

Motor Vehicle Dealers

Social Service Tax Act

Are you a dealer in the automotive industry?

Do you need to know how PST applies to your business?

This bulletin provides specific tax information to help new and used motor vehicle dealers understand how the social service tax, also called the provincial sales tax (PST), applies to their businesses. If you lease motor vehicles, you should also read [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 \(PST\)](#).

Definition of a Motor Vehicle

There are different tax rates for passenger vehicles, other motor vehicles and trailers.

What is a Passenger Vehicle?

A passenger vehicle is designed primarily to transport people. Cars, station wagons, motorcycles with engine capacities over 250 cc, and trucks and vans up to, and including, 3/4 ton are all passenger vehicles.

For PST purposes, any truck with a "2" in the 6th digit field of the vehicle identification number (VIN), is designated as a 3/4 ton truck, even if it has been modified to carry heavier payloads.

What is Not a Passenger Vehicle?

The following are not passenger vehicles:

- motor cycles with engine capacities of 250 cc or less (e.g., motor scooters, off-road bikes and mopeds)

- trailers
- buses
- ambulances
- motor homes
- camper vans
- hearses
- snowmobiles and ATVs
- farm tractors
- trucks and vans over 3/4 ton

Tax Rates on Motor Vehicles

Tax Rates on Passenger Vehicles

The PST rate you charge on passenger vehicles (7%, 8%, 9% or 10%) is based on the purchase price of the vehicle. The purchase price is the total price *before* a deduction for a trade-in or down payment. It includes **all** amounts your customer pays to purchase the vehicle, such as finance, documentation or other charges, fees, service charges, modifications and accessories, but does not include the tire and battery levies, or the goods and services tax (GST).

The following chart shows the tax rate that applies to the total price of a passenger vehicle.

Total Price	Tax Rate
Less than \$55,000	7%
\$55,000 – \$55,999.99	8%
\$56,000 – \$56,999.99	9%
\$57,000 and over	10%

Tax Rates on Other Motor Vehicles and Trailers

The tax rates above apply to passenger vehicles only. You charge PST at the rate of 7% on all other sales, such as trailers or motor vehicles that do not qualify as passenger vehicles, regardless of the total price.

How You Apply PST to Motor Vehicle Sales

Once you have determined the correct tax rate for a vehicle, you determine how PST applies to the sale. The general rule is that PST is applied on the total price, *less* any trade-in value and discounts.

Each section below explains in more detail how to apply PST to your motor vehicle sales.

Trade-ins

A trade-in may reduce the amount of PST your customer pays. When your customer brings in a vehicle for trade-in, they only pay PST on the difference between the total price and the trade-in value if:

- you accept the trade-in vehicle at the same time you sell the new or used vehicle (the trade-in value must be shown on the sales agreement),
- your customer is the owner of the trade-in vehicle, (i.e. you cannot accept a company car as a trade-in on a sale to the company's sole shareholder), and
- the trade-in vehicle is placed in your resale inventory.

For more information, please see [Bulletin SST 079](#), *Service Charges, Trade-Ins and Returns*.

You charge PST on the total price (including the trade-in value) if any of the following occur:

- you accept the trade-in after (or before) a binding sales agreement is made, or the trade-in is recorded as a separate transaction,
- the vehicle is still licensed with out-of-province plates (unless you can verify that British Columbia PST was previously paid by your customer on the trade-in vehicle),
- your customer does not own the trade-in vehicle,
- the trade-in vehicle was a dealer-use vehicle or a vehicle taken from your inventory, or
- the trade-in is a non-taxable item (e.g. realty or accounting services).

Example:

Your customer agrees to purchase a new 3/4 ton truck for \$60,000 and they will trade in their old car for \$25,000.

The tax rate is 10% because the total price was \$57,000 or over, before the trade-in value was deducted.

The difference between the total price and the trade-in value is \$35,000:

\$60,000

- 25,000

\$35,000

You charge 10% PST on \$35,000. Your customer will pay \$3,500 in PST.

Trade-ins from GST Registrants

If you make sales to businesses that are registered to collect GST, the GST registrant will add GST to the amount you agree as credit for the trade-in vehicle. This does not change the amount of PST you will charge. You will still deduct the trade-in value from the total price to determine the PST that should be paid—you do not deduct the GST.

For example, if you sell the same 3/4 ton truck in the example above to a GST registrant, they will add \$1,750 GST to the trade-in of \$25,000. However, you still calculate PST on the full \$35,000, which is the difference between the total price and the trade-in value.

Discounts

If you offer a reduction or discount to your customer, such as 5% off the sticker price, you collect PST on the lower total price, as shown on the sales contract.

Rebates

For PST purposes, there are two types of rebates – regardless of the names that are applied, such as manufacturer’s rebate, credit card credit, cash-back incentives or dealer’s discounts.

1. Rebates applied after the total price is recorded on the sales contract.

You collect PST on the total price, which will include the rebated amount.

The typical sales agreement will show the total price with the rebate amount deducted below. The rebate has not changed the total price, instead it represents a partial payment of the price by the dealer or manufacturer.

Example:

Total price	\$58,000
Less: Manufacturer's rebate	<u>- 1,000</u>
Cost to customer	\$57,000
You charge 10% PST on \$58,000 = \$5,800	

2. Rebates applied to reduce the total price before it is recorded on the sales contract.

In this case, you collect PST on the total price, which will already include the rebated amount.

The typical sales agreement only shows the total price and does not show any amount for rebates. This is because the rebate has already been negotiated and reduces the total price of the vehicle.

Example:

Total price	\$57,000
You charge 10% PST on \$57,000 = \$5,700	

Vehicle Modifications

If you sell a vehicle to your customer who, within two days before or after the date of the sale, purchases modifications to the vehicle, you charge PST on the cost of the modifications at the same rate that applies to the vehicle (7%, 8%, 9% or 10%, depending on the total price).

For example, one day after you complete a sales agreement for a passenger vehicle purchased for \$56,200 (taxed at the 9% rate), your customer purchases undercoating, rust proofing and upholstery treatment. You charge 9% tax on these modifications because the tax rate on the vehicle was 9%.

You only charge 7% PST on modifications to vehicles that do not qualify as passenger vehicles, such as trailers.

Business Equipment Installations

If your customer buys a passenger vehicle for a business and has it fitted with equipment for a specific business purpose (for example, a van outfitted with carpet steam-cleaning equipment), the value of the vehicle without the business-related equipment determines the tax rate.

For example, a \$40,000 van that is fitted with \$19,000 worth of business-related equipment is taxed at 7%, rather than 10%, on the \$59,000 total price.

Non-taxable Sales and Tax Reductions

Alternative Fuel Vehicles

Alternative fuel vehicles are new vehicles that operate on electricity, ethanol, methanol, natural gas or propane. You can make point-of-sale tax reductions for your customers on qualifying alternative fuel vehicles. For information on which vehicles qualify, and how to calculate the tax due, please see [Bulletin SST 085](#), *Alternative Fuel Vehicles and Alternative Motor Fuel Tax Concessions*, and [Bulletin SST 087](#), *Alternative Fuel Vehicles: Calculating the Tax Reduction*.

Modifications to Accommodate Persons with Disabilities

If you sell a passenger vehicle that has been modified to accommodate a person with a physical disability, your customer may be eligible for a reduction in the PST payable on the purchase or lease of the vehicle. For more information, please see [Bulletin SST 070](#), *Motor Vehicles Modified to Accommodate Persons with a Disability*.

Vehicle Sales to First Nations Customers

If you sell a vehicle to a First Nations customer, you do not charge PST when:

- the sale occurs on a reserve (the delivery slip shows F.O.B. reserve if you use a common carrier), or you deliver the vehicle to reserve land,
- your customer holds a *Certificate of Indian Status* card issued by the federal government,
- you record your customer's name and *Certificate of Indian Status* card number,
- you record your customer's band name and number, and
- your customer signs the sales agreement or a log book.

If your customer represents a First Nations Band and buys the vehicle on behalf of the band, they must give you written authorization from the band to act on its behalf. The authorization must include:

- the band name,
- the band number,
- the name of the person authorized by the band to make the purchase, and
- a signature of a band official.

Please note: Keep all the required documentation with your records to show why you did not charge PST.

You may also use the *Tax-exempt Motor Vehicle Sales or Leases to First Nations Purchasers* form ([FIN 429](#)) to help guide you through the required documentation for non-taxable sales to First Nations or a First Nations Band.

Joint Purchases by First Nations and Non-natives

When you sell vehicles jointly to a First Nations customer and a non-native person, you charge PST on 50% of the total vehicle price. The sale must meet the criteria that are described in the section above, *Vehicle Sales to First Nations Customers*. A joint purchase is evident when both names are on the sales agreement as purchasers, regardless of who registers the vehicle. This often applies when spouses purchase a vehicle jointly and only one spouse is First Nations.

In some cases, your First Nations customer may have a non-native co-signer on the vehicle loan agreement. If your customer holds *full title* to the vehicle (full title is shown when they are the only purchaser on the sales agreement), you do not charge any PST on the vehicle sale.

Please note: You do not collect environmental levies on tires and batteries sold to First Nations customers.

For more information, please see [Bulletin SST 046](#), *Exemption for Indians and Indian Bands* and [Bulletin SST 034](#), *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*.

Sales to Customers Living Outside British Columbia

Under certain conditions, you may sell vehicles to customers who live outside British Columbia without charging PST. For more information on this type of sale, please see [Bulletin SST 007](#), *Purchases of Vehicles by Non-Residents*.

Do You Need to Register as a Dealer?

If you plan to sell or lease motor vehicles to retail customers in British Columbia, you need to register as a motor dealer. Information on registering your dealership is available from the Motor Dealer Council's British Columbia website at www.mdcbc.com. Once you are registered as a motor dealer, you can apply to us for a PST registration number using the *Application for Registration as a Vendor* form (**FIN 418**). If you qualify to register as a dealer, but do not register, you will not be able to get a PST registration number.

If You Use Vehicles From Your Inventory

You pay PST on motor vehicles you take out of your inventory and use for business or personal purposes. However, you *may* be eligible to pay a proportional amount of PST on vehicles used for business purposes by applying the dealer-use formula. Please see the section below, Dealer-use Formulas.

Vehicles for Personal Use

You pay PST on the full cost of a vehicle used for personal purposes. For example, if your family uses a vehicle from your dealership, PST is due on the full cost of the vehicle. If this vehicle is later returned to your resale inventory and replaced with a newer model, you still pay PST on your dealer's cost of the newer vehicle. You cannot claim a trade-in allowance for the vehicle returned to the resale inventory.

Dealer-use Formulas

The dealer-use formulas allow you to pay a proportional amount of PST on vehicles used for business purposes. All vehicles eligible for the dealer-use formulas may be used by you, a company officer, salesperson, employee or, in the case of courtesy cars, by your customers.

There are two different dealer-use formulas; which one you apply will depend on your use of the vehicles. There is one for courtesy cars, donated vehicles, shuttle vehicles and parts-delivery vehicles, and one for all other qualifying business-use vehicles.

For details on the vehicles that qualify and how to apply the formulas, please see **Bulletin SST 123**, *Calculating the Dealer-use Formulas*.

If You Provide Taxable Services

A taxable service is any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish or maintain tangible personal property. If your dealership has a parts and repair shop, please see [Bulletin SST 018](#), *Taxable Services*.

Environmental Levies

The environmental levy on new tires is to be repealed when the industry stewardship program is introduced. However, until that time, you should continue to collect the environmental levy on each new pneumatic tire as set out below.

You charge a \$3 environmental levy on each new pneumatic tire you sell that costs more than \$30, and a \$5 environmental levy on new lead-acid batteries weighing more than 2 kg.

This includes:

- inflatable tires
- solid spare tires (doughnuts)

This does *not* include:

- retreaded tires
- recapped tires
- used tires
- rebuilt, reconditioned or used batteries

Charging Environmental Levies

You charge environmental levies on each new tire and battery you sell with your new or used vehicles. If a vehicle has more than the standard number of tires or batteries, you charge the levies on each tire or battery sold. For instance, you charge the tire levy on each new tire sold with a six-wheel truck.

You do not charge PST on environmental levies and you must identify levies on the bill of sale separately from the PST.

For the environmental levies you *charge*, you record the amount in Box B on your next tax return. The vendor's commission (Box C) applies to the total amount of PST and environmental levies collected during the reporting period.

Paying Environmental Levies on Your Business Use Vehicles

When you use a vehicle for business purposes, you pay environmental levies on tires and batteries, including:

- tires and batteries for vehicles you hold in your lease stock (for more information, please see [Bulletin SST 103](#), *Lessors of Motor Vehicles and Trailers*),
- vehicles used for business purposes, including parts-delivery vehicles, shuttle vehicles and other dealer-use vehicles; however, if you later sell these vehicles, you do not charge the levy a second time, and
- vehicles for personal use.

For environmental levies you *pay*, self-assess and record the levies due in Box F on your next tax return.

Motor Vehicle Returns and Refunds

Refunding PST on Motor Vehicles Returned Within One Year

If your customer buys a motor vehicle and returns it within one year of the delivery date, and you refund all, or a portion of, the selling price, you pro-rate the PST refund based on the refunded selling price.

For example, if you sell a car for \$25,000 plus PST, and the customer returns it 10 months later for a refund of \$21,000, you refund PST on the \$21,000.

Refunding PST on Motor Vehicles Returned after One Year

You do not refund any PST on vehicles that you accept for a return after a full year has passed from the delivery date. Your customer will need to apply to the ministry for a refund. If a vehicle is returned after one year, a refund of PST is only available if the customer is refunded the full selling price of the vehicle, or the vehicle was returned because of an independent, third-party dispute resolution. Your customers may claim a refund by completing an *Application for Refund of Social Service Tax Paid on a Motor Vehicle* form ([FIN 413MV](#)).

Please note: If your customer trades in the vehicle and receives credit toward a new purchase, you do not refund any PST.

British Columbia Residents Who Move from the Province within 30 Days of Purchasing a Vehicle

If your customer is a British Columbia resident who purchased a vehicle in the province and who now lives outside the province, they qualify for a refund of the PST paid if:

- the vehicle left British Columbia within 30 days of the date of the sale, to be used solely outside the province,
- the customers provide evidence that they established residence outside the province within 30 days of the date of the sale, and
- the customers paid a retail sales tax when they registered the vehicle outside the province.

Your customers may claim a refund from the ministry by completing an *Application for Refund of Social Service Tax Paid on a Motor Vehicle* form ([FIN 413MV](#)).

Need more info?

Motor Vehicle Industry website: www.sbr.gov.bc.ca/ctb/MotorDealer.htm

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/ctb

Acknowledgments

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References: *Social Service Tax Act*, Sections 1, 5, 6(1), 6(3), 10(1), 20-26, 36, 37, 40, 66, 67 and 78(1), and Regulations 2.41, 2.42, 2.42.1, 3.13, 3.13.1, 5.6, 11.1, 11.2 and 11.3