges are exempt from PST if delivery takes place after the lease term has expired and if the delivery charges are separately stated on the lease billing. Charges for delivery that occur during the term of the lease are part of the lease price and are taxable, even if the delivery charges are optional and the charges are separately stated on the invoice.

Service Contracts

Mandatory Service Contracts

Where a service contract is a mandatory condition of the lease, charges to the lessee for the service contract are considered to be part of the lease price and are taxable. The lessor must collect PST on all such charges. This includes warranties that are included in the lease price of tangible personal property, such as a three-year warranty on the leased equipment. However, the lessor may acquire parts used to fulfil the service contract without paying PST.

Optional Service Contracts that Include Scheduled Maintenance

Optional service contracts that provide scheduled maintenance are taxable. This includes contracts where the schedule depends on the ongoing condition of the equipment, or that provide for a specific or limited number of services (e.g. up to three service calls, two tune-ups etc.). These contracts are considered to be a prepayment for taxable services. Persons providing taxable optional coverage are not required to pay PST on their costs for any parts or taxable services provided under the terms of the agreement.

Optional Service Contracts Without Scheduled Maintenance
PST does not apply to optional service contracts that do not include scheduled maintenance, and where services are provided only when required, such as equipment malfunctions.

Some companies have an unwritten policy of providing unsolicited maintenance at their own expense. Since this service is not scheduled, and is provided at the discretion of the servicing company, such contracts are not taxable.

Sellers providing exempt optional coverage are required to pay PST on their costs for any parts and any taxable services provided under the terms of such agreements. If the seller provides the taxable services, PST applies to the materials and services consumed in providing the service. If a third party provides the taxable services, PST applies to the charge to the business providing the coverage.

For more information on service contracts, please see **Bulletin SST 110**, *Warranties, Service Contracts and Maintenance Agreements.* For more information on taxable services, please see **Bulletin SST 018**, *Taxable Services.*

Environmental Levy

A $5 provincial environmental levy applies to each new lead-acid battery weighing 2 kg or more purchased in the province. The levy does not apply to batteries purchased for the purpose of powering electric wheelchairs or three-wheeled motorized scooters designed for the transportation of disabled persons, or to rebuilt, reconditioned, or used lead-acid batteries. Lead-acid batteries are considered new up to the time of the first retail sale subsequent to their manufacture.

Lessors Must Pay the Levy

Motor vehicle dealers are required to self-assess the levy on motor vehicles they lease as lessors. Where lessors wish to recover the cost of the levy, lease contracts must clearly indicate that the lessee is liable for the levy, but must not indicate a separate charge for the levy. The charge is rolled into the total taxable lease price.

For more information on the environmental levy, please see **Bulletin SST 015**, *Environmental Levy on Batteries.*

PST Payable by the Lessor

Exempt Purchases of Lease Equipment

Lessors may purchase equipment PST exempt by providing their PST registration number to their supplier if:

- the lease equipment will be used solely for lease or rental without an operator (i.e. a bare lease), or
- the lease equipment will be used only for bare leases and occasional leases with an operator, **and** the lease equipment remains part of the lessor's regular lease inventory in their accounting records.

Taxable Purchases of Lease Equipment

Lessors pay PST on equipment at the time of purchase if:

- the equipment will be used primarily under agreements to supply an operator with the equipment, (i.e. lease with operator), or
- the lease equipment will be used for both bare leases and frequent leases with an operator.

Occasional Leases with Operator

Lessors may occasionally use equipment from their lease inventory under an agreement with a customer to supply an operator with the equipment if:

- the equipment remains part of the lessor's regular lease inventory in their accounting records, **and**
- the lessor pays PST on the lessor's normal lease price of the equipment without an operator.

The normal lease price is the price usually charged for the bare lease of the equipment.

Please note: If you originally purchased equipment for lease, but have since fully paid PST on the equipment (i.e. because it was converted to taxable use), you may use the equipment for lease with an operator without paying PST on the normal lease price of the equipment. However, for bare leases, you are still required to collect tax from your customer on the bare lease price.

Equipment Converted to Taxable Use

Lessors must calculate the PST due on lease equipment originally purchased exempt and pay the PST to the ministry under the following conditions.

Lessors are required to pay tax on equipment originally purchased solely for lease, or purchased for both lease and occasional lease with an operator, if the equipment is converted to a business use. Conversion to business use includes situations where:

- the equipment becomes used primarily by the lessor or the lessor's employees, or
- the equipment is transferred from the lease inventory in the accounting records of the business.

The lessor pays PST on the greater of the depreciated value of the equipment or 50% of the original purchase price at the tax rate in effect at the time the equipment is converted to a taxable use. See the section below, Examples of Calculating the Tax Due.

The following rates of depreciation apply to items transferred from an exempt use to a taxable use.

Type of Asset	**Rate per Annum**	**Rate per Month**
All vehicles, including motor vehicles, trailers and earth/moving construction unit *	30%	2.5%
Aircraft	25%	2.0833%
Equipment, furnishings and fixtures, including drilling rigs, cranes etc.	20%	1.667%
Railing rolling stock *	10%	0.8333%
Vessels	15%	1.25%

* Large industrial equipment mounted on motor vehicles or railway rolling stock must be depreciated separately from the vehicles or rolling stock.

Examples of Use

Following are examples of occasional use, frequent use and conversion to taxable use.

Occasional Use

A lessor normally leases lighting and sound equipment out of its regular lease inventory for $8,000 a day. The lessor's customers pay PST on the $8,000 a day charge.

On occasion, the lessor also supplies an operator with the equipment and charges $10,000 a day. In this case, the customer does not pay PST; however, the lessor pays PST on the normal $8,000 a day lease price.

Frequent Use

A lessor normally leases its recording studio equipment with an operator for $2,500 a day. The lessor paid PST on the original purchase price of the lease equipment. The lessor's customers do not pay PST on the $2,500 charge, and because the equipment is already tax paid, the lessor does not pay any further PST. The lessor also occasionally leases only the recording studio equipment to its customers for $2,000 a day. The lessor's customers pay PST on the $2,000 charge.

Conversion to Taxable Use

A lessor purchased one backhoe exempt of PST for bare lease purposes and a second backhoe on which PST was paid for leases with an operator. After a period of time, the lessor finds that it uses both backhoes most of the time for leases with an operator. The lessor must pay PST on the depreciated value of the first backhoe or 50% of its original purchase price, whichever is greater.

Examples of Calculating the Tax Due

Following are examples for calculating the PST due on equipment originally purchased exempt for leasing purposes and subsequently transferred to frequent lease with an operator or use by the lessor. Please note that the tax rate was 7.5% between February 20, 2002 and October 21, 2004. Prior to February 20, 2002, the tax rate was 7%.

Example 1

Single seat aircraft purchased January 1, 1999 for $100,000
Transferred to lessor's personal use December 31, 1999
Depreciated value = $75,000 [$100,000 — ($100,000 x 0.25 x 1) = $75,000]
PST is due on the depreciated value ($75,000) because it is greater than 50% of the purchase price ($50,000)
Tax rate in effect at time of conversion (December 31, 1999) = 7%
PST due: $75,000 x 0.07 = **$5,250**

Example 2

Earth moving equipment purchased April 1, 1999 for $300,000
Transferred to company use March 31, 2002
Depreciated value = $30,000 [$300,000 — ($300,000 x 0.30 x 3) = $30,000]
PST is due on 50% of the purchase price ($150,000) because it is greater than the depreciated value ($30,000)
Tax rate in effect at time of conversion (March 31, 2002) = 7.5%
PST due: $150,000 x 0.075 = **$11,250**

Example 3
Backhoe purchased exempt March 1, 2005 for $25,000
Transferred to frequent lease with operator February 28, 2007
Depreciated value = $10,000 [$25,000 — ($25,000 x 0.30 x 2) = $10,000]
PST is due on 50% of the purchase price ($12,500) because it is greater than the depreciated value ($10,000)
Tax rate in effect at time of conversion (February 28, 2007) = 7%
PST due: $12,500 x 0.07 = **$875**

Purchases of Repair Parts

Lessors may purchase repair parts to maintain their exempt lease stock without paying PST by quoting their PST registration number to their supplier. However, lessors must pay PST on repair parts purchased to maintain taxable lease stock. Lessors must pay the environmental levy on all new lead-acid batteries purchased for use with their lease stock.

Disposal of Goods Acquired for Lease

Remitting the PST

When a lessor sells goods that were originally acquired for lease, the lessor is required to collect PST from the customer on the sale price and remit the PST to the ministry.

Tangible Personal Property that Becomes Real Property

Effective September 2, 2009, there are specific rules for leased tangible personal property that becomes part of real property.

For information on what is considered to be real property, please see **Bulletin SST 072**, *Real Property Contractors*.

On, or After, September 1, 2009

If on, or after, September 1, 2009, leased tangible personal property is used so that it becomes part of real property during the term of the lease, the tangible personal property is considered to have been sold at a retail sale immediately before it becomes part of real property. The lessee is the purchaser and the lessor is the seller.

The purchase is considered to be a separate transaction from the lease. The lessee is required to pay PST on the fair market value of the tangible personal property as of the date of the sale. This is in addition to any PST paid, or payable, on the lease price for the tangible personal property.

The purchaser (lessee) cannot claim a PST exemption on the basis that the tangible personal property was purchased for resale or re-lease to another person.

Before September 1, 2009

If before September 1, 2009, leased tangible personal property was used so that it became part of real property during the term of the lease, and the lessee continued to pay PST on the lease price as if the property was tangible personal property, the leased property is considered to have been taxable as tangible personal property until September 1, 2009.

There is no obligation for the lessee to continue to pay PST on the lease price after September 1, 2009; however, refunds of PST paid, or payable, on, or before, September 1, 2009, are **not** available to the lessee.

If before September 1, 2009, leased tangible personal property was used so that it became part of real property during the term of the lease, and the lessee did not continue to pay PST on the lease price after the tangible personal property became real property, then no further PST is payable.

Need more info?

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**

References: *Budget Measures Implementation Act (2)*, 2009; *Social Service Tax Act*, Sections 1, 5, 6(1), 6(3), 9(1.1), 19-25, 40, 42(2), (44), 66, 67, 77(e), 78(1), 79(2), 92, 93(1), 93(4), 96(1), 96(2), 96(4), 100 and 101, and Regulations 2.38, 2.45, 2.46 and 2.47