

Changes to Production Machinery and Equipment Exemption

Social Service Tax Act

This notice outlines changes made to the production machinery and equipment exemption.

Manufacturing services included in exemption

Effective February 22, 2006, the exemption for production machinery and equipment (PM&E) purchased by manufacturers and other eligible persons is expanded to include manufacturing services provided to manufacturers. Businesses that use machinery and equipment more than 50% of the time to provide services to qualifying manufacturers are eligible for the PM&E exemption provided that the service qualifies as manufacturing in its own right. This exemption does not apply to telecommunication services or legal services.

Parts exemption expanded

Effective February 22, 2006, the exemption for pre-manufactured parts to repair and maintain exempt machinery and equipment is expanded. Parts purchased or leased by qualifying persons to assemble qualifying machinery or equipment are exempt from tax. Tax paid on parts purchased before this date is not refundable, even if the parts are held in inventory for future use. Materials, such as lumber, sheet metal or cement, remain subject to tax.

Definition of manufacture clarified

The requirements to qualify for the exemption are clarified. Manufacture is defined to mean:

- fabricate or manufacture tangible personal property to create a new product substantially different from the material or property from which it was made,
- process tangible personal property by performing a series of operations or a complex operation that results in a substantial change in the form or other physical or chemical characteristics of the tangible personal property,
- the development of software and custom software, and
- the extraction or processing of minerals, petroleum or natural gas.

Manufacture does not include:

- growing, harvesting or producing agriculture or aquaculture products or raising livestock,
- logging,
- the production of television programs, radio programs, motion pictures, commercials, master films, master video tapes, or any similar product in electronic format,
- the provision of a service, other than a service referred to above,
- cleaning, painting, staining, blending, combining, grading, grouping, mixing, packaging, re-packaging, sorting or testing tangible personal property unless such activities are one step in, or occur immediately after, an activity, other than the development of software and custom software, that meets the definition of manufacture and occurs at a manufacturing site, a mine

site, a well head, a processing plant or a refinery, or

- the transformation of tangible personal property from a gaseous, liquid or solid state to another one of those states by means of a change in temperature or pressure, unless the transformation by one of those means is one step in, or occurs immediately after, an activity, other than the development of software and custom software, that meets the definition of manufacture and occurs at a manufacturing site, a mine site, a well head, a processing plant or refinery.

Office furniture exclusion confirmed

The exemption is clarified retroactive to July 31, 2001, to explicitly exclude office equipment. Typical office equipment, for example, photocopy machines and fax machines used for your own business purposes, do not qualify for the exemption. However, copying and duplicating equipment used directly to produce copies for resale continues to qualify for the exemption.

Further Information

Please refer to the following bulletins:

Bulletin SST 018, *Taxable Services*

Bulletin SST 052, *Ready-Mixed Concrete Industry*

Bulletin SST 054, *Manufacturers*

Bulletin SST 055, *Petroleum and Natural Gas Industry*

Bulletin SST 081, *Mining Industry*

Bulletin SST 112, *Logging Industry*

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

Information is also on the web at www.gov.bc.ca/sbr