

Application of Tax to Boat Leases and Charters

Social Service Tax Act

This bulletin outlines the application of social service tax to boat leases and charters, and to replacement parts and repairs provided to boats used for leasing and charters.

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

Boat:

Any type of water craft, including those propelled by oars, paddles, sails, engines, or other means, and also those with no means of self-propulsion.

Lease:

The rental of a boat alone, without the provision of an on-board skipper, guide, crew, instructor, or other person.

Charter:

The rental of a boat including the on-board services of a skipper, guide, crew, instructor, or other person.

REGISTRATION AS A VENDOR

Who Needs to Register

Persons who obtain a boat for the sole purpose of leasing it to others are required to register as

vendors under the *Social Service Tax Act* and collect social service tax on all lease payments.

Persons who obtain a boat for the sole purpose of providing charter services are not required to register as vendors as tax does not apply to the charge made to their customers for charter services.

Persons who obtain a boat for the purpose of mixed leasing and chartering are required to register as vendors under the *Social Service Tax Act* and collect social service tax on all lease payments, but not on payments for charter services.

How to Register

Applications for registration may be obtained from any Consumer Taxation Branch or Government Agents office. Upon receipt of a completed application, the Consumer Taxation Branch will assign a registration number and forward to the applicant a Certificate of Registration and information about procedures for reporting and remitting the tax collected.

PURCHASING THE BOAT

Boats Used Solely for Leasing

When a boat is purchased **for the sole purpose of leasing**, it can be purchased without payment of tax if the purchaser's registration number is given to the vendor.

If the boat is purchased before the purchaser obtains a registration number, tax must be paid on the purchase price. If no personal use is made of the boat, the tax may be refunded by the Consumer Taxation Branch. To obtain a refund, the purchaser must keep complete records of all leases and other uses of the boat, such as trouble-shooting

mechanical problems.

If the boat has the capability of recording engine usage, the Consumer Taxation Branch requires that all engine hours be fully accounted for, from the date of purchase to the date of receipt of a registration number. Without detailed records, a refund of the tax may not be available.

Boats Used for Chartering

When a boat is obtained for the purpose of chartering, or for mixed leasing and chartering purposes, tax is due and payable on the purchase price.

Environmental levies

When a new lead-acid battery is included with a boat being purchased, an environmental levy is imposed. The levy is outlined on page 3 of this bulletin.

HOW TAX APPLIES TO BOAT LEASES

Boats Leased to an Individual

When the owner (lessor) leases a boat to a person (lessee), the lessor must collect tax on all lease payments at the time the payments are made.

Tax applies to the total consideration for each lease period which the lessee must pay in order to receive the right to use the boat. Tax also applies to charges for other items leased with the boat, such as fishing gear or camping equipment.

Charges for fuel and optional insurance, which are not part of the normal lease charge, are not subject to social service tax if they are itemized separately on the invoice to the lessee. Refundable damage deposits are also not subject to tax.

Boats Leased to a Charter Outlet

When the owner (lessor) leases a boat to a person (lessee) who will be using it to provide charter services, the owner must collect tax on all lease payments at the time the payments are made. Tax applies to the total consideration for each lease period in the same manner as for leases to individuals.

The charges made by the charter outlet to its customers for charter services are not subject to social service tax. The provision of charter services includes lessons or instruction, but does not include situations where the instructor is not on board the boat during the whole lease period.

Boats Leased to a Lease Outlet

When the owner (lessor) leases a boat to a person

(lessee) who will be re-leasing it to others, the lessor is not required to collect tax on the lease payments provided the registration number of the lessee is quoted on all lease invoices issued by the lessor.

The lessor must continue to file tax returns during the period when the boat is leased to the lease outlet. If no other sales or leases are made by the lessor, then nil tax returns must be filed.

The lease outlet (lessee) is responsible for collecting and remitting the tax due on the re-lease of the boat.

There are no special requirements which must be met when the owner (lessor) ends the lease agreement with the lease outlet, and commences leasing the boat directly to individuals. However, once the boat is removed from the lease agreement, the lessor again becomes responsible for collecting and remitting the tax due on lease payments made by individuals.

Conversion from Lease Use to Other Use

A boat initially purchased without payment of tax on the basis that it is to be used solely for leasing purposes becomes subject to tax if:

- it is subsequently used by the owner for charter purposes;
- it is subsequently used personally by the owner, the owner's spouse, or the owner's dependent child, with or without charge; or
- it is used by others without charge.

At the time the boat is converted to non-lease use, tax becomes due on the greater of the depreciated value of the boat at the time of the use or 50% of the purchase price. For the purpose of calculating the tax due, boats may be depreciated on a straight line basis at the rate of 15% per year (1.25% per month).

When a boat which is leased to a leasing or charter outlet is leased back by the owner, a spouse, or a dependent child, the boat also becomes subject to tax, calculated as outlined above.

If a boat owned by a corporation is leased to a leasing or charter outlet, a director or shareholder of the corporation may lease the boat without the purchase price of the boat becoming subject to tax, provided that it is leased under the same terms as would be offered to any other individual.

REPAIRS AND REPLACEMENT PARTS

How the Tax Applies to Parts and Services

Owners of boats used solely for leasing may purchase repair and replacement parts exempt

from tax by quoting their registration number to suppliers. Service charges to install replacement parts or to repair, assemble, dismantle, recondition, adjust, restore, refinish, or maintain the boat or its parts are also not subject to tax.

Lease outlets which lease boats for re-leasing to others may also purchase repair parts and related services for the boats exempt from tax by quoting their registration number to the supplier.

The owner of a boat used for chartering, or mixed leasing and chartering, must pay tax on the purchase of repair and replacement parts, and on charges to install parts or to repair, assemble, dismantle, adjust, restore, recondition, refinish, or maintain the boat or its parts.

Charter outlets which lease boats for charter use, or mixed lease and charter use, must pay tax on the purchase of repair and replacement parts and related services.

All purchasers of new replacement lead-acid batteries must pay an environmental levy as outlined below.

ENVIRONMENTAL LEVY ON LEAD-ACID BATTERIES

What is the Levy

An environmental levy of \$5 applies to each new lead-acid battery purchased in British Columbia. The levy does not apply to used, rebuilt or reconditioned lead-acid batteries, or to lead-acid batteries weighing less than 2 kg. Lead-acid batteries are considered new up to the time of the first retail sale subsequent to their manufacture.

The seller is required to collect the levy on all sales of lead-acid batteries that are sold separately or included with the item being sold.

How the Levy Applies

When a boat is sold, the retailer must collect social service tax on the purchase price of the boat, as well as the \$5 levy on each new lead-acid battery included with the boat as part of the sale. However, the levy is not subject to social service tax because it is not part of the purchase price. The levy should be shown separately from the social service tax on the invoice.

Who Pays the Levy

Persons who are exempt from payment of social service tax on the purchase of batteries, such as bona fide commercial fishermen, are not exempt from payment of the levy.

The lessor of a boat is required to pay the environmental levy on its purchase of new lead-acid batteries for use in a boat that is leased to others. The lessees are not required to pay the levy on batteries included with the boat being leased.

Charter and lease outlets (lessees) who purchase new replacement lead-acid batteries for use in leased boats that are re-leased or chartered to others also have to pay the environmental levy.

TAX RETURNS

Reporting all Taxes and Levies Collected

All taxes collected on the lease of boats, and levies collected on lead-acid batteries, must be remitted to the Minister of Finance and Corporate Relations on a regular basis. The total amount of levies collected must be added to the social service tax collected and reported on line 2 of the tax return form. A tax reporting period will be established by the Consumer Taxation Branch at the time of registration as a vendor.

Records must be maintained of all leases of the boat. These records must be retained for a period of seven years.

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(3.1), 2.04, 2.1, 2.3(1), 2.4, 3(1); 4(3) and Regulations 2.38, 2.45 (b)