

Design Consultants

Social Service Tax Act

Updated: March 2005

Page 2—Taxable and non-taxable goods or services sold together for a single price.

The following guidelines are provided to assist design consultants in understanding their responsibilities under the *Social Service Tax Act*.

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

In this issue...

- ***Registration***
- ***Purchases or leases for business use***
- ***Provision of a service***
- ***Production of tangible personal property***
- ***Improvements to real property***
- ***Retail sales***
- ***Tax returns***

REGISTRATION

Design consultants who are primarily engaged in performing a service and do not regularly make taxable retail sales do not qualify as vendors under the *Social Service Tax Act* and are not required to be registered with the Consumer Taxation Branch.

Design consultants who frequently make retail sales of tangible personal property or who manufacture tangible personal property for resale, are required to be registered as vendors. Applications for registration may be obtained from any Consumer Taxation Branch or Service BC-Government Agents office. Upon receipt of a completed application, the Consumer Taxation Branch will assign a registration number and forward a Certificate of Registration and related information to the applicant.

PURCHASES OR LEASES FOR BUSINESS USE

Design consultants are required to pay social service tax on equipment, furnishings, and supplies

which are purchased or leased for business use. This includes desks, chairs, drafting tables, stationery, office supplies, and similar items.

If any of these items are acquired from local or out-of-province suppliers who have not charged social service tax, the design consultant is responsible for remitting the tax due on the purchases to the Minister of Finance.

PROVISION OF A SERVICE

Fees charged to a customer for design services that do not include the production or sale of tangible personal property are not subject to the tax.

When the production of tangible personal property is an integral part of the service performed and is primarily for use of the design consultant, tax does not apply to the charge to the customer. The design consultant is required to pay tax on all materials used in providing the service.

The following are examples of situations in which social service tax **does not** apply to fees charged to customers for design services.

- The design consultant develops a concept and constructs a model or draws an original blueprint to illustrate the concept to the client. Tax does not apply to the charge to the customer. The design consultant is required to pay tax on the cost of all materials used in developing the concept and preparing the model or blueprint.
- The design consultant supervises the production of signs, display materials, brochures, or similar items and the printer or manufacturer bills the client. The fees received by the design consultant for the services provided are not subject to social

service tax. The printer or manufacturer is required to collect tax from the customer on the charge for the tangible personal property produced.

- Where the purchase of tangible personal property is not a requirement of the design consulting contract and the charge for the design services is separately stated on the customer's invoice, social service tax does not apply to the design fee. If tangible personal property is subsequently sold to the customer, tax applies to the total amount charged to the customer for the tangible personal property.

Tax does not apply to the tangible personal property if the provision of the tangible personal property is merely incidental to the contract for the service.

Examples of where tangible personal property is incidental to the sale include:

- Drawings provided under a contract for architectural services
- Original research reports provided under contract for research services
- The master copy of a movie provided under a movie production contract.
- An original graphic design on paper, disk, or other medium provided by a graphic designer under a contract for professional services.

PRODUCTION OF TANGIBLE PERSONAL PROPERTY

Fees charged by a design consultant which are directly related to the production and sale of tangible personal property for the use of the client are subject to tax, whether or not they are billed separately. The following are examples of situations in which tax **applies** to charges to customers.

- When a design consultant produces a portable display unit for use by the client, the total charge to the client is subject to tax. If delivery and installation charges are stated separately on the invoice, only the charge for the portable display unit is subject to tax.
- Display models manufactured by a design consultant for a client are subject to tax, even if the plans and specifications for the model are supplied by the client. However, if clients provide their own materials and the design consultant is only performing a service, social service tax does not apply to the amount billed.

- Slide presentations and sound tapes produced by a design consultant are subject to tax. However, if a client provides slides and a sound track to a design consultant for synchronization, social service tax does not apply to any charges for services billed by the design consultant.
- When a client purchases goods from a supplier recommended by a design consultant and the design consultant receives a commission from the supplier, tax applies to the full amount billed to the client by the supplier.

Design consultants may obtain materials incorporated into tangible personal property for resale exempt from tax by quoting their vendor registration number to their suppliers.

Taxable and Non-Taxable Goods or Services Sold Together for a Single Price

This type of bundling can lead to different tax applications depending on the price of the bundle and the value of the taxable goods or services in the bundle.

Generally, if a taxable good or service is bundled with a good or service that is not taxable and both are sold for a single price, tax applies only to the fair market value of the taxable item.

More Info: [Bulletin SST 119](#) *Bundled Sales: Taxable and Non-Taxable Goods or Services Sold Together for a Single Price*

IMPROVEMENTS TO REAL PROPERTY

Displays, exhibits, and artwork (e.g., sculptures, murals) designed, supplied, and installed by the design consultant in such a way that they are permanently affixed to real property (e.g., building, wall, permanent mounting) are improvements to real property and are not subject to social service tax. Under such circumstances, tax does not apply to amounts billed to the customer but the design consultant is required to pay tax on the cost of materials used to supply and install the item.

If the supply and installation of wallpaper, wall-to-wall floor coverings, and similar improvements to real property are included by a design consultant as part of the work completed for a client, the design consultant is considered to be a contractor with respect to the material installed and is required to pay tax on the purchase price of the material. Tax does not apply to the charge to the customer.

RETAIL SALES

Tax applies to all retail sales of tangible personal property sold to a customer.

Where a design consultant sells furnishings, pictures, and similar items of tangible personal property at a fair retail price in addition to providing design services, and the fee for the design services is separately stated on the invoice, tax applies only to the charge for the tangible personal property. If the fee for the design services is not separately stated, tax applies to the total charge to the customer.

An agreement to provide a client with artwork in any form, which is not permanently affixed to real property, is considered to be a sale of tangible personal property and is therefore subject to tax. Artwork may be described as creative art, rough art, finished art, conceptual graphics, or otherwise.

Tax does not apply to sales of tangible personal property delivered by the seller to a location outside of the province, provided that the vendor retains evidence of the delivery to an out-of-province destination.

TAX RETURNS

Tax collected on sales to clients and due on purchases for use by a design consultant must be remitted to the Minister of Finance on a regular basis. A tax reporting period will be established by the Consumer Taxation Branch at the time of registration as a vendor.

A design consultant who does not qualify for registration as a vendor is still required to remit tax collected on sales and due on purchases. Forms and instructions for remitting the tax due may be obtained from any Consumer Taxation Branch or Service BC-Government Agents office.

NEED MORE INFO?

This bulletin is provided for convenience and guidance. If you still have questions call us at 604 660-4524 in Vancouver or toll-free at 1 877 388-4440 elsewhere in Canada or refer to the legislation.

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, 2, 2.1, 3, 5, 9, 69.1 and Regulations 12, 16