

Motor Vehicles Modified to Accommodate Persons with a Disability

Social Service Tax Act

Update: Budget 2006
Passenger vehicle surtax
thresholds increased

The *Social Service Tax Act* provides a concession under which qualifying passenger vehicles modified to accommodate persons with a physical disability may be eligible for a reduction in the tax payable on the purchase or lease of the vehicle. This concession is provided to ensure that persons requiring such vehicles do not pay a higher rate of tax simply because of the additional costs of the modifications.

This bulletin outlines the application of this tax concession. For information on other exemptions related to specialized devices used in the transportation of persons who have permanent disabilities, please refer to [Bulletin SST 003](#), *Exemptions for Equipment and Devices Used by Persons with a Permanent Disability*.

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

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DEFINITIONS

Passenger Vehicle

A motor vehicle designed primarily as a means of transport for individuals, including trucks or vans that are $\frac{3}{4}$ ton or less, and station wagons.

Qualifying Motor Vehicle

A qualifying motor vehicle must meet both of the following criteria.

1. The motor vehicle has either:
 - been modified to facilitate the placing or transportation of a wheelchair in the vehicle without having to collapse the wheelchair, such as lowered floor, raised roof, or widened doors, or
 - been equipped with an auxiliary driving control to facilitate the operation of the vehicle by an individual with a disability.

2. It is the first retail sale or retail lease of the motor vehicle since being manufactured, modified, or specially equipped as described above.

Retail Lease

A lease to a person who, as a result of the lease, becomes the lessee.

Tax Rate Value

The price at which the legal and beneficial interest in the vehicle would, if unencumbered, be conveyed by a willing seller acting in good faith to a willing buyer acting in good faith in an arm's length retail sale in the open market.

PURCHASES OF ELIGIBLE VEHICLES

Purchase Price Reduction

For determining the amount on which tax applies, the purchase price of a qualifying motor vehicle may be reduced by the amount that can reasonably be attributed to the cost of the special features or modifications to make the vehicle wheelchair accessible, or to equip it with auxiliary controls.

The reduction applies to a new or used motor vehicle, provided it is the first retail sale after the modifications were made. For example, if a seller buys a used van, modifies it, and then resells it, the reduction in tax applies on that sale. It **does not**

apply to any subsequent sales of that van. Similarly, a vehicle manufactured with the special features is not eligible for a reduction in the taxable purchase price on subsequent resale of the vehicle.

Where the qualifying vehicle is a newly manufactured vehicle, the cost of the special features may be determined by comparing the selling price of the modified vehicle to the selling price of the same make and model of vehicle without the modifications. Where the qualifying vehicle is a used vehicle, only the charges for those features directly related to, and necessary for, the modifications or special equipment may be deducted from the purchase price.

Tax applies to the reduced price, provided the charge for the modifications is **separately stated** on the invoice to the customer. The seller must retain a copy of this invoice to substantiate the collection of a lower amount of tax.

Calculating the Tax Payable

The general tax rate applicable to purchases of motor vehicles that are not passenger vehicles is 7%. The tax rate on passenger vehicles is based on the purchase price of the vehicle. Effective February 22, 2006, the tax rates applicable to passenger vehicles are as follows.

Purchase 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%

The surtax thresholds apply to all passenger vehicles purchased on or after February 22, 2006. For qualifying passenger vehicles, the tax rate is determined by the **reduced** purchase price, and applied as follows.

	Modified Vehicle	Unmodified Vehicle
Purchase price of vehicle	\$55,500	\$53,000
Applicable tax rate	8%	7%
Minus the modification costs	<u>2,500</u>	
Reduced purchased price	\$53,000	
Applicable tax rate	<u>7%</u>	
Tax payable	\$3,710	\$3,710

The charge for the modifications must be separately stated on the sales invoice. The seller must retain a copy of the invoice to substantiate the collection of a reduced amount of tax on that sale.

LEASES OF MOTOR VEHICLES

Eligible Leases

Qualifying vehicles that are leased must meet all of the following criteria to be eligible for the tax reduction.

- The lease must have been entered into after March 30, 1999.
- The lease must be for a period of at least 12 months.
- It must be the first retail lease since the vehicle's manufacture or since being modified.

The tax reduction will apply to all lease payments made by the lessee during the lease period, as well as to any variation or renewal of the lease for that same motor vehicle by the same lessee.

Tax Reduction

To determine the amount on which tax applies, the lease price or tax rate value (see definitions) is reduced by the amount that can be reasonably attributed to the cost of the special features or modifications to make the vehicle wheelchair accessible or to equip it with auxiliary controls.

For example, if the actual tax rate value of the qualifying vehicle was \$55,000, and the charge for the modifications was \$2,000, the tax rate value for the purpose of determining the tax reduction is \$53,000.

This reduced tax rate value also determines the tax rate applicable to the lease payments. The general tax rate applicable to leases of vehicles that are not passenger vehicles is 7%.

Effective February 22, 2006, the tax rate on passenger vehicles is based on the tax rate value of the vehicle as follows.

Tax Rate Value	Tax Rate
Less than \$55,000	7%
\$55,000—\$55,999.99	8%
\$56,000—\$56,999.99	9%
\$57,000 and over	10%

For leased passenger vehicles, the higher vehicle surtax thresholds apply to the first lease payment due on or after February 22, 2006.

For qualifying motor vehicles, the tax rate applicable to each lease payment is the rate applicable to the reduced tax rate value. Using the example above, if the qualifying vehicle were a passenger vehicle, the actual tax rate value of

\$55,000 would attract a tax rate of 8%. However, the reduced tax rate value is \$53,000, which attracts a tax rate of 7%.

To determine the tax payable on each lease payment, the lease payment is reduced by the same percentage as the reduction in the overall tax rate value, as outlined below.

Determining the Percentage Reduction in the Overall Tax Rate Value

Tax rate value before reduction	\$55,000
Cost of special features	<u>2,000</u>
Reduced tax rate value	\$53,000
Percentage reduction in tax rate value ($\$2,000 / \$55,000 \times 100$)	3.64%
Actual lease payment	\$650.00
Less percentage reduction ($\$650 \times 3.64\%$)	<u>23.66</u>
Reduced tax rate value	\$626.34
Times reduced tax rate	<u>7%</u>
Tax payable on lease payment	\$43.84

The amount attributed to the special features of the vehicle must be separately indicated on the lease invoice and in the lease agreement. The lessor must retain a copy of the invoice to substantiate the collection of a reduced amount of tax on that lease.

Option to Purchase

Where an option to purchase is exercised by the first lessee under the terms of the first lease, variations of that lease, or renewals of that lease, the vehicle is considered eligible for a reduction in tax as though it were the first retail sale. This means that the tax applicable to the purchase price (lease buy-out price) will be reduced by the portion of the purchase price that can be reasonably attributed to the special features or modifications. The tax reduction does not apply when the vehicle is resold to someone other than the original lessee.

ADAPTATION AND MODIFICATION OF VEHICLES

Services provided to adapt or modify motor vehicles to facilitate their use by, or the transportation of, an individual using a wheelchair, are exempt from social service tax. This includes labour charges to modify a vehicle to facilitate wheelchair access, such as raising the roof, lowering the floor, or widening the motor vehicle entries. Any separate charges for materials that are attached to, and become part of, the vehicle are not subject to the tax.

The service provider is not required to pay tax on parts and materials that are used for the sole purpose of providing such modifications, and that are attached to, and become part of, the vehicle. However, they are required to pay tax on any materials and equipment used or consumed in the course of providing the service.

More Info: [Bulletin SST 003](#), *Exemption for Equipment and Devices Used by Persons with a Permanent Disability*

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 email 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, 20, 23, 24, 71(1)(g), 42(2) and Regulations 2.41, 2.42, 2.46, 3.25