

## Purchases of Designated Property by a New Corporation

### *Consumption Tax Rebate and Transition Act*

Are you starting a new corporation?

Are you purchasing a vehicle, boat or aircraft at a private sale, or bringing these items into British Columbia?

This bulletin explains how vehicles, boats and aircraft purchased by a new corporation may be exempt from the tax on designated property.

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### Overview

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Effective July 1, 2010, vehicles, boats and aircraft purchased in British Columbia at a private sale are subject to a 12% tax on designated property. Tax on designated property also applies to specified motor vehicles purchased at a private sale in another province and then brought into British Columbia.

New corporations may be eligible for an exemption of tax on the purchase of designated property if certain conditions are met.

## **Definitions**

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**Wholly owns and controls** means a person who owns at least 95% of the outstanding shares of each class of share of the corporation.

**Boat** includes watercraft, regardless of the method of propulsion or lack of method of propulsion, but does not include a floating home, or other floating structure or device that is used principally for purposes other than transportation, deemed to be included in the definition of improvements in the *Assessment Act*.

**Designated property** means a vehicle, boat or aircraft.

**Private sale** means a sale by a seller who is not a goods and services tax (GST)/harmonized sales tax (HST) registrant.

**Vehicle** means a device in, on, or by which a person or thing is, or may be, transported or drawn on land, but does not include a device designed to be moved by human power, a device used exclusively on stationary rails or tracks, a motor-assisted cycle, as defined in the *Motor Vehicle Act*, or a mobility aid as defined in the *Motor Vehicle Act* regulations.

**Specified motor vehicle** generally includes all motor vehicles, but does not include racing cars and non-motorized vehicles, such as horse-drawn carriages.

## **When a New Corporation is Exempt**

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### **New Corporation Wholly Owned and Controlled by the Seller**

If a new corporation purchases designated property from a person (seller) who wholly owns and controls the new corporation, the new corporation may be eligible for exemption. To be eligible, the following conditions must be met.

- The designated property is purchased on, or before, the day the new corporation begins to carry on business.
- The new corporation is an HST registrant at the time the designated property is purchased.
- The designated property is used for commercial activity by the new corporation.
- The seller paid or was exempt from the tax on designated property, HST or social service tax.

- The seller continues to wholly own and control the corporation for at least eight months after the purchase date of the designated property.

A seller continues to wholly own and control a corporation despite transferring, without consideration, shares in the corporation to a trustee of a trust, whose only beneficiaries are one or more of the following:

- the seller,
- the seller's spouse, or
- the seller's child.

A seller also continues to wholly own and control a corporation despite transferring, with or without consideration, shares in the corporation to a trustee of a trust, whose only beneficiaries are the seller's spouse, or the seller and the seller's spouse.

### **New Corporation Not Wholly Owned and Controlled by the Seller**

If a new corporation purchases designated property from a person (seller) who does not wholly own and control the corporation, the new corporation may be eligible for an exemption. To be eligible, the following conditions must be met.

- The designated property is purchased on, or before, the day the new corporation begins to carry on business.
- The new corporation is an HST registrant at the time the designated property is purchased.
- The designated property is used for commercial activity by the new corporation.
- The seller paid or was exempt from the tax on designated property, HST or social service tax.
- The consideration for the purchase of the designated property by the new corporation is the concurrent issue or transfer of the corporation's own shares to the seller.
- The seller continues to be the beneficial and legal owner of the shares for at least eight months after the date the shares are issued or transferred to the seller.

If the actual value of the shares issued or transferred, in consideration for the purchase of the designated property, is at least equal to the actual value of the designated property, the entire purchase price is exempt from the tax on designated property.

If the actual value of the shares is less than the actual value of the designated property, the difference between the actual value of the designated property and the actual value of the shares issued or transferred is subject to the tax on designated property.

## Recording Purchases of Designated Property

Purchases of designated property qualify for exemption if the accounting entries are recorded in the corporation's books of account **after** the corporation has begun its intended business, provided that the effective date of purchase is no later than the date the corporation began to carry on business.

## When a New Corporation is Not Exempt

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A new corporation is not eligible for exemption from the tax on designated property if the seller:

- was exempt from the tax on designated property or social service tax because the seller:
  - purchased the designated property for resale, or
  - qualified for exemption by reason of the seller's use of the designated property and the new corporation is not entitled to a similar exemption, or
- was exempt from HST on the designated property because the seller qualified for exemption by reason of the seller's use of the designated property and the new corporation is not entitled to a similar exemption.

For information on how to pay tax on designated property, please see [Bulletin CTR 001](#), *Tax on Designated Property (Vehicles, Boats and Aircraft)*.

### Need more info?

Toll free in Canada: 1 877 388-4440

E-mail: [CTBTaxQuestions@gov.bc.ca](mailto:CTBTaxQuestions@gov.bc.ca)

For information regarding the provincial or federal components of the HST, please contact the Canada Revenue Agency at 1 800 959-5525.

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Consumption Tax Rebate and Transition Act* and Regulations are available on our website at [www.sbr.gov.bc.ca/business/Consumer\\_Taxes/Designated\\_Property/designated\\_property.htm](http://www.sbr.gov.bc.ca/business/Consumer_Taxes/Designated_Property/designated_property.htm)