

Ready-Mixed Concrete Industry

Social Service Tax Act & Motor Fuel Tax Act

Update: Budget 2006

Expansion of exemption for parts for
production machinery and equipment

This bulletin will help the ready-mixed concrete industry apply the social service tax, also called the provincial sales tax (PST), and the motor fuel tax, to their businesses.

Ready-mixed concrete may be either "wet" batched or "dry" batched. Wet batched concrete is pre-mixed in a central batching plant before being charged into the drum of the transit mixer, where final manufacturing of the product takes place on the way to the site. In the case of dry-batching, dry ingredients are added to the mixer drum along with water. The entire mixing process takes place in the mixer drum. The application of tax and exemptions to manufacturers of ready-mixed concrete at wet and dry batch plants is identical, despite the differences in the manufacturing processes.

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 *Motor Fuel Tax Act* and Regulations can be found on the web at www.gov.bc.ca/sbr

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APPLICATION OF SOCIAL SERVICE TAX

Ready-Mixed Concrete Delivered By The Seller's Vehicles

Tax applies to all charges made by the seller up to the point when the purchaser accepts title to, and responsibility for, the concrete. This includes all charges that the purchaser must pay to obtain title to the concrete at the job site, including charges for the ready mix, add mixtures, heating, delivery, less-than-load charges, and all other similar charges, whether or not they are separately stated on the sales invoice.

Charges in addition to the initial contract price that result from unexpected delays at the job site (i.e., standby or waiting time) are not subject to tax

provided such charges are stated separately on the sales invoice.

Customers generally contract for the purchase of ready-mixed concrete as a product manufactured to certain specifications. The mixing of the ingredients in delivery vehicles while they are on their way to the job site is an integral part of the manufacturing process. No transfer of title for ready-mix concrete can occur until the product has been fully manufactured into ready-mix concrete of desired specifications.

Therefore, when the concrete is delivered by the seller's truck, the Consumer Taxation Branch is not able to accept the seller's plant as the point at which transfer of title takes place. This is because the manufacturing process is incomplete and continues enroute to the job site. Consequently, the seller continues to be responsible for the delivery, specifications, quality, and any other risks involved before the product reaches the place where it will be used.

Concrete Received By The Purchaser At The Seller's Plant

When the purchaser takes delivery at the plant and then transports the concrete **by means of the purchaser's own vehicle**, the sales transaction is completed at the plant. The customer has taken delivery of the concrete and full responsibility for the product at the plant. Accordingly, the tax

applies to the full sale price that must be paid to acquire title at the plant. In such cases, the seller will have no further obligations for the product after the product has left their possession.

PRODUCTION MACHINERY AND EQUIPMENT EXEMPTION

Who Qualifies?

Effective July 31, 2001, manufacturers of ready-mixed concrete qualify for the exemption on production machinery and equipment if their sales of ready-mixed concrete exceed \$30,000 per year.

What is Qualifying Machinery and Equipment?

Machinery and equipment purchased, leased or used by eligible manufacturers, as defined above, may be acquired exempt from tax provided it is to be used **directly** and **primarily** (over 50% of the time it is in use) in the manufacturing process at a manufacturing site.

Directly means the machinery and equipment must be part of, or an integral component of, the manufacturing process that transforms the raw material into the finished product at the manufacturing site.

In the case of ready mixed concrete manufacturers, the **manufacturing site** is:

- from the point where the raw materials are received, including storage facilities and equipment, silos and loaders;
- through the conveying, weighing, batching and charging processes; and
- includes the drum and attachments (the delivery system) on the transit mixer truck, up until such time as the transit mixer reaches the job site and discharges its load.

Transit Mixers and Drum Units

Under Regulation 13.9(b) of the *Social Service Tax Act*, vehicles designed so that they can be used on public highways are specifically excluded from the exemption. Therefore, the truck on which the mixer drum is mounted does not qualify for the exemption.

However, the drum and other parts of the delivery system may be purchased tax exempt if they are purchased/leased separately from the vehicle. If the truck and delivery system are purchased/leased together as a unit, the delivery system is tax exempt only if the charge for the delivery system reasonably reflects its value and is itemized separately from the vehicle.

All equipment and attachments related to the operation of the drum, as a piece of machinery separate from the truck, is also exempt from tax. Delivery system components/attachments include, for example, power take-off systems, control systems (both in and out of the cab), chutes, equipment for washing out chutes, as well as storage tanks for water and chemicals. It does **not** include "boost-a-load" wheels designed to re-distribute the weight of heavy loads.

Repairs to the drum and related equipment (not including the vehicle) are also exempt from the tax.

Parts for Production Machinery or Equipment

What is a Part?

A part is pre-manufactured tangible personal property that is an integral piece of the machinery and equipment required for its proper use and operation, that can be installed with minimal adjustments.

Effective February 20, 2002, the exemption for parts purchased for use on exempt production machinery and equipment was expanded to include all parts, provided the purchaser is eligible for the exemption.

The expansion of this exemption to generic or non-industrial 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 for future use.

Effective February 22, 2006, the exemption for parts 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.

The exemption **does not apply** to materials used to make parts, such as hoses, sheet metal and wire that are bought in bulk and cut to size before use; or consumables, such as motor oils, hydraulic fluids, and cleaning solutions.

How to Claim the Exemption

All manufacturers are required to provide each of their suppliers with a completed *Certificate of Exemption - Production Machinery and Equipment* (**FIN 453/M**) in order to purchase or lease machinery and equipment exempt from tax.

More Info: [Bulletin SST 054](#), *Manufacturers*

REFUND OF MOTOR FUEL TAX PAID ON CLEAR FUEL USED IN A STATIONARY MOTOR VEHICLE

Transit Mixers

Clear fuel consumed in the engine of a stationary transit mixer is eligible for a refund of the difference between the clear and coloured fuel tax rates when consumed during the following activities, provided that the drum is rotating and the vehicle is stationary:

- warming up, waiting to load, and loading;
- ticketing;
- waiting at the jobsite;
- unloading; and
- washing.

Applicants may apply for a refund of the difference between the clear and coloured fuel tax paid for 50% (prior to July 1, 1997, the rate was 25%) of all fuel consumed in the engine of a transit mixer. Fuel consumed while the vehicle is travelling to and from the jobsite is not eligible for refund.

Refund claims for more than 50% of all fuel consumed in the engine of a transit mixer must comply with the following requirements.

- Additional documentation must be provided which indicates the average time spent on each eligible and ineligible activity, as obtained from trip records.
- Job/trip sheets must be analyzed for a minimum of one of every four months to establish average times per activity.
- The refund should be calculated using the average times and relative consumption factors established by the industry and the branch for each type of activity.
- If a claimant uses different relative consumption factors than those established by the branch, it will be necessary to conduct adequate testing to justify these factors. The branch should be contacted prior to conducting any fuel testing to ensure that the testing methods and procedures are acceptable.

Because of potential changes in efficiency and changes in the nature of the work performed, each refund claim must be supported with the above information.

Concrete Pump Trucks

The Act also provides for a refund of the difference between the clear and coloured fuel tax rates for fuel consumed in the engine of a concrete pumping truck **while the unit is pumping ready-mixed concrete**. Refunds are not available for tax paid on fuel consumed in pumping units during warm-up, setting up, waiting (including waiting between pumping), cleaning, and driving to and from jobsites, because no concrete is pumped during these activities.

If the pump truck has a separate fuel tank connected to the pump engine no refund is available because the separate tank could carry coloured fuel.

Refund claims for more than 50% of all fuel consumed in the engine of a pump truck while pumping concrete are available on the same terms as those described above for transit mixers.

Pumping Dry Cement or Flyash

The Act also provides a refund of the difference between the clear and coloured fuel tax rates for fuel consumed in the engine of a vehicle while pumping-off dry cement or flyash.

A consumption rate of 0.25 litres of fuel per tonne of dry cement or flyash is used to determine the amount of fuel eligible for the refund.

Refund claimants are required to complete an *Application for Refund of Fuel Tax (FIN 440)*, and list all fuel purchases. Claimants must provide copies or originals of all fuel purchase receipts. In addition, a summary of volumes of dry cement or flyash pumped by week or month must be provided.

NEED MORE INFO?

This bulletin is provided for convenience and guidance. If you 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.sbr.gov.bc.ca While there, you can subscribe to our free electronic update service.

References: *Social Service Tax Act*, Sections 1, 5, 6, 40, 76(1)(k), 77(c) and Regulations 13.1-13.12 and 13.14; and *Motor Fuel Tax Act*, Section 15(f) and Regulation 4