

Service Charges, Trade-Ins and Returns

Social Service Tax Act

This bulletin outlines the application of social service tax, also called the provincial sales tax (PST), and environmental levies to service charges, trade-ins, sales discounts and refunds on returned motor vehicles and other merchandise.

The information in this bulletin is provided for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations can be found on the web at www.gov.bc.ca/sbr

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 \(PST\)](#).

In this issue...

- ***Service charges***
- ***Merchandise traded in***
- ***Returns of merchandise other than motor vehicles***
- ***Motor vehicle returns***

SERVICE CHARGES

Taxable Charges

When a charge for taxable merchandise includes a service charge that must be paid by a purchaser **to obtain title** to the goods, the service charge is subject to PST because the charges are considered to form part of the purchase price. The following are examples of service charges subject to PST:

- emergency, after-hours and special order charges
- handling and transportation charges
- installation charges (other than for prescribed fixtures, improvements to real property and tangible personal property that becomes real property on installation)
- documentation charges for motor vehicles

- early termination charges for leases of tangible personal property
- environmental or "eco" levies on taxable tangible personal property (other than levies on new tires and batteries)
- sign-up, access, airtime usage and other service charges for non-residential telecommunication services

MERCHANDISE TRADED IN

Application of PST

Where property on which the purchaser has previously paid the PST is accepted in trade at the time of sale, PST applies to the difference between the price of the property sold and the credit allowed for the trade-in.

Sellers who accept property in trade may generally assume that the purchaser has previously paid PST on the property traded in. The seller may therefore apply the PST on the difference between the price of the merchandise sold and the credit allowed for the property traded in.

However, if the seller is aware that the purchaser has not previously paid PST on the property traded in (for example, a trade-in motor vehicle still licensed with out-of-province license plates), no PST credit can be given for the trade-in unless the PST paid status of the property can be verified.

PST applies to the full purchase price of the property sold, when the PST paid status of the trade-in is not verified.

Criteria for Granting a Trade-In Credit

A trade-in credit may be granted only when the trade is accepted by the seller from the purchaser **at or before the time of delivery, or at the time a written offer to purchase a specified item of tangible personal property is accepted in writing by the seller.** Credit notes in full, or in part, against unspecified future deliveries may not be considered as trade-in credits for PST calculation purposes.

Tire Accepted In Trade

When a tire is accepted in trade against the purchase price of a new pneumatic tire to which an environmental levy applies, the \$3 levy applies to the purchase of the new tire if the price of the tire, **before the credit allowed for the trade-in,** is \$30 or more.

More Info: [Bulletin SST 015](#), *Environmental Levies on Tires and Batteries*

RETURNS OF MERCHANDISE OTHER THAN MOTOR VEHICLES

Within 90 Days

Where merchandise, other than a motor vehicle, is returned to the seller within 90 days from the date of purchase, the purchaser is entitled to a refund of the PST paid **(at the rate in effect at the time of purchase)** on the amount refunded.

Environmental levies paid on new pneumatic tires and new lead-acid batteries returned to the seller within 90 days are also refundable. The transaction is regarded as a credit for returned merchandise and sellers may recover the PST and levy allowed on the refund through an internal adjustment to their PST account.

The proportional refund does not apply if the goods were traded-in against a new purchase and a trade-in credit was allowed under section 10 of the *Social Service Tax Act*.

Over 90 Days

Where more than 90 days have elapsed from the date of sale, a refund of the PST and levy paid is

only available if the full purchase price was refunded to the purchaser. In this case, the sale is considered to have been cancelled. Application for a PST refund should be forwarded to the Consumer Taxation Branch.

There is no provision in the Act that allows for a refund of PST if only a portion of the purchase price is refunded to the purchaser more than 90 days after the date of sale.

Re-stocking Charges

Where a vendor applies a re-stocking charge on goods returned for refund, the re-stocking charge reduces the amount refunded to the purchaser. Accordingly, PST may only be refunded on the **net** amount of the credit or refund given to the purchaser, providing the return is made within 90 days of the original purchase.

MOTOR VEHICLE RETURNS

Within One Year

Purchasers of motor vehicles are eligible for a proportional PST refund if the motor vehicle is returned to the seller within one year after the vehicle was delivered to the purchaser. This proportional refund applies when the seller refunds only part of the purchase price paid by the purchaser.

Example:

| | |
|--|----------|
| Purchase price for a motor vehicle: | \$25,000 |
| PST paid at time of purchase (7%): | \$1,750 |
| Amount of purchase price refunded by dealer: | \$20,000 |
| PST applicable to this amount (7%): | \$1,400 |

The purchaser is eligible for a refund of the PST paid on the amount of the purchase price refunded by the dealer, or \$1,400.

The proportional refund does not apply if the vehicle was traded-in against a new purchase and a trade-in credit was allowed under section 10 of the *Social Service Tax Act*.

After One Year

Effective March 31, 1998, where a motor vehicle is returned to the vendor or manufacturer more than

one year after the vehicle was delivered to the purchaser, and the buyback was awarded through an independent, impartial, third-party dispute resolution process, the purchaser is eligible for a proportional PST refund. An example of such a process is a motor vehicle buyback resulting from an arbitration under the Canadian Motor Vehicle Arbitration Plan. In such cases, the purchaser is eligible for a refund of the PST paid that is attributable to the credit or refund received from the vendor or manufacturer (see previous example).

If the return occurs after one year and is not the result of a third-party dispute resolution process, a PST refund is only available if the full purchase price paid for the vehicle is refunded.

Please Note: Prior to February 20, 2002, the PST rate was 7%. Between February 20, 2002 and October 20, 2004, the PST rate was 7.5%. Effective October 21, 2004, the PST rate is 7%.

Goods purchased prior to October 21, 2004, and taxed at 7.5%, are eligible for a refund at the rate of 7.5%, even if the goods are returned after the effective date of the decrease in the PST rate.

NEED MORE INFO?

This bulletin is provided for convenience and guidance.

If you have any questions, call us at 604 660-4524 in Vancouver or call toll-free at 1 877 388-4440, or e-mail your questions to CTBTaxQuestions@gov.bc.ca

Information is also on the web at www.gov.bc.ca/sbr While there, you can subscribe to our free electronic update service.

References: *Social Service Tax Act*, Sections 1, 5, 6, 10, 67, 68 and 84