

THE RETAIL SALES TAX ACT

MOTOR VEHICLE AND TRAILER DEALERS

This bulletin provides information to help motor vehicle dealers and trailer dealers apply the Retail Sales Tax (RST) on their sales or leases of vehicles, and sales of parts and repair services. This bulletin also explains the requirement for dealers to pay tax on goods and services purchased for own use as well as their use of vehicles.

Section 1 – VEHICLE SALES

- Taxable sales**
- Dealers are required to collect the RST on the “net selling price” of new and used vehicles at the time of sale. Vehicles such as cars, trucks, motorcycles, mopeds, buses, vans, motor homes and recreational-type trailers, utility trailers and highway tractor trailers *are generally required to be registered under The Highway Traffic Act.*
 - RST applies to other new and used goods sold by dealers (vendors), such as slide-in campers, truck caps, special mobile equipment, boats, snowmobiles, ATVs and other off-road equipment. These items are generally not registered under *The Highway Traffic Act*, but vehicles such as snowmobiles and ATVs *are required to be registered under The Off-Road Vehicles Act.* For further information, see Bulletin No. 013 –Snowmobile and ATV Dealers.
- What is the “net selling price”?**
- The “net selling price” of a vehicle is the net amount charged for the vehicle after deducting the discount and trade-in (if applicable). It includes the price of the vehicle, freight, pre-delivery charges, accessories, undercoating, rustproofing, scotchgarding, documentation fees, extended warranty and any other charges relating to the purchase of the vehicle. For more information on trade-ins, see Section 3.
- Dealer discounts vs manufacturer’s cash rebates**
- A dealer discount reduces the selling price of goods or services, i.e., the amount a dealer receives as payment. Therefore, RST applies to the net selling price of a vehicle **after deducting the discount.**
 - A manufacturer’s cash rebate does not reduce the amount a dealer receives as payment for a vehicle. In this case the dealer must collect RST on the selling price of the vehicle **before the manufacturer’s cash rebate is applied**, even if the purchaser assigns the rebate to the dealer.

Example 1: The net selling price of a vehicle is \$20,000 and the

Note: Revisions to contents of previous Bulletin (August 2002) have been identified by shading ().

manufacturer of the vehicle sends a \$1,000 cash rebate directly to the purchaser. The dealer must collect $7\% \times \$20,000 = \$1,400$ RST from the purchaser.

Example 2: The purchaser assigns the \$1,000 manufacturer's rebate in the above example to the dealer. This reduces the amount payable by the purchaser, but does not reduce the selling price of the vehicle. The dealer receives \$19,000 (before taxes) from the purchaser and \$1,000 from the manufacturer for a total of \$20,000. The dealer must collect $7\% \times \$20,000 = \$1,400$ RST from the purchaser.

- For additional information, see Bulletin No. 028 – Discounts, Coupons and Cash Rebates.

Extended warranty

- RST is payable on the sale of a service, maintenance or warranty contract. For example, if the charge for an extended warranty contract is in addition to the selling price (or lease price) of a vehicle, the dealer must collect RST on the total of the selling price of the vehicle and the charge for the extended warranty contract. In the case of a manufacturer's warranty provided at no charge, its value is included in the selling price of the vehicle.

Please note: When warranty contracts are marketed as insurance policies, the dealer must still collect RST on the billing for the premium.

- Maintenance/warranty contract transfer fees are subject to RST.
- See Section 5 for the tax application on repair services provided under a maintenance or warranty contract.

Farm-use vehicles

- Farmers, fishers and trappers do not qualify for an RST exemption on vehicles required to be registered under *The Highway Traffic Act* or *The Off-Road Vehicles Act*. Dealers must collect the tax on the sale of these vehicles and related parts and repairs services, even if a "farm-use certificate" is provided. However, farmers may purchase the hoist and power take-off for a farm truck RST-exempt by certifying in writing that it is for farm-use.

Sales Invoices

- Effective July 1, 2005, dealers are no longer required to prepare an RT14 tax form. Instead, dealers must quote their RST number on their sales invoices. The RST number must appear on the dealer's sales invoice if:
 - RST is collected by the dealer; or
 - RST is collectible on the payments under a lease contract (even if there is no RST collectible at the time of completing the contract); or
 - the sale is subject to tax, but RST is not collected because the value of the trade-in is equal to, or greater than the value of the purchased vehicle.

Please note: For an RST exempt sale (see Section 4). The reason for the exemption must be clearly stated on the sales invoice.

Section 2 – VEHICLE RENTALS AND LEASES

Taxable rental/lease payments

- All charges in connection with vehicle rentals are subject to RST.
- Payments in connection with a long-term lease are subject to RST when billed, i.e., the down payment, the monthly lease payments and the option to purchase (if exercised).

Please note: If the dealer bills the customer separately for other charges connected to the rental/lease in addition to the rental/lease payment, the dealer must collect RST on the rental/lease payment and on the additional charges billed separately. For example, dealers must collect tax on financing charges, vehicle insurance (as explained below), documentation fees, mileage charges (but not fuel charges), drop-off fees, damage assessment, etc. that are not amortized as part of the taxable lease payments.

Insurance charges

- Charges for vehicle-related insurance (e.g., loss or damage, no deductible, liability) for daily/weekly rentals are subject to RST.

Please note: RST does not apply to Autopac insurance premiums for term leases that are paid directly by the lessee, or are paid by the lessor on behalf of the lessee and charged to the lessee separately from the lease payments. If insurance premiums are part of the lease charge, i.e., not shown separately on the invoice, the total lease charge is taxable.

- Insurance charges that are not related to the vehicle being leased (e.g., personal accident insurance, cargo insurance) are not taxable if shown as a separate charge on the invoice.

Security deposit

- A security deposit taken at the time of rental/lease and returned to the customer is not taxable. However, RST must be applied when the security deposit is withheld or applied against a payment on the lease/rental.

Lease cancellation or penalty charges

- A fee or penalty charged to cancel a lease contract before it is due is considered to be part of the lease charges and subject to RST.

Sales Invoices

- Dealers must quote their RST number on their sales invoices for term leases as discussed in Section 1.

Section 3 – TRADE-INS

General information

- If a vehicle purchaser trades-in a vehicle(s) of “the same general kind” (defined below), the RST applies to the net difference payable. If the trade-in is not of “the same general kind”, the dealer must collect RST on the selling price of the vehicle before deducting the trade-in allowance.
- Dealers must ensure that the customer owns the vehicle traded-in at the time of trade-in, i.e., when completing the Transfer of Ownership Document. If the trade-in is not owned by the customer, the dealer must collect RST on

the selling price of the vehicle before deducting the trade-in allowance.

- The trade-in allowance does not include GST.

**Cash pay out
for trade-in**

- When a dealer purchases a customer's vehicle outright, instead of treating it as a trade-in on the sale of another vehicle, the dealer must collect tax on the full selling price of the vehicle sold (or on the payments of a lease). In this case the customer may be eligible for an RST refund on the vehicle sold to the dealer, and must apply for it directly to the Taxation Division.

**Dealer pays out
lien on trade-in**

- When a vehicle that is traded-in on a lease is encumbered, and the dealer pays out the debt on behalf of the customer, RST applies on the amount equal to the amortized lease payments before the amount of the debt is added to the lease contract, providing:

- a) The dealer shows the amount of the debt paid-out (loan) separately on the lease document and retains a record of the lease contract as follows:

Vehicle selling price	\$25,000
Less trade-in	- \$15,000
Net selling price	<u>\$10,000⁽¹⁾</u>
Loan pay-out	\$ 8,000 ⁽²⁾
Total amount of contract	<u>\$18,000</u> , and

- b) The invoice for the lease payments shows the portion of the payment applicable to the lease ⁽¹⁾ separately from the payment applicable to the loan ⁽²⁾. Then the RST applies to the lease payment but not to the loan payment as follows:

⁽¹⁾Assume monthly lease payment is $1/36^{\text{th}} \times \$10,000 = \$277.78$

⁽²⁾Assume monthly loan payment is $1/36^{\text{th}} \times \$ 8,000 = \222.22

(The monthly payment calculation is for illustration purposes only and does not include other factors such as finance charges, etc.)

Example invoice: Lease payment	\$277.78
+ 7% RST	19.44
Loan payment	<u>222.22</u> (RST-exempt)
Total due	<u>\$519.44</u>

If the invoice shows the lease payment as \$500 (\$277.78 + \$222.22), the total amount is subject to RST, i.e., $\$500.00 \times 7\% = \35.00 .

**Definition of
"the same
general kind"**

- Vehicles required to be registered under *The Highway Traffic Act* are considered the same general kind, and vehicles required to be registered under *The Off-Road Vehicles Act* are considered the same general kind. For example, a trade-in of "the same general kind" is a car traded-in on a truck, a snowmobile traded-in on an ATV, or a boat traded-in on boat. RST applies on the net difference payable when any vehicle that is required to be registered under *The Highway Traffic Act* is traded-in for another vehicle in that group, and when any vehicle required to be registered under *The Off-Road Vehicles Act* is traded-in for another vehicle in that group. However, when a vehicle in one group is traded for a vehicle in another group, RST applies to the selling price of the vehicle sold before deducting the trade-in allowance (see Section 1 for more examples of the types of vehicles in each group).

Please note: Although a camper or truck cap is not similar to a motor vehicle, when a person trades-in a camper/cap and truck (as a unit), the total value of the unit is considered to be the trade-in value of the truck.

Section 4 – EXEMPT VEHICLE SALES

Purchased for resale

- Dealers may purchase vehicles for resale purposes, RST-exempt. To do so they must provide the supplier with their RST number.
- Leasing and rental companies may similarly quote their RST number to purchase their vehicles RST-exempt for lease/rental (resale).

Sales to inter-jurisdictional motor carriers

- See Bulletin No. 046 – Sales to Interjurisdictional Motor Carriers for information on the RST exemption on trucks and trailers sold to interjurisdictional motor carriers.

Sales to non-residents

- RST does not apply on vehicles purchased for out-of-province use by non-residents of Manitoba, when:
 - The dealer delivers the vehicle outside the province, or has it shipped by common carrier for delivery outside the province. Dealers must retain a receipt signed by the customer acknowledging delivery outside the province, or a common carrier's bill of lading showing delivery outside the province, or an equivalent document to substantiate delivery of the vehicle outside Manitoba.
 - The non-resident purchaser takes delivery of the vehicle in Manitoba and the dealer issues an interim registration sticker (supplied by the Motor Vehicle Branch) to the purchaser. The registration sticker number must be recorded on the sale invoice.
 - The non-resident purchaser has obtained licence plates and insurance from the home province that enables him/her to drive the vehicle. In this case the dealer must note the purchaser's out-of-province address and licence plate number on the sale invoice.
- The dealer must collect the RST on vehicle sales to non-residents when the above conditions are not fulfilled. However, dealers should advise non-resident purchasers that they may be eligible for a refund of RST paid if the vehicle is removed within 30 days of purchase for permanent use outside Manitoba, and to contact the Taxation Division for refund information.

Sales to Status Indians and Indian Bands

- Status Indians and Indian Bands may purchase vehicles RST-exempt provided:
 - the title to the vehicle is transferred on a reserve; and
 - the purchase documents are signed on a reserve, and
 - the purchaser takes possession of the vehicle on a reserve (the dealer delivers the vehicle or ships it by common carrier F.O.B. to the reserve).
- To qualify for exemption on a lease the Status Indian must reside on a reserve, in addition to the above conditions.

Please note: Corporations held by Status Indians or Indian Bands do not qualify for the RST exemption available to Status Indians and Indian Bands. The dealer must collect the tax on all sales to these corporations.

- Dealers must document tax-exempt sales with the following information on the sale invoice/lease contract or a statement attached to the invoice:
 - the purchaser's Certificate of Indian Status card number (or Band number if the sale is to an Indian Band);
 - the name of the reserve on which legal title to the vehicle was transferred and to which the vehicle was delivered;
 - the purchaser's address on reserve for RST-exempt lease contracts;
 - a statement signed by the purchaser, and by an official of the dealership, confirming the title was transferred on the reserve, the dealer delivered the vehicle to the reserve, and the customer took possession on the reserve. When a common carrier ships the vehicle on behalf of the dealer to the reserve, the dealer must retain the shipping documents.

Government Purchases

- RST is not payable on sales/leases made directly to departments of the federal government. To allow the exemption the dealer should obtain the federal government's RST number from the purchase order and record it on the purchase invoice.

Please note: Purchases by federal and provincial Crown corporations are subject to RST. Dealers may contact the Taxation Division for assistance to determine whether a purchaser is a department of the federal government or a Crown corporation.

- Purchases by employees of the federal government for personal use are subject to RST.
- Purchases by the Province of Manitoba, municipalities, municipal governments and local government districts are subject to RST.

Foreign diplomats

- Foreign diplomats that are eligible for an RST exemption are issued an RST number (in the form of picture ID cards) by the Taxation Division. Upon presentation of the RST number, the dealer must record the RST number on the sale invoice to allow the exemption to the foreign diplomat.
- Where the diplomat is unable to present his/her RST number, the dealer shall collect the tax on the sale and advise the diplomat to contact the Taxation Division to apply for an RST refund.

Dealer's responsibility to document exemption

- Dealer's records are subject to audit by the Taxation Division. Dealers that allow an RST exemption but fail to fully comply with the documentation requirements may be liable for payment of the uncollected RST, accrued interest and penalties.

Section 5 – SALES OF REPAIR PARTS AND LABOUR**General information**

- The total amount charged for vehicle maintenance and repair services is subject to RST, including parts, labour and any other charges in connection with the service, such as shop supplies, washing, painting and towing.
- Charges for engine analysis and other vehicle maintenance inspections are subject to RST (even if no parts or supplies are used).

Government inspections

- Charges for a vehicle safety "Certificate of Inspection" required under *The Highway Traffic Act*, or a "Vehicle Appraisal Report" to verify the fair value of a used vehicle purchased privately, are not subject to RST.

Exempt purchasers

- The purchasers listed in Section 4 may generally purchase vehicle repair parts and services RST-exempt. To allow the exemption, dealers must obtain the following documentation:
 - If the part or service is purchased for resale purposes, or the purchaser is a foreign diplomat or a department of the federal government, the dealer must record the purchaser's RST number on the invoice.
 - If the purchaser is an interjurisdictional motor carrier, the dealer must record the purchaser's IRP (International Registration Plan) number on the invoice.
 - If the purchaser is a Status Indian or Indian Band, the dealer must retain proof the service was performed on a reserve, or the dealer delivered the repaired vehicle to the customer on a reserve.
 - If the purchaser is a non-resident of Manitoba, the dealer must retain proof of delivering the repaired vehicle out-of-province to the customer.

Leased vehicles

- If the lessor is responsible for vehicle maintenance as part of the lease contract, the lessor may purchase the maintenance and repair parts and services RST-exempt. To allow the exemption, the dealer must obtain the lessor's RST number and record it on the invoice.
- When the lessee purchases vehicle repair services, RST applies to the total charges payable by the lessee.

Autopac repairs

- Manitoba Public Insurance (MPI) generally pays RST on all insured auto repair claims. In the case of repairs to a leased vehicle, MPI is required to pay RST on a repair claim only if the vehicle is insured by the lessee. If the vehicle is insured by the lessor, MPI is not required to pay RST on the repair claims. To allow the RST exemption on the lessor's Autopac claim, the auto body shop must obtain the lessor's RST number.

Emergency roadside services

- Emergency services provided at roadside such as towing, battery boosting, bringing gas and unlocking doors are not considered repair services and are RST-exempt. These services are subject to RST when provided in connection with a taxable repair service. For example, if a vehicle is towed-in for an engine tune-up, the total charge for the tune-up and towing is taxable.

Warranty repairs

- RST does not apply to repair services provided to a customer at no charge under a manufacturer's warranty, repairer's guarantee or other extended warranty or maintenance contract. The parts and labour required to provide the service under the contract may be purchased RST-exempt by the manufacturer, maintenance or warranty company.
- If the customer is required to pay a deductible fee or is charged for part of the repairs provided under a maintenance or warranty contract, the dealer must collect RST on the amount charged to the customer.

Section 6 – PURCHASES FOR OWN USE**General information**

- Dealers are required to pay RST on all purchases of equipment, supplies and taxable services acquired for own use. Some examples are shop equipment, office equipment, service vehicles (see Section 7), signs, mechanics' tools, brochures, forms and other stationery, building materials, computer software, promotional items, uniforms, building cleaning supplies, hand wipes and equipment repair services.
- When a dealer purchases taxable items from a vendor that did not collect Manitoba RST (e.g., out-of-province vendor), the dealer is required to remit the applicable tax to the Taxation Division on the next RST return.
- Dealers may purchase the following RST-exempt:
 - materials that are incorporated into an item or service for resale, such as accessories, parts, lubricants, glue, tape, bolts, electrical wire and connectors, welding rods and gasket materials;
 - shop supplies such as abrasive materials, drill bits and other cutting attachments, welding gases, wiping rags, solvent and other chemicals that are consumed while in direct contact and transforming goods to which a taxable service is provided.

Promotional items

- RST applies on taxable promotional items purchased by dealers as follows:
 - Dealers must pay RST on their cost for promotional items given away to potential customers, such as brochures, hats and balloons, if there is no condition for the customer to purchase anything.
 - Dealers do not pay RST on their cost for promotional items given away on condition that the customer purchases a taxable item. For example, a dealer may purchase a TV RST-exempt that is given away "free" with the purchase of a vehicle.

Please note: If the dealer's combined cost for the TV and vehicle is greater than the selling price of the vehicle, additional RST may apply as explained in Bulletin No. 37 – Promotional Distributor.

Driver education vehicles

- Dealers are not required to pay RST on vehicles they transfer to Manitoba Public Insurance for driver training purposes.

Section 7 – DEALER-USE VEHICLES

There are two types of dealer-use vehicles:

Dealer-use vehicles acquired for use

- New or used vehicles that are **purchased or modified for use** in the operation of a dealership and/or are not readily available for sale are considered to be dealer-use vehicles. These may include tow trucks, parts vehicles and shuttle vans with special paint or marking.

Dealer-use vehicles acquired for resale and used temporarily

- New or used vehicles that are purchased for resale and are **temporarily** assigned to, or used by company officials, family members, sales personnel, other employees, and customers for personal or business use are also considered to be dealer-use vehicles. These may include staff vehicles, courtesy cars and rental vehicles that are provided for a nominal charge or without charge.
- Vehicles that are used **solely** by potential customers for sales demonstration purposes (i.e. not used by the dealer as described above) are **not** considered to be dealer-use vehicles.

Tax on dealer-use vehicles

- Vehicles **purchased or modified** for dealer use are subject to tax at 7% of the purchase price of the vehicle. The trade-in and refund provisions of the Act apply if the vehicle is sold or traded-in on the purchase of another vehicle. A return to inventory does not constitute a sale. A vehicle that has been modified in any way and/or is not readily available for sale does not qualify for the temporary use provisions described below and is subject to tax at 7% on the full purchase price.
- Vehicles purchased for resale and used **temporarily** as dealer-use vehicles are taxable at 7% of $1/36^{\text{th}}$ of the purchase price of the vehicle for each month or part month the vehicle is used. If a dealer-use vehicle is replaced during a month with another vehicle, the RST for that month is payable only on the vehicle with the greater purchase price.

Please note: Dealer-use vehicles are subject to RST even though the vehicle may also be used for demonstration to potential customers or for rental.

Simplified tax calculation option for temporary dealer-use vehicles

- To simplify the calculation of sales tax on “**temporary**” dealer-use vehicles, dealers may choose to self-assess tax using the following amounts (per vehicle for each month or part month of use):

New Vehicle	-	\$30	Used Vehicle	-	\$15
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The dealer is required to self assess on only one vehicle per month per individual although the individual may use several different vehicles in that month. Dealers who do not use the simplified option for temporary dealer-use vehicles must use the $1/36^{\text{th}}$ formula. The option chosen (either 7% of $1/36^{\text{th}}$ of purchase price, or \$30/\$15) must be used for all temporary dealer-use vehicles used that month.

- A courtesy car is a dealer-use vehicle that is provided to a person without charge or for a nominal charge. RST must be collected and remitted on

amounts charged for the use of the vehicle. Also, if there is no charge for the use of the vehicle or the amount charged is less than the established rental charge, the dealer must pay RST on the vehicle using either the 1/36th formula or the simplified option.

- When a rental vehicle is provided free or for an amount lower than the established rental charge the dealer must collect RST on the charge to the customer or employee. The dealer must also self-assess tax on own use of the vehicle using the 1/36th formula or the simplified option.
- If a dealer rents a vehicle from a rental company and provides that vehicle to a person without charge, the dealer must pay RST to the rental company.

Record of dealer-use vehicles

- Dealers are required to maintain sufficient records for RST audit purposes to substantiate the number of their “dealer-use vehicles” for each month. If a dealer's records do not accurately represent the number of dealer-use vehicles, the Taxation Division may estimate the additional RST payable.

For example: It is apparent to the Taxation Division auditor that the business owner uses a vehicle for transportation between home and the place of business or for other personal uses, but the business has not paid the RST on the vehicle as required. In this case, the auditor will estimate the RST payable and propose it as an audit adjustment.

Taxable repair and maintenance

- Dealers are required to pay RST on their cost (excluding employee labor) to repair and maintain dealer-use vehicles.

Section 8 – THE TIRE LEVY

General information

- Dealers are required to collect a tire levy of \$2.80 (plus 7% RST) on every new tire sold (excluding recaps) for highway motor vehicles and trailers, including tires sold with a vehicle or sold separately. The tire levy collected must be shown separately on the sale invoice.
- The tire levy is not part of RST. However, the tire levy collected each month must be reported and remitted to the Taxation Division on the dealer's next Vendor's RST return.

Application of the tire levy

- Some situations where the tire levy applies are:
 - the sale of new vehicles - The purchaser pays the levy on 5 tires.
 - the rental/lease of vehicles - The lessor/owner pays the levy on 5 tires when purchasing a new vehicle, as well as on replacement tires.
 - dealer-use of vehicles - The dealer pays the levy when placing the vehicle in use, but does not collect the levy on the subsequent sale of the vehicle (unless new replacement tires are supplied).
 - warranty – If a charge is made for the tire, the customer pays the tire levy. Otherwise, the person who replaces the tire pays the levy.
 - tires sold to a federal government department, including the R.C.M.P.

Tire levy exemptions

- The tire levy does not apply to:
 - tires designed for off-highway use, such as for farm implements and lawn tractors;
 - tires sold for use on fire trucks and ambulances;
 - tires sold to Indians and Indian Bands, if the tires are shipped to the reserve by the dealer;
 - tires sold to out-of-province residents, if the tires are shipped out of province by the vendor

Additional information

- The Tire Stewardship Board administers the tire levy. The information in this bulletin is for general reference only. Official information can be obtained from the Board by phone: (204) 661-3242, fax: (204) 668-9704, or e-mail: mbtirebd@skyweb.ca.

FURTHER INFORMATION

This bulletin is intended to serve as a guideline and is not all-inclusive. For the specific wording of the law, please refer to the Act and Regulation stated below. Further information may be obtained from:

Winnipeg Office

Manitoba Finance
Taxation Division
101 - 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Telephone (204) 945-5603
Manitoba Toll Free 1-800-782-0318
Fax (204) 948-2087
E-mail: MBTax@gov.mb.ca
Web site: www.gov.mb.ca/finance/taxation

Westman Regional Office

Manitoba Finance
Taxation Division
349, 340 - 9th Street
Brandon, Manitoba R7A 6C2
Telephone (204) 726-6153
Manitoba Toll Free 1-800-275-9290
Fax (204) 726-6763

**Principal
References In
Legislation:**

*The Retail Sales Tax Act of Manitoba (C.C.S.M. c. R130) and
Manitoba Regulation (75/88R).*