

PST-12

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THE PROVINCIAL SALES TAX ACT

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READER SURVEY

INFORMATION FOR BUSINESSES PROVIDING SERVICES TO REAL PROPERTY

This bulletin has been prepared to help you apply and collect the Provincial Sales Tax (PST). It is a general guide and not a substitute for the legislation.

The changes to this bulletin are indicated by a (I) in the left margin.

The contents of this bulletin are presented under the following sections:

- A. Registration and Reporting Requirements
- B. Services to Real Property
- C. Subcontractors
- D. Builders of Residential or Commercial Premises
- E. Definition of Real Property
- F. Contractors Who Make Retail Sales
- G. Supply and Install Contracts on Indian Reserves
- H. Bonding and Clearance Process
- I. Casual Rentals
- J. Sales of Used Business Assets
- K. Goods and Services for Your Own Use
- L. Saskatchewan Electronic Tax Service (SETS)

A. REGISTRATION AND REPORTING REQUIREMENTS

Effective April 1, 2017, a business providing services to real property are required to be registered with the Revenue Division as a Licensed Vendor for the purpose of collecting and remitting PST on their sales of taxable services and to report any tax payable on equipment, supplies and taxable services purchased for their own consumption or use.

Prior to April 1, 2017, contractors were issued Registered Consumer numbers. PST account numbers will no longer identify businesses as vendors or consumers therefore contractors with a Registered Consumer number will retain and use their existing number when reporting as a Licensed Vendor. Contractors not previously registered for PST are required to become licensed by completing and submitting the application form found at the following link:

<http://finance.gov.sk.ca/forms/FI-1213ApplicationforVendorsLicence-ConsumerRegistration.pdf>

Please see Information Bulletin PST-5, *General Information* for information regarding vendor responsibilities and tax return filing.

B. SERVICES TO REAL PROPERTY

Effective April 1, 2017, PST applies to services to real property. Taxable services include construction, alteration, repair, erection, remodeling, improvement, or any other service in relation to real property or a building or other structure on real property, whereby the value or use of the real property is improved. Some maintenance services such as snow clearing and lawn care remain exempt from PST.

The primary changes effective April 1, 2017, regarding the application of PST to real property services are as follows:

- Contractors performing services to real property are now licensed as vendors rather than consumers.
- Contractors are required to collect PST on the total charge to construct, alter, repair, erect, remodel or improve real property. Effective April 1, 2017, these charges, which were previously exempt from PST, become taxable and PST must be shown as a separate line item on the invoice to the customer.
- Contractors will purchase materials exempt from PST and collect the tax from their customer on the total contract, rather than paying PST on the purchase cost of the materials.
- Contractors building residential or commercial premises for resale must collect PST on the retail selling price of the premises, excluding the value of the land.

A contractor engaged in services to real property is required to collect PST on the total charge to the customer for the services, including all charges for labour, materials, transportation, insurance, service fees, overhead expenses and any tax, levy or duty, other than the GST. PST must be shown as a separate line item on the invoice to the customer.

Contractors acquiring materials that are resold as part of their contract may purchase these items exempt from PST by quoting their vendor's licence number to their suppliers. Suppliers are required to verify the number quoted by their customer is an active vendor's licence number by accessing the PST On-Line Registry at <http://www.skpstregistry.gov.sk.ca/> and if valid, record the vendor's number on the invoice at the time of sale when selling PST exempt.

Contractors may claim a credit for any tax that has been paid on materials sold or incorporated into a real property contract where PST is collected. Credits claimed will be subject to audit verification and can be used to reduce the tax reported and remitted.

When materials are taken from an exempt resale inventory for the contractor's own personal or business use, the PST must be self-assessed on the cost of the materials and remitted directly to the Ministry of Finance using the regular PST return form. PST continues to apply to new and used equipment, supplies and taxable services purchased for use in the contractor's business operations.

C. SUBCONTRACTORS

Subcontractors are not required to collect PST on services provided to a contractor who is licensed as a vendor and indicates they are acquiring the subcontractor's service for resale, since the contractor will collect PST on the total charge to their customer. To purchase the services of the subcontractor without paying the PST, the contractor must quote their vendor's licence number to the subcontractor and the number must be recorded on the invoice.

D. BUILDERS OF RESIDENTIAL OR COMMERCIAL PREMISES

Contractors building residential or commercial premises for resale are required to collect PST on the retail selling price of the premises, excluding the value of the land.

In these instances, the contractor is not considered the consumer or user in the building of the premises, providing:

- (a) The premises are sold to the customer at fair market value;
- (b) The builder includes in the sale to the customer all materials and services to real property acquired and provided by the builder that form part of the value of the premises sold to the customer; and,
- (c) The premises remains in the builder's salable inventory and use of the premises does not change. (i.e. the premises remains for sale by the builder and is not used, rented, or otherwise occupied.)

E. DEFINITION OF REAL PROPERTY

Real property includes land or buildings or property that is permanently attached to land or buildings. In general, goods become real property upon installation when affixed or attached to the land or building in a permanent manner (i.e. sunk into, cemented into, bolted to, built or framed into, plumbed or wired into, or otherwise secured), thereby becoming an integral component of the property. The goods become a permanent and substantial improvement to the real property, being attached to the building such that they add value and cannot be easily removed.

Examples of items that become real property when installed in a building or attached to land include windows, doors, light fixtures, furnaces, central air conditioners, railings, underground sprinklers, fences and plumbing materials.

In addition, items that are so large and heavy they cannot be moved may also be considered real property, even if they are not otherwise affixed to the land or a building. For example, most production machinery and equipment is considered to become real property after being permanently installed and becoming an integral component of a processing activity, regardless of being attached or affixed to the land or building.

F. CONTRACTORS WHO MAKE RETAIL SALES

A contractor who makes supply only sales must collect tax from the customer on the retail selling price of the items sold and show PST collected on the customer's invoice. The contractor may purchase the materials exempt from PST by quoting their vendor's licence number to their suppliers.

G. SUPPLY AND INSTALL CONTRACTS ON INDIAN RESERVES

Contractors who paid the tax on materials used in the completion of a supply and install contract on an Indian Reserve may apply for a refund of the tax paid providing the contract with the status Indian, Indian band, band-empowered entity or an unincorporated tribal council **specifically excludes the tax**. Only the general contractor on qualifying contracts may apply for a refund. Although subcontractors are not eligible, the general contractor may obtain a breakdown of the tax paid by the subcontractor and include it in the refund application.

Copies of the purchase invoices showing the tax paid should be submitted to the Revenue Division upon completion of the contract. A copy of the contract must be included with the refund submission.

Effective April 1, 2017, contractors may purchase the materials exempt from PST by quoting their vendor's licence number to their suppliers.

H. BONDING and CLEARANCE PROCESS

Under Section 29 of *The Provincial Sales Tax Act*, non-resident and resident contractors carrying on business in Saskatchewan are required to post a guarantee bond or cash deposit in an amount equivalent to 6 per cent of the tax imposed with respect to the sale of:

- a taxable service related to real property, or
- a taxable service related to real property where tangible personal property is installed in conjunction with a taxable real property service.

It is the responsibility of the principal to ensure that contractors comply with this provision. Failure to do so can leave the principal liable for any taxes which the contractor fails to remit, in addition to possible fines and penalties.

Alternatively, contractors required to demonstrate to a principal that their security obligation has been fulfilled can request a clearance letter from Finance. If approved, the letter obtained from Finance can be provided to the principal. It is recommended that principals maintain a holdback of 6 per cent until a clearance letter is provided or proof of bonding is obtained.

Before the final payment is made on a contract, the sub-contractor must obtain a clearance letter from the Revenue Division and provide a copy of the letter to the general contractor or principal. To obtain a clearance letter, please call 1-800-667-6102, extension 0956. If the contractor's account is not in good standing, the general contractor or principal will be requested to withhold from any hold back an amount equal to the tax due and remit this amount to the Revenue Division.

I. CASUAL RENTALS

Contractors who occasionally rent out their equipment must collect tax on the rental charge.

J. SALES OF USED BUSINESS ASSETS

Businesses are required to collect tax on the sale of used assets, such as taxable vehicles and equipment. When used assets are being sold as part of the closure of a business, the purchaser is required to self-assess and report the tax.

When individuals purchase used goods for personal use, other than vehicles, tax applies to the selling price of the goods less a deduction of \$300 per item. If a trade-in is involved, the purchaser is entitled to a deduction of \$300 or the value of the trade-in, whichever is greater. If the goods are for commercial use, the \$300 deduction does not apply.¹

K. GOODS AND SERVICES FOR YOUR OWN USE

Businesses are required to pay tax on purchases of new and used equipment, supplies and taxable services purchased for use in their business operations. Tax is payable as follows:

- When purchased from a licensed supplier, the tax must be paid to the supplier at the time of purchase.
- When purchased from a supplier who did not collect the tax, or when taken from an exempt resale inventory, the tax must be self-assessed and remitted with the regular tax return. This includes goods taken for personal or business use.
- When purchased from an unlicensed supplier located outside Saskatchewan, the tax must be self-assessed and remitted with the regular tax return on the laid down cost, which includes currency exchange, transportation charges, customs and excise duties, and importation charges; but not the GST.

L. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

Finance has made it possible to report and remit tax electronically through the use of a standard Internet connection. The Saskatchewan Electronic Tax Service (SETS) offers a secure, fast, easy and convenient alternative to filing returns in paper format. Several E-File services are currently available through SETS.

Businesses may use SETS to file and pay returns for PST and other provincial taxes.

SETS allows businesses to:

- file and pay returns or make payments on account;
- file a return and post-date the payment to the due date;
- view account balance and statement information;
- authorize your accountant to file on your behalf; and,
- subscribe to an email notification service that allows the option to be notified by email that a tax return should be filed. This replaces the paper forms normally received in the mail.

¹ Information Bulletin PST-58, *Information on the Taxation of Used Goods*

FOR FURTHER INFORMATION

Write: Ministry of Finance
Revenue Division
PO Box 200
REGINA SK S4P 2Z6

Telephone: Toll Free 1-800-667-6102
Regina 306-787-6645

Email: sask.tax.info@gov.sk.ca

In-Person: Ministry of Finance
Revenue Division
2350 Albert St
REGINA SK S4P 4A6

Fax: 306-787-9644

Internet: PST bulletins, forms and information are available on the Internet at:
<http://www.finance.gov.sk.ca/taxes/pst>

To receive automatic email notification when this or any other bulletin is revised, go to www.finance.gov.sk.ca/taxes, click on the "What's New" information then click on the "subscribe" button.