

Dedicated Telecommunication Services

Social Service Tax Act

Dedicated telecommunication services that are provided in whole or in part in British Columbia are subject to social service tax. Persons who purchase a dedicated telecommunication service for their own personal or business use are required to pay tax on the purchase price for the service. Persons who sell such telecommunication services are required to register as vendors with the Consumer Taxation Branch, and to collect and remit tax on sales of dedicated telecommunication services as outlined in this bulletin.

This bulletin applies only to dedicated telecommunication services. For information on the application of social service tax to non-dedicated telecommunication services, please refer to [Bulletin SST 107](#), *Telecommunication Services*.

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

Dedicated Telecommunication Service

The right, whether exercised or not, to send from the province or receive in the province one or more telecommunications by using a circuit, a communications channel, a partial communications channel or any other means of sending or receiving a telecommunication **that is dedicated to the exclusive use of the purchaser** of the service.

Dedicated Telecommunication System

A circuit, a communications channel, a partial communications channel or any other means of sending or receiving a telecommunication **that is dedicated to the exclusive use of a person** as a result of that person's having purchased the right to send from the province or receive in the province one or more telecommunications by that circuit, communications channel, partial communications channel, or other means of sending or receiving a telecommunication.

Purchase Price

In relation to a dedicated telecommunication service, the total consideration paid by the purchaser for the provision of the service, and the consideration paid for each period in respect of which an invoice for, or in relation to, the service is issued, including sign-up charges, access charges, airtime charges, usage charges, service charges, and telecommunications charges.

Telecommunication

Includes any transmission, emission or reception of signs, signals, writing, images, sound or intelligence of any nature by wire, fibre optic cable, radio, satellite or other electromagnetic or laser based system, but does not include any transmission, emission or reception prescribed by regulation.

Transmitter

A facility or instrument by which a purchaser of a telecommunication service may send or receive the telecommunications that may be sent or received under that service, including a telephone, facsimile machine, modem and television.

APPLICATION OF TAX

What is a Dedicated Telecommunication Service?

A dedicated telecommunication service provides the customer with **exclusive use** of a particular telecommunications circuit, line, frequency,

channel, partial channel, or other means of sending or receiving telecommunications.

For example, a dedicated telecommunication service may provide a business with **exclusive use** of a telecommunications circuit for telephone calls and facsimile transmissions between its head office in Prince George, British Columbia and a satellite office in Mexico City. The only transmissions that travel through that circuit are those between the Prince George and Mexico City offices.

Another example would be where a business is provided with **exclusive use** of a particular satellite channel or partial channel to transmit data among its various offices located in British Columbia, Alberta, Quebec, and Prince Edward Island.

Proportional Tax

Dedicated telecommunication services are subject to tax based on the proportion of the service that is provided in British Columbia. Where the whole of the service is provided in British Columbia, social service tax is payable on the total purchase price. Where the service connects transmitters that are both within and outside of the province, tax is payable on that portion of the service that is provided in British Columbia. The tax payable is calculated using the proportional formula described below.

Proportional Tax Formula

The tax payable on inter-jurisdictional dedicated telecommunication services is calculated using the following proportional tax formula.

$$\text{Tax} = \frac{P \times \text{BCD} \times R}{\text{TD}}$$

- P = the purchase price of the dedicated telecommunication service.
- BCD = British Columbia Distance: the portion of the distances comprising TD that falls within British Columbia.
- R = the rate of tax that is in effect on the date that the purchase price for the dedicated telecommunication service is payable.
- TD = the total of the distances, measured in a direct line, that a telecommunication may travel between transmitters connected to the system, where the distance between any two transmitters connected to the system is included only once in the calculation of TD.

Distance

For the purposes of this formula, the "distance" means the shortest distance over land and water between transmitters connected to the service,

measured in kilometres. This applies regardless of whether the actual signal travels a circuitous route, or whether the signal travels in and out of space. This is because it is the provision of the service, not the actual telecommunication signal, that is the subject of the tax.

Example 1: Only Two Locations

A dedicated telecommunication system connects two transmitters - one in British Columbia and one in Saskatchewan. For the purposes of the proportional tax formula, the British Columbia distance (BCD) is the portion of the total distance falling within British Columbia, and may be calculated as the most direct land distance between the British Columbia location and the British Columbia/Alberta border. The total distance (TD) is the most direct land distance between the British Columbia location and the Saskatchewan location.

Example 2: More Than Two Locations

A dedicated telecommunication system includes two locations in Alberta and one in British Columbia. For the purposes of the proportional tax formula, the British Columbia distance (BCD) may be calculated as the most direct land distance between the British Columbia location and the British Columbia/Alberta border. The total distance (TD) of the transmission may be calculated by adding the British Columbia distance and the average distance of the two Alberta receivers to the Alberta/British Columbia border.

In some situations, there may be a number of receivers in British Columbia and in a number of other jurisdictions, such as Alberta and Saskatchewan. The British Columbia distance (BCD) is the average land distance from the British Columbia locations to the British Columbia/Alberta border. The total distance (TD) may be determined by calculating the average land distance of the Saskatchewan receivers (the most distant province) to the British Columbia border, and adding this figure to the British Columbia distance.

Other Methods of Calculating Distances

Sellers of dedicated telecommunication services who are unable to calculate the British Columbia distances and the total distance using the manner outlined in the above examples should contact the Consumer Taxation Branch before using an alternative approach. The branch will review the proposed method to ensure that the method of calculating the distances is consistent with the proportional formula.

COLLECTING AND REMITTING THE TAX

Collecting the Tax

Persons providing a dedicated telecommunication service must collect tax on the purchase price for dedicated telecommunication services that are provided wholly or partly in British Columbia, according to the dedicated telecommunication services formula. The tax is payable at the time the purchase price is paid or payable, whichever is earlier.

Tax must also be collected on the purchase price of any equipment sold to the customer. The tax is due at the time of purchase.

If equipment is leased to a customer, tax applies to the total amount payable by the customer to receive the right to use that equipment. The tax is due on each lease payment and is payable at the time the lease payment is paid or becomes payable, whichever is earlier.

The tax must be separately itemized on the bill of sale.

Remitting the Tax

Persons providing dedicated telecommunication services are required to collect the tax from their customers, and to remit the tax collected with their regular tax return form. Tax reporting periods are established at the time of registration as a vendor.

The tax payable during each reporting period must be remitted with the tax return for that period, even if the customer has not paid the account by that time. If that account, or a portion of the account, is uncollectable and later written off as a "bad debt", the business is entitled to a proportional refund of the tax that was remitted but uncollected. For more detailed information on obtaining a refund of tax remitted on sales written off as bad debts, refer to [Bulletin GEN 001](#), *Refund of Tax Remitted on Sales Written Off as "Bad Debts."*

Persons Providing Dedicated Satellite Channel Services

Persons who sell access to a dedicated satellite channel must collect and remit the tax according to the dedicated telecommunication services formula, as outlined above, where that person is aware of the locations at which the customer's transmitters are located and is therefore able to determine the portion of the service that is provided in British Columbia.

However, in some instances, the service provider may sell access to a dedicated satellite channel, but the customer provides their own transmitters and the service provider is not aware of where all the transmitters are located. In such cases, the

service provider is not required to collect the tax due because the service provider is unable to determine the portion of the service that is provided in British Columbia. The purchaser must self-assess and remit tax on the portion of the dedicated service that is provided in British Columbia, according to the dedicated telecommunication services formula.

SPECIFIC APPLICATIONS

Purchases of Telecommunication Services for Resale

Businesses are not required to pay tax on telecommunication services that are acquired solely for resale. For example, businesses that provide access to a dedicated telecommunications network may purchase access to dedicated telecommunication lines that will be incorporated into the network from the major telecommunication companies without paying tax. Such businesses are, however, required to collect and remit tax from their customers on their sales of dedicated telecommunication services.

Dedicated Telecommunication Network Service

A service provider may design, develop, install, and manage a dedicated telecommunication network that allows a customer to transmit voice and data communications between various locations on the network, such as among the customer's branch offices. In developing the network, the service provider purchases access to telecommunication lines and networks from telecommunication carriers, through which the customer's communications are transmitted. The service provider also installs various telecommunications equipment such as network nodes, relay switches, routers, etc. along the network to link the various locations to the network.

Generally, individual calls are not monitored. The customer is charged a flat monthly fee based on the number of locations on the network or the geographic range of the network, or the fee may vary according to usage time. In some cases, the customer is invoiced a separate charge for designing, installing, or managing the network. In other instances, these services are considered to be bundled with the fee paid by the customer to access the network.

A service that provides access to such a dedicated network is a telecommunication service, since it provides the customers with the ability to send or receive communications to and from intended locations. Tax applies to the charge to the customer for accessing the network, whether it is a monthly fee or is based on usage. Tax also applies to

charges for any tangible personal property purchased or leased by the customer.

With respect to inter-jurisdictional telecommunication services, the charges for the dedicated network service are subject to tax according to the proportional tax formula outlined in this bulletin.

If there is a separate charge for the initial set-up of the network system for the customer, or a separate contract for the design, development, and installation of the network system, the charge or contract fee is considered to be part of the purchase price for the dedicated telecommunication service. As such, tax applies to such charges or contract fees according to the dedicated telecommunication services formula.

The service provider may purchase the telecommunication services used to deliver the service exempt of tax from the carriers on the basis that it is purchasing these telecommunication services for resale. The service provider must pay tax on its cost of equipment located in British Columbia that is owned and used by the company to deliver its service, but is not leased to the customer.

This tax application applies where the customer is receiving a dedicated telecommunication system. For the application of tax to non-dedicated telecommunication services, please see [Bulletin SST 107, Telecommunication Services](#).

Virtual Dedicated Services

With regular, non-dedicated transmission lines, the signals of several different customers are bunched together and transmitted simultaneously. With a "virtual dedicated service", a customer's data is not transmitted with other signals. However, the line used to transmit one customer's data is also used to transmit other customers' data at different times. The virtual dedicated service is acquired because there is a high degree of integrity in the transmission of the data.

As the virtual dedicated service does not involve dedicating a particular circuit to a particular customer on a twenty-four hour basis, it does not qualify as a dedicated telecommunication service under the *Social Service Tax Act*

Frame Relay Services

Frame relay service is a network service that allows a business to transmit data between multiple locations in Canada or elsewhere in the world. Under frame relay technology, the data is divided into variable-length frames by the sending device. Frames are transmitted intermittently - rather than in a continuous stream - over digital circuits and

reassembled at the receiving end.

Frame relay service is a dedicated service only if the customer has exclusive use of the network lines. However, frame relay service is more often a non-dedicated service as several customers' transmissions are transmitted through the same frame relay network.

Combination Dedicated and Non-Dedicated Service

Where a telecommunication service is delivered by a combination of a dedicated telecommunication service and a non-dedicated telecommunication service, the portion of the purchase price that is attributable to a dedicated service is subject to tax based on the proportional formula. The portion of the purchase price that is attributable to the non-dedicated service is subject to 7 per cent tax.

Dedicated Telecommunication Services Purchased to Deliver a Non-Dedicated Telecommunication Service

Some telecommunication resellers purchase access to a telecommunications system that is dedicated to the reseller's exclusive use. The reseller then uses this telecommunications system to provide a telecommunication service to a number of customers.

The reseller is not required to pay tax on its purchase of the dedicated telecommunication service because the service is purchased solely for the purposes of reselling the telecommunication service. However, the reseller is required to collect social service tax on the full purchase price of the telecommunication services provided to its customers in British Columbia. See [Bulletin SST 107, Telecommunication Services](#), for the details. The dedicated formula does not apply to the reseller's charge to the customer because the customer is not acquiring exclusive use of the telecommunication system.

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.