

Rentals and Leases of Tangible Personal Property

Social Service Tax Act

The following guidelines are provided to assist leasing and rental firms in determining the application of tax to their leases and rentals, and the application of tax and environmental levies to their purchases of tangible personal property. Although this bulletin refers primarily to leases, tax applies to rentals in the same manner as leases.

For information on the application of tax to leases of motor vehicles in British Columbia, or on the surcharge applied to short-term motor vehicle rentals, please refer to [Bulletin SST 103](#), *Lessors of Motor Vehicles and Trailers*.

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

Lease

An agreement under which a person is given a right to use tangible personal property.

Lease Price

Includes the total consideration paid for each lease period as well as any cash down payment, licence fees, royalty fees, fees for a right to use property (e.g., exhibit a motion picture), fees based on a measure of use, finance charges, any payment such as membership fees where a substantial benefit is the reduction of the lease price, or any other consideration paid by the lessee in order to obtain the right to use the leased item. Please note, a lessee may **not** use a trade-in to reduce the taxable lease price.

REGISTRATION REQUIREMENTS FOR LESSORS

Vendors Under the Social Service Tax Act

Persons who act as lessors of taxable tangible personal property are required to be registered under the *Social Service Tax Act* and to collect and remit the tax due on the lease price of each lease. The tax must be collected on each lease payment at the time the lease payment is paid or payable, whichever is earlier.

If you are not registered, you can register online on our website at www.sbr.gov.bc.ca/ctb. Applications may also be obtained from any Consumer Taxation Branch or Government Agents office.

APPLICATION OF TAX TO RENTALS AND LEASES

Tax applies to **all** leases of tangible personal property regardless of the period of the lease (e.g., hourly, daily, weekly, monthly), unless the item leased is specifically exempt under the *Social Service Tax Act*.

Examples of Taxable Rentals and Leases

Rentals and leases of the following types of items are subject to the tax. Please note, this is not an all-inclusive list.

- Video tapes, compact discs, VHS recorders, and TV sets.

- Camera equipment, display lighting, and sound equipment.
- Tuxedos, formal wear, costumes (exempt when rented for children under 15 years of age).
- Industrial gas cylinders.
- Boats and non-turbine aircraft (when not rented or leased as part of a flying or sailing course).
- Uniforms, towels, and linens.
- Furniture, decorations, glasses, and cutlery when itemized separately by caterers.
- Amounts paid by an exhibitor for the right to exhibit a motion picture to others.
- Sports clothing and equipment (e.g., golf carts, golf clubs, ski boots, ski equipment, bowling balls, bowling shoes).
- Office equipment and furniture.
- Computers and business machines.
- Construction equipment and tools.

Examples of Exempt Rentals and Leases

The following are not considered leases of tangible personal property and the charge for use is not subject to the tax. This is not an inclusive list.

- Fees to use equipment and play games or sports (e.g., coin-operated video game machines, pitching machines for baseball or tennis).
- Fees for instruction or lessons where the single fee also includes the use of equipment.
- Fees for the use of facilities under supervision (e.g., swimming pools).
- Coin-operated services where no property is purchased (e.g., laundromats).
- Charges for garbage removal when the container is supplied by the servicing company.
- Charges for movies in hotels or motels unless a video cassette is provided to the guest.
- Charges for use of equipment, where the owner of the equipment operates it or provides a person to operate it.

Option to Purchase

When a lessee exercises an option-to-purchase provision contained in a lease agreement, the purchase is considered to be a separate transaction. Tax must be charged on the amount

paid by the lessee to obtain title to the leased item.

Leased Equipment Brought into the Province by the Lessee

Where equipment is leased from an out-of-province lessor who is not registered as a lessor in British Columbia, the lessee is required to self-assess and remit the tax due **on all lease payments** to the Minister of Finance.

If the out-of-province lessor is registered as a lessor in British Columbia, the lessee is required to pay the tax to the lessor. The lessor is responsible for reporting and remitting the tax to the province.

Motor Vehicles Rented or Leased from Out-of-Province Lessors

When a lessee brings a vehicle into British Columbia that has been leased for a period of more than 28 days from an out-of-province lessor, and registers it in their name or in their name and the lessor's name, tax applies as follows.

- **Long-term Leases From Lessors Who Collect British Columbia Tax on Lease Payments:** If the lessor is registered to collect social service tax and has confirmed in writing, either in the lease or by letter, that they will collect and remit the required tax, the lessee may register the vehicle without paying tax. The lessee's autoplan agent will ask to see the written confirmation.
- **Long-term Leases From Lessors Who Do Not Collect British Columbia Tax on Lease Payments:** If the lessor is not registered to collect social service tax or, if registered, has not confirmed in writing that they will collect the required tax, the lessee will be required to pay social service tax on the value of the vehicle at the time of registration. The lessee's autoplan agent will collect the tax when the vehicle is registered.

The value of the vehicle is the price at which the legal and beneficial interest in the vehicle would 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 on the day in which the lessee registers the vehicle in British Columbia.

Upon expiration or termination of the lease, or removal of the vehicle for registration out of province, the lessee may claim a refund of the difference between the tax paid on the vehicle when it was registered and the tax that would otherwise have been payable on the lease payments while the vehicle was used in the province.

More Info: [Bulletin GEN 008](#), *Refunds of Overpayments of Tax*

Leases of Multi-Jurisdictional Vehicles

For information on the application of tax to leased vehicles licensed for inter-provincial or international trade for the commercial carriage of passengers or goods, please refer to [Bulletin SST 073, Tax on Multi-jurisdictional Vehicles](#).

Property Financed Through a Sale/Leaseback Arrangement

Where a person purchases tangible personal property and sells it to a leasing company for immediate leaseback, tax does not apply to the lease payments provided that one of the following conditions is met.

- The lessee paid the applicable tax on the initial purchase of the item.
- The initial purchase of the item by the lessee qualified for exemption under the Act.
- The lessee paid the reduced tax payable on conveyances used in inter-provincial commercial trade (other than multi-jurisdictional vehicles) and the percentage of use in the province during the lease periods is not greater than that on which tax was paid.

Please note that if the use of the conveyance in the province is greater than that on which tax was initially paid, tax is payable on the percentage of increased use.

The lessee must provide the lessor with documented proof of payment of the tax or qualification for exemption at the time of purchase.

TAXABLE SERVICES

Definition

A taxable service is any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish, or maintain tangible personal property. Social service tax applies to purchases of these services.

Exemption

Persons who are registered vendors or lessors under the Act are not required to pay tax on purchases of taxable services applied to goods that will be leased. For example, a registered lessor is not required to pay tax on charges for repairs to equipment held in its dealer's lease inventory. To substantiate non-collection of tax on such sales, the person providing the taxable service must record the customer's vendor registration number on the sales invoice.

Installation and Delivery Charges

Installation of tangible personal property is a taxable service and the charge for such installation is subject to tax.

Where delivery or removal by the lessor is a mandatory condition of the lease agreement, tax applies to charges for such services. Optional delivery charges are exempt from tax if delivery takes place after the lease term has expired and if the delivery charges are separately stated on the lease billing. Charges for delivery which occur during the term of the lease are part of the lease price and subject to tax, even if the delivery charges are optional and the charges are separately stated on the invoice.

Service Contracts

Mandatory Service Contracts: Where a service contract is a mandatory condition of the lease, charges to the lessee for the service contract are considered to be part of the lease price and are subject to the tax. The lessor is required to collect the tax on all such charges. This includes warranties that are included in the lease price of tangible personal property, such as a three-year warranty on the leased equipment. However, the lessor may acquire parts used to fulfil the service contract without payment of tax.

Optional Service Contracts That Include

Scheduled Maintenance: Optional service contracts that provide scheduled maintenance are subject to tax. This includes contracts where the schedule depends on the ongoing condition of the equipment, or that provide for a specific or limited number of services (e.g., up to three service calls, two tune-ups, etc). These contracts are considered to be a prepayment for taxable services. Persons providing taxable optional coverage are not required to pay tax on their costs for any parts or taxable services provided under the terms of the agreement.

Optional Service Contracts Without Scheduled

Maintenance: Tax does not apply to optional service contracts that do not include scheduled maintenance, and where services are provided only when required, such as equipment malfunctions.

Some companies have an unwritten policy of providing unsolicited maintenance at their own expense. Since this service is not scheduled, and is provided at the discretion of the servicing company, such contracts are not subject to tax.

Sellers providing exempt optional coverage are required to pay tax on their costs for any parts and any taxable services provided under the terms of such agreements. If the seller provides the taxable

services, tax applies to the materials and services consumed in providing the service. If a third party provides the taxable services, tax applies to the charge to the business providing the coverage.

For more information on service contracts, please see [Bulletin SST 110, Warranties, Service Contracts and Maintenance Agreements](#).

For more information on taxable services, please consult [Bulletin SST 018, Taxable Services](#).

ENVIRONMENTAL LEVIES

Items Subject to the Levy

A \$3 environmental levy applies to new pneumatic tires purchased in the province for \$30 or more. A new pneumatic tire includes both an inflatable tire and a solid tire (doughnut) designed for use on a vehicle (e.g., automobile, truck, trailer). The levy does not apply to tires sold for less than \$30, bicycle tires, wheelchair tires, tires purchased for use on a three-wheeled scooter designed for the transportation of a disabled person, or to recapped, retreaded, or used tires.

A \$5 levy applies to new lead-acid batteries weighing 2 kg or more purchased in the province. The levy does not apply to batteries purchased for the purpose of powering electric wheelchairs or three-wheeled motorized scooters designed for the transportation of disabled persons, or to rebuilt, reconditioned, or used lead-acid batteries. Pneumatic tires and lead-acid batteries are considered new up to the time of the first retail sale subsequent to their manufacture.

Lessors Must Pay the Levy

Motor vehicle dealers are required to self-assess levies on motor vehicles they lease as lessors. Where lessors wish to recover the cost of the levies, lease contracts must clearly indicate that the lessee is liable for these levies, but must not indicate a separate charge for the levies. Such charges are rolled into the total lease price that is subject to tax.

More Info: [Bulletin SST 015, Environmental Levies on Tires and Batteries](#)

TAX PAYABLE BY THE LESSOR

Purchases of Equipment and Repair Parts

Equipment purchased **solely** for lease or rental may be purchased by lessors without payment of tax by quoting their tax registration number to the supplier. Lessors may also purchase repair parts

to maintain lease stock without paying tax. Lessors must, however, pay environmental levies on all new lead-acid batteries or new pneumatic tires purchased for use on lease stock.

Equipment Converted to Taxable Use

Tax must be paid on any equipment acquired without payment of tax for lease purposes and subsequently used by the lessor or the lessor's employees. Tax is due on the greater of the depreciated value or 50% of the original purchase price, at the tax rate in effect at the time the property was converted to a taxable use.

The following rates of depreciation apply to items transferred from an exempt use to a taxable use.

Type of Asset	Rate Per Annum	Rate Per Month
All vehicles, including motor vehicles, trailers, and earth-moving / construction units	30%	2.5%
Aircraft	25%	2.0833%
Equipment, furnishings and fixtures, including drilling rigs, cranes, etc.	20%	1.67%
Railway rolling stock	10%	0.8333%
Vessels	15%	1.25%

Large industrial equipment mounted on motor vehicles or railway rolling stock should be depreciated separately from the vehicles or rolling stock.

Examples of Tax Due on Equipment Converted to Taxable Use

The following are examples of the calculation of tax on equipment originally purchased exempt for leasing purposes and subsequently transferred to the use of the lessor. Please note that the tax rate was 7.5 % between February 20, 2002 and October 21, 2004. Prior to February 20, 2002, the rate was 7%.

Example 1

Single seat aircraft purchased on January 1, 1999 for \$100,000.

Transferred to personal use of lessor on December 31, 1999.

Depreciated value = \$100,000 - (\$100,000 x .25 x 1) = \$75,000.

Tax is due on the depreciated value because it

is greater than 50% of the purchase price.

Tax rate in effect at time of conversion (Dec. 31, 1999) = 7%.

Tax due: $\$75,000 \times .07 = \underline{\$5,250}$.

Example 2

Earth moving equipment purchased on April 1, 1999 for \$300,000.

Transferred to company use on March 31, 2002.

Depreciated value = $\$300,000 - (\$300,000 \times .30 \times 3) = \$30,000$.

Tax is due on 50% of the purchase price (\$150,000) because it is greater than the depreciated value (\$30,000).

Tax rate in effect at time of conversion (March 31, 2002) = 7.5%.

Tax due: $\$150,000 \times .075 = \underline{\$11,250}$.

DISPOSAL OF GOODS ACQUIRED FOR LEASE

Remitting Tax

When a lessor sells goods that were originally acquired for lease, the lessor is required to collect tax from the customer on the sale price and remit the tax to the Minister of Finance.

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, 5, 6(1), 6(3), 9(1.1), 19 - 25, 40, 42(2), 44, 66, 67, 77(e), 78(1), 79(2), 92, 93(1), 93(4), 96(1), 96(2), 96(4), 100, 101 and Regulations 2.38, 2.45, 2.46, 2.47