Ministry of Small Business
and Revenue

BRITISH COLUMBIA

Bulletin SST 098

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Equipment Brought into the Province for Temporary Use *(1/3 Formula)*

Social Service Tax Act

Vehicles and equipment brought into the province for a specific task and removed from the province after completion of the task are eligible for payment of tax on 1/3 of their value for every 12-month period during which the equipment is in the province for more than five days. This bulletin outlines the application of social service tax to equipment brought into the province for temporary use.

This bulletin does not apply to conveyances used in inter-provincial or international trade for commercial carriage of passengers and goods, such as aircraft, vehicles, railway rolling stock, and vessels. Please refer to **Bulletin SST 073,** *Tax on Multi-jurisdictional Vehicles*, or contact the Consumer Taxation Branch for information.

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…

DEFINITIONS

Tax Rate

The rate in effect on the entry date of the equipment

The rates are:

- before February 20, 2002, 7%
- between February 20, 2002 and October 20, 2004, 7.5%
- on or after October 21, 2004, 7%

Entry Date

The day on which the equipment first entered the province. For example, equipment first enters the province on March 2, 2002 and is removed on November 1, 2002. It re-enters the province on January 1, 2003 and is removed February 1, 2003. For the purposes of this bulletin, the entry date for this equipment is March 2, 2002. The "day" is the calendar day or part thereof.

EXEMPTION FOR PRODUCTION MACHINERY AND EQUIPMENT

Effective July 31, 2001 eligible production machinery and equipment is exempt from tax when brought into the province by qualifying manufacturers, those in the logging, mining and petroleum and natural gas industries. The exemption also applies to those regularly engaged in geophysical surveying for the purposes of discovering and determining the scope of petroleum, natural gas, coal and mineral deposits.

Taxable services (repair, installation and maintenance services) provided to exempt machinery and equipment are also exempt from tax.

For details on eligibility and the requirements to be met in order to qualify for the exemption, please see the following informational materials produced by the Consumer Taxation Branch:

Bulletin SST 054, *Manufacturers*
Oil and Gas Industry Webpage
Bulletin SST 081, *Mining Industry*
Notice to the Logging Industry (February 2002)

EQUIPMENT QUALIFYING FOR THE 1/3 FORMULA

Eligibility Criteria

Tangible personal property eligible for payment of tax on the 1/3 formula includes equipment or vehicles, such as road building or construction equipment, brought into the province for a short period of time to fulfil the requirements of a specific contract or to complete a specific job.

Equipment will qualify for payment of tax on the 1/3 formula if **one** of the following conditions is met.

- The contract specifies a completion date within two years and five days from the date of entry.
- The contract is for more than two years and five days but the equipment is being brought in to perform a specific task which, under the terms of the contract, will be completed in less time.
- It is evident from the nature of the job that the equipment will be removed from the province within two years and five days.

If the equipment is to remain in the province for a period of two years and six days or more, tax is payable on the full value of the equipment at the time it enters the province.

Equipment that Does not Qualify

The 1/3 formula does not apply to equipment initially brought into the province for an indefinite period of time. If such equipment is subsequently removed from the province within two years and five days, it is **not eligible** for a refund of a portion of the tax paid because it did not qualify for the 1/3 formula at the time of entry.

Equipment brought into the province on or before July 19, 1989, does not qualify for the 1/3 formula. This equipment was subject to tax on its full value at the time it entered the province. No additional tax is payable on such equipment.

THE 1/3 FORMULA

Calculating the Tax Due

With the exception of the barge mounted cranes described below, equipment brought into the province for temporary use is subject to tax on 1/3 of its value for every 12-month period during which it is in the province for more than five days.

The tax payable is calculated using the following formula.

$$\text{Tax due} = \frac{\text{value of the equipment}}{3} \times \text{tax rate}$$

Heavy lifting barge mounted cranes are also subject to tax on the 1/3 formula. However, effective March 16, 2001, the number of days before tax is payable for barge mounted cranes with a lifting capacity of greater than 100 metric tonnes is increased from 5 days to 40 days **if** those cranes are relieved from federal customs duties under the *Vessel Duties Reduction or Removal Regulations* (Canada), SOR/90-304.

Tax Paid to Another Province

Under this formula, the maximum tax payable over three 12-month periods is the tax due on the full value of the property less any tax previously paid on that property to ***another province***. Once the maximum amount of tax is paid, no further tax is payable on that equipment for subsequent entries into the province.

The formula for calculating the maximum tax payable under the 1/3 formula is:

(P X R) – A

- "P" is the purchase price of the equipment, or in the case of equipment the owner previously used outside of the province, the depreciated value of the equipment.
- "R" is the tax rate in effect on the entry date of that equipment.
- "A" is tax **previously** paid to another **province** on that equipment.

Tax paid to a foreign jurisdiction **cannot** be used to reduce the tax payable under this formula.

12-Month Period

When the Period Begins: A 12-month period begins on the date the equipment first enters the province and ends the day before the anniversary of that date (e.g., March 2, 2002 to March 1, 2003).

The Second 12-Month Period: If the equipment is in the province for a continuous period of greater than twelve months, the second 12-month period begins on the anniversary of the first 12-month period and ends the day before the anniversary of that date. For example, if the first 12-month period was March 2, 2002 to March 1, 2003, the second 12-month period would be March 2, 2003 to March 1, 2004.

If the equipment is removed from the province during the first 12-month period and re-enters after the expiration of the first 12-month period, the second 12-month period begins on the date of the second entry. For example, equipment enters the province on March 2, 2002 and leaves on October 12, 2002. The first 12-month period is from March 2, 2002 to March 1, 2003. The equipment re-enters the province on November 18, 2003. The second 12-month period is therefore from November 18, 2003 to November 17, 2004.

Taxable Value

New Equipment: The taxable value of new equipment entering the province for temporary use is the purchase price plus any customs, excise, and delivery charges, or any other costs incurred prior to use of the equipment in the province, but not including the federal goods and services tax (GST).

Used Equipment: The taxable value of equipment previously used outside of the province by the owner is the greater of the depreciated value or 50% of the purchase price, including any customs, excise, and delivery charges, or any other costs incurred prior to use of the equipment in the province, but not including GST.

The depreciated value is the value of the equipment on the day within each 12-month period that the property first entered the province. Where such property is in the province for a continuous period of more than twelve months, tax applies to the depreciated value on the first day of the continuous period.

For the purpose of calculating the depreciated value of equipment, the following rates apply.

- Aircraft: 25% per year (2.0833% per month).
- Railway rolling stock: 10% per year (.8333% per month).
- Motor vehicles (includes all self-propelled vehicles): 30% per year (2.5% per month).
- Equipment, furnishings, or fixtures: 20% per year (1.667% per month).

Depreciation of equipment mounted on a motor vehicle stock is calculated separately. For example, if a crane is mounted on a truck, the depreciated value of the truck is calculated at 30% per year; the depreciated value of the crane is calculated at 20% per year.

Freight and Other Transportation Costs

Tax only applies to freight and other transportation related costs associated with the first entry of equipment into the province. Freight and other charges incurred for subsequent entries are not factored into the calculations of the tax due because they were incurred after the equipment has been used in the province.

Capital Additions

Any capital additions to the equipment incurred before its re-entry into the province will result in an increase in the taxable value of the equipment. Tax will apply to the value of the capital additions under the 1/3 formula, but will not include costs for transporting the equipment (and capital additions) into the province.

Due Dates for Tax Payment

In the province for six or more days: When equipment brought into the province to complete a particular job will remain in the province for a period of six or more days, the tax payment for that 12-month period is due within **fifteen days** from the date of entry.

In the province for less than six days: If the equipment first enters the province for less than six days and later, during the same 12-month period, the equipment re-enters the province for an additional period of time, the tax payment for that 12-month period is due within **fifteen days** from the sixth day the equipment is in the province.

EXAMPLES OF APPLICATIONS OF THE 1/3 FORMULA

One Entry Into the Province

A contractor brings new equipment into the province to fulfil the terms of a contract. The equipment enters the province on March 2, 2002 and will be in the province for one and one-half years, after which it will be removed from the province. The purchase price of the equipment is $100,000. The tax payments for the two 12-month periods are as follows.

Note: A 7.5% tax is in effect from February 20, 2002 to October 20, 2004 for any first time entries within that time period.

First 12-month period: March 2, 2002 to March 1, 2003

- Tax due: ($100,000 x .075) ÷ 3 = $2,500
- The tax is payable to the province by March 17, 2002.

Second 12-month period: March 2, 2003 to March 1, 2004

- Tax due: ($100,000 x .075) ÷ 3 = $2,500
- The tax is payable to the province by March 17, 2003.

Multiple Entries Into the Province

New equipment ($100,000 purchase price) is brought into the province on March 2, 2002, to perform a specific job which will require that it remain in the province for more than five days. Over the next few years, the same equipment re-enters the province for other jobs. At the time of each entry, it is not known if there will be subsequent entries.

First 12-month period: March 2, 2002 to March 1, 2003

- The **new** equipment enters the province on March 2, 2002 and leaves April 5, 2002; it re-enters the province October 15, 2002 to October 25, 2002.
- Tax due: ($100,000 x .075) ÷ 3 = <u>$2,500</u>
- Tax is payable by March 17, 2002. No tax is payable on the October 15, 2002 re-entry because it occurs within the same 12-month period.

Second 12-month period: April 4, 2003 to April 3, 2004

- The **same** equipment enters April 4, 2003 to April 5, 2003 (2 days) and January 16, 2004 to January 19, 2004 (4 days).
- The tax is payable on the **depreciated** value on the date of entry (April 4, 2003).
- Depreciation rate = (13 months x 1.667) = 21.671%
- Tax due: ($78,329 x .075) ÷ 3 = <u>$1,958.23</u>
- Tax is payable by February 3, 2004 (fifteen days from the sixth day that the equipment is in the province).

Third 12-month period: September 14, 2005 to September 13, 2006

- The **same** equipment enters September 14, 2005 to September 16, 2005 (3 days); re-enters June 8, 2006 to June 11, 2006 (4 days). Between these entries, the equipment was used in another province and $388.32 tax was paid to that province.
- The taxable value on September 14, 2005 is $50,000 (50% of the original purchase price).
- Tax due: [($50,000 x .075) ÷ 3] - $388.32 (tax paid to other province) = <u>$861.68</u>
- Tax is payable by June 25, 2006 (fifteen days from the sixth day that the equipment is in the province). Once the third tax payment is made to British Columbia, no further British Columbia social service tax is payable on subsequent entries of that equipment.

Please Note: Although the social service tax rate was increased from 7% to 7.5%, effective February 20, 2002, the 7% tax rate continues to apply to any equipment which **first entered** the province on, or before, February 19, 2002. Any equipment which **first entered** the province before this date, and which subsequently re-enters, remains subject to the former tax rate at 7%.

Any equipment which enters the province for the first time on or after October 21, 2004 is subject to a 7% tax rate.

LEASED EQUIPMENT BROUGHT INTO THE PROVINCE FOR TEMPORARY USE

Calculating the Tax Payable

Leased equipment brought into the province for use is subject to tax on each lease payment made for a lease period during which the equipment is used in the province. The tax due is based upon the ratio of the hours in each lease period during which the equipment is in the province to the total hours in each lease payment period. The tax is calculated using the following formula.

$$\text{tax due} = \text{lease price} \times \frac{\text{number of hours in the province}}{\text{number of hours in lease period}} \times \text{tax rate}$$

The lease price is the full amount of the lease payment for the lease period during which all or a portion of which the equipment is in the province. The tax rate is the rate in effect at the time the lease payment is made. The tax is payable at the time the lease payment is made.

For example, a crane leased for $1,000 per month is brought into the province for five days. The number of hours in the lease period is 720 (30 days x 24 hours); the number of hours in British Columbia is 120 (5 days x 24 hours).

The British Columbia tax due for that lease period is $11.67, calculated as follows:

Tax due: $1,000 x 120/720 x .07 = <u>$11.67</u>

Repairs and Replacements

Taxable Services

Social service tax applies to purchases of taxable services in British Columbia. Taxable service means any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish, or maintain tangible personal property.

With respect to equipment subject to the 1/3 formula, taxable services include all repairs, engine tune-ups, oil change, lubrication, tire changing, battery charging, and installation of all parts including engines, brakes, and sparkplugs. Equipment cleaning services such as engine shampooing and power washing are not subject to the tax. Battery boosting and towing charges are also exempt from the tax.

The 1/3 formula does not apply to taxable services. Tax is payable on the full cost of any taxable services purchased in British Columbia.

Tax does not apply if the service is provided by an employee to their employer. For example, the labour for repairs to a company truck performed by company staff are not subject to the tax. This applies even if, for accounting purposes, the employee "bills" the employer for services performed.

Taxable Service Exemptions

Tax does not apply to such taxable services when they are provided to items that are exempt from tax under the Act.

To claim the exemption for services provided to exempt production machinery and equipment, those eligible must provide their service provider with a completed *Certificate of Exemption - Production Machinery and Equipment* (**FIN 453/M**). These may be obtained from any Consumer Taxation Branch, Service BC-Government Agents office or on the Consumer Taxation Branch website.

More Info: **Bulletin SST 018,** *Taxable Services*

Replacement Parts

The application of tax to replacement parts for equipment qualifying for the 1/3 formula is as follows.

- Tax is not payable on repair parts for equipment which will be used solely outside of British Columbia.
- Tax applies to the full purchase price of repair parts used to service equipment which is used in British Columbia.
- Where major repairs are capitalized on qualifying equipment, the value of the repairs must be added to the value of the equipment and tax paid on 1/3 of the total value. If the three payments have already been paid on the equipment, then the capitalized repairs should be treated as a separate unit and tax is due based on the 1/3 formula.

Exemption for Parts Used on Production Machinery or Equipment

The exemption for parts for exempt production machinery and equipment has been expanded to include generic parts. Previously, the exemption applied only to parts that were *designed* as repair and replacement parts for exempt machinery and equipment.

The exemption for generic parts applies only to purchases made on or after February 20, 2002. Tax paid on generic parts purchased before this date is not refundable, even if the parts are held in inventory and have not yet been used.

Under this provision, parts are exempt from tax when:

- purchased by a person eligible for the production machinery and equipment exemption, and
- used for exempt production machinery or equipment.

The exemption **does not apply** to:

- materials used to make parts, such as generic hoses, sheet metal, and bulk wire, or
- consumables, such as motor oils, hydraulic fluids, and cleaning solutions.

For further information on this exemption, please see Consumer Taxation Branch notice, **Tax Exemption for Production Machinery and Equipment: Exemption for Parts Expanded**

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.

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References: *Social Service Tax Act,* Sections 1, 6, 12, 14, 19 and Regulations 2.38, 2.39, 2.46, 2.47, 3.29, 13.1 - 13.12