

Lessors of Motor Vehicles and Trailers

Social Service Tax Act

This bulletin outlines the application of social service tax, also called the provincial sales tax (PST), and environmental levies to leases and purchases of motor vehicles and trailers by lessors. Although this bulletin refers primarily to leases, tax applies to rentals in the same manner as leases.

For information on:

- tax and levies on sales and purchases by motor vehicle dealers, and on motor vehicles used while held for resale or lease, please refer to [Bulletin SST 042, Motor Vehicle Dealers](#)
- multi-jurisdictional vehicles, please refer to [Bulletin SST 073, Tax on Multi-jurisdictional Vehicles](#)
- motor vehicles leased or rented from out-of-province lessors, please refer to [Bulletin SST 082, Rentals and Leases of Tangible Personal Property](#)
- alternative fuel vehicles, please refer to [Bulletin SST 085, Alternative Fuel Vehicles and Alternative Motor Fuel Tax Concessions](#) and [Bulletin SST 087, Alternative Fuel Vehicles: Calculating the Tax Reduction](#)
- motor vehicles modified to accommodate persons with a disability, please refer to [Bulletin SST 070, Motor Vehicles Modified to Accommodate Persons with a Disability](#)

For general PST information that applies to all businesses, such as who needs to register, when general exemptions apply, and how to charge and collect the PST, please read our [Small Business Guide to Provincial Sales Tax \(PST\)](#).

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***
- ***Registration requirements***
- ***Tax rates applicable to leases***
- ***Application of tax to leases***
- ***Taxable services***
- ***Environmental levies***
- ***Tax payable by the lessor***

DEFINITIONS

Lease Price

The total consideration paid by the lessee to the lessor for the right to use the leased property.

Motor Vehicle

A vehicle, not run on rails, that is designed to be self-propelled.

Passenger Vehicle

A motor vehicle designed primarily as a means of transport for individuals, and includes cars, station wagons, motorcycles with engine capacities of more than 250 cc, and trucks and vans up to and including 3/4 ton.

The following are not passenger vehicles: motorcycles with engine capacities of 250 cc or less, trailers, buses, ambulances, motor homes, camperized vans, hearses, snow mobiles, and trucks and vans larger than 3/4 ton. For the purposes of the *Social Service Tax Act*, any truck with a "2" in the 6th digit field of the vehicle

identification number, or VIN, is designated as a 3/4 ton truck, even if it has been modified to carry heavier payloads.

Camperized Van

A van designed to be used primarily for accommodation during travel or recreation and that has built-in sleeping facilities, a built-in stove, and either a built-in refrigerator, a built-in cooler, or a built-in sink.

Tax Rate Value

The price at which the unencumbered 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 (i.e. the fair market retail value).

REGISTRATION REQUIREMENTS

Vendors Under the *Social Service Tax Act*

Persons who regularly lease taxable tangible personal property, including motor vehicles and trailers, are required to be registered as vendors under the *Social Service Tax Act*. Registration can be completed on-line at the Consumer Taxation Branch website at www.sbr.gov.bc.ca/ctb. Applications may also be obtained in paper format from any Consumer Taxation Branch or Service BC-Government Agent 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.

TAX RATES APPLICABLE TO LEASES

Passenger Vehicles

PST applies to the lease price for passenger vehicles at a rate of 7%, 8%, 9% or 10%. The applicable tax rate is determined by the vehicle's "tax rate value". Effective February 22, 2006, the tax rate for passenger vehicles is based as follows:

Tax Rate Value	Tax Rate
Less than \$55,000	7%
\$55,000—\$55,999.99	8%
\$56,000—\$56,999.99	9%
\$57,000 and over	10%

The surtax thresholds apply to the first lease payment due on or after February 22, 2006.

The tax rate value for passenger vehicles is the value established on March 31, 1993, or the value at the time the lessor first leases the passenger vehicle to a lessee. Once the tax rate value is established, it is in effect for as long as the lessor owns the vehicle.

Passenger Vehicle Rental Tax

A passenger vehicle rental tax of \$1.50 per day or portion of a day applies to rentals and leases of passenger vehicles, where the rental or lease period is 28 consecutive days or less. The passenger vehicle rental tax is in addition to the PST imposed on the lease price of the vehicle. The revenue from the passenger vehicle rental tax is dedicated to the BC Transportation Financing Authority.

Other Motor Vehicles and Trailers

Leases of motor vehicles that do not meet the definition of a passenger vehicle, as well as trailers and other taxable tangible personal property, are subject to a 7% tax rate, regardless of their value.

APPLICATION OF TAX TO LEASES

Lease Price

PST at the appropriate rate (7%, 8%, 9% or 10%) applies to the full amount of the lease or rental charge that a customer must pay to obtain the use of a vehicle or trailer, including:

- the down payment
- charges for rental periods
- disposition fees
- drop-off charges
- distance-travelled charges
- finance charges included in the lease price
- late payment or late return charges
- early termination charges
- repossession fees
- vehicle upkeep and repair charges
- mandatory service contracts
- insurance premiums that are an unidentifiable component of the lease payments

PST does not apply to fuel charges or security deposits.

Prior to July 1, 2006, mandatory insurance was taxable whether or not it was separately stated on the invoice. Optional insurance coverage was not taxable.

Effective July 1, 2006, insurance premiums that are separately stated on the invoice, whether mandatory or optional, are not subject to PST.

A trade-in vehicle accepted as a down payment on a lease or as part payment against future lease payments **cannot** be used to reduce the amount of tax payable on leased vehicles. PST must be charged on the down payment, the value of a trade-in, and each lease billing at the time the lease price is paid or payable, whichever is earlier, under the terms of the lease agreement.

Passenger Vehicle Rental Tax

The passenger vehicle rental tax of \$1.50 per day or portion of a day applies to rentals and leases of passenger vehicles, where the rental or lease period is 28 consecutive days or less. This tax must be charged when the rental payment is paid or becomes payable, whichever is earlier.

Lessors must remit this tax with their regular tax return form, in addition to the PST collected on the lease price.

Out-of-Province Use

Short-term Rentals of Motor Vehicles

(28 consecutive days or less): All short-term rentals originating in British Columbia are subject to PST regardless of the destination or the province of the vehicle's registration. Rentals originating outside the province are not subject to British Columbia tax.

Long-term Leases: PST must be collected on the full lease price of all vehicles leased and delivered to a lessee in British Columbia. If a lessee takes a vehicle out of British Columbia, PST must continue to be collected until that vehicle is registered in another jurisdiction. If the vehicle is brought back into the province and re-registered in British Columbia, PST will again apply to the lease price.

Exercising an Option-to-Purchase

Leases that contain an option-to-purchase for less than 10% of the fair market value are no longer deemed to be purchases. PST will no longer be payable at the inception of the lease on the full amount payable under the lease. As with other leases, PST will be payable on each lease payment

at the time the lease payment is paid or payable, whichever is earlier.

When a lessee exercises an option-to-purchase provision contained in a lease agreement, the purchase is considered to be a separate transaction. PST must be charged on the amount paid by the lessee to obtain title to the vehicle.

For a passenger vehicle, the amount paid by the lessee to obtain title to the vehicle determines the tax rate (7%, 8%, 9% or 10%) applicable to the sale.

Example

Tax rate value for purpose of lease	\$56,000
Tax rate applicable to lease	9%
Purchase price paid when option-to-purchase is exercised	\$42,000
Tax rate applicable to purchase	7%

More Info: [Bulletin SST 042](#), *Motor Vehicle Dealers*

TAXABLE SERVICES

Definition

PST applies to the purchase price of specified labour services, referred to as taxable services. Taxable service means any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish, or maintain tangible personal property.

Taxable services include engine tune-ups, oil changes, and installation of parts (tires, bumpers, etc.), but not services provided by an employee to an employer in the course of employment.

More Info: [Bulletin SST 018](#), *Taxable Services*

Exemption

Persons who are registered vendors or lessors under the Act are not required to pay PST on purchases of taxable services applied to goods that will be resold or leased. For example, a registered automobile dealer is not required to pay PST on charges for repairs to automobiles held in the dealer's resale or lease inventory. To substantiate non-collection of tax on such sales, the person providing the taxable service must record the customer's registration number on the sales 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 PST on all such charges. This includes warranties that are included in the lease price of the motor vehicle. However, the lessor may acquire parts used to fulfil the service contract without payment of PST.

Optional Service Contracts with Scheduled Maintenance: Optional service contracts that provide scheduled maintenance are subject to PST. 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. two tune-ups, up to four service calls, etc.). These contracts are considered to be a prepayment for taxable services. Persons providing taxable optional coverage are not required to pay PST on their costs for any parts or taxable services provided under the terms of the agreement.

Optional Service Contracts Without Scheduled Maintenance: PST does not apply to optional service contracts that do not include scheduled maintenance, and where services are provided only when required, such as component 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 PST.

Sellers providing exempt optional coverage are required to pay PST on their costs for any parts or taxable services provided under the terms of such agreements.

If the seller provides the taxable services, PST applies to the materials and services consumed in providing the service. If the taxable services are provided by a third party, PST applies to the charge to the person providing the coverage.

More Info: [Bulletin SST 110](#), *Warranties, Service Contracts, and Maintenance Agreements*

More Info: [Bulletin SST 018](#), *Taxable Services*

ENVIRONMENTAL LEVIES

Items Subject to the Levies

A \$3 levy applies to each new pneumatic tire sold in the province for \$30 or more. This includes both inflatable tires and solid spare tires (doughnuts). Retreaded, recapped, or used tires are not subject to the levy. A \$5 levy applies to all new lead-acid batteries weighing 2 kg or more. Rebuilt, reconditioned, or used batteries are not subject to the levy.

Collection and Payment of the Levies

Lessors are the users of vehicles they acquire for their lease inventory. As such, they are required to pay the environmental levies imposed on new pneumatic tires and new lead-acid batteries included with the vehicles. Lessors who fail to pay the levies are liable for the amount due, even if they have collected it from their lessees and remitted it.

However, lessors may structure lease agreements to recover their own cost of the levies from the lessee, provided the agreement meets **all** of the following criteria.

1. The lease contract must clearly indicate the lessee's liability to pay the taxes, fees, **and levies** incurred by the lessor with respect to the vehicle.
2. The lease invoice to the customer must not indicate a separate charge for the levies, other than as a reference to the provision in the contract that allows the lessor to recover these amounts.
3. As the lessee is required to pay these amounts to obtain the right to use the vehicle, such charges become part of the total lease price that is subject to tax.

If the criteria outlined above are not met in the lease agreement, the lessor will be assessed for failure to pay the levies as required under the *Social Service Tax Act*.

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

TAX PAYABLE BY THE LESSOR

Purchases of Lease Stock

A lessor may purchase lease stock and repair parts used to maintain lease stock without paying PST by quoting the lessor's registration number to the supplier. However, new pneumatic tires and lead-

acid batteries included on such vehicles, or purchased separately, are subject to environmental levies.

Conversion to Taxable Use

With the exception of vehicles eligible for the dealer-use formula, if a dealer/lessor becomes the user of a vehicle initially purchased as lease stock, then the dealer/lessor is required to pay PST on the vehicle. PST applies to the greater of the depreciated value of the vehicle at the time it is converted to dealer-use, or 50% of the original purchase price.

Depreciation for all vehicles is calculated on a straight-line basis at the rate of 2.5% per month. PST is due and payable at the time the vehicle is used by the dealer/lessor and at the tax rate in effect at that time.

Sales from Lease Stock

PST applies to a sale from lease stock in the same way that it applies to a sale from resale inventory by a motor vehicle dealer.

More Info: [Bulletin SST 042](#), *Motor Vehicle Dealers*

NEED MORE INFO?

This bulletin is provided for convenience and guidance.

If you have any questions, call us at 604 660-4524 in Vancouver or call toll-free at 1 877 388-4440, or email your questions to CTBTaxQuestions@gov.bc.ca

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, 20, 23 - 26, 40, 42(2), 44, 66, 67, 78 (1), 92, 93(1), 93(4), 96(1), 96(2), 96(4), 97, 98 and Regulations 2.41, 2.45, 2.46, 2.47, 3.13, 3.13.1, 5.6