

# Warranties, Service Contracts, and Maintenance Agreements

## *Social Service Tax Act*

**Updated:** March 2005  
Page 2—Taxable and non-taxable goods  
or services sold together for a single  
price.

This bulletin outlines the application of social service tax to sales of warranties, service contracts, and maintenance agreements, referred to throughout this bulletin as service contracts. It also outlines how tax applies to parts and third party labour services provided to carry out such agreements. For additional information on taxable services, refer to [Bulletin SST 018, Taxable 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](http://www.gov.bc.ca/sbr)

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### DEFINITIONS

#### **Taxable Service**

A taxable service means any service provided to install, assemble, dismantle, repair, adjust, restore, recondition, refinish, or maintain tangible personal property.

#### **Service Contract**

An agreement/contract under which a charge is paid in advance in return for future services provided wholly or partly at no additional cost, including warranties, maintenance agreements, and similar contracts.

### APPLICATION OF TAX TO PURCHASES OF SERVICE CONTRACTS

#### **Taxable Contracts**

Tax must be collected from the purchaser on sales of the following types of service contracts.

#### **Mandatory or Included in the Lease or Purchase Price:**

Under such agreements, the purchase of the service contract is a mandatory condition of the purchase or lease of the tangible personal property being acquired. As the charge for the service contract forms part of the purchase or lease price, it is subject to tax. This includes warranties that are included in the purchase price of tangible personal property, such as a three-year warranty on the purchase of a vehicle.

#### **Optional With Scheduled Maintenance:**

Under such agreements, the purchase of the contract is optional, but the contract provides for scheduled maintenance. Tax applies to purchases of such contracts because they are considered to be a prepayment for taxable services that will be provided under the contract. This includes contracts where the schedule depends on the ongoing condition of the item.

#### **Optional With Specific or Limited Number of Services:**

Under such agreements, the purchase of the contract is optional, but it provides for a limited or specific number of services. Tax applies to purchases of such contracts because they are, in essence, a prepayment for taxable services that will be provided under the contract.

#### **Non-Taxable Contracts**

##### **Optional With Service Provided Only When Needed:**

Tax does not apply to purchases of optional contracts that do not include scheduled maintenance, and where services are provided only when required, such as for equipment malfunction.

This is because it cannot be determined at the commencement of the agreement whether or not any services will be provided under the contract.

### **Exempt Service Contracts**

#### **Exempt Tangible Personal Property:**

With the exceptions noted below, tangible personal property that is exempt under the Act or regulations with respect to purchases or leases is also exempt with respect to taxable services. Parts designed and used in the repair or reconditioning of such items are also exempt from tax. Therefore, purchases of service contracts for exempt tangible personal property are not subject to tax. Items that qualify for this exemption include non-motorized 2-wheel bicycles, exempt farming equipment and eligible production machinery and equipment purchased by qualifying businesses.

#### **Exemption does not apply to the following:**

Household goods and equipment brought into the province by new residents; goods that have been repossessed, or leased under a sale-leaseback arrangement; and, business assets that have been acquired exempt under section 3.14 or 3.14.1 of the regulations. These items have been specifically excluded from exemption with respect to taxable services. As such, service contracts for these items do not qualify for exemption.

## **TAXES PAYABLE BY THE PROVIDER OF THE SERVICE CONTRACT**

### **Taxable Contracts**

Persons providing maintenance or service coverage under a contract that is subject to tax **are not required** to pay tax on their costs for any parts or taxable services provided under the terms of the agreement. If the services are provided by a third party, tax also does not apply to the charge to the person providing the coverage. The tax due was paid when the service contract was initially purchased by the customer.

### **Non-Taxable Contracts**

Persons providing maintenance or service coverage under a contract that is not subject to tax **are required** to pay tax on their cost of any parts and materials provided under the terms of the agreement. Such persons are also required to pay tax on their purchase of taxable services provided by a third party.

## **SPECIFIC APPLICATIONS OF THE TAX**

### **Taxable and Non-Taxable Goods or Services Sold Together for a Single Price**

This type of bundling can lead to different tax applications depending on the price of the bundle

and the value of the taxable goods or services in the bundle.

Generally, if a taxable good or service is bundled with a good or service that is not taxable and both are sold for a single price, tax applies only to the fair market value of the taxable item.

**More Info:** [Bulletin SST 119](#), *Bundled Sales: Taxable and Non-Taxable Goods or Services Sold Together for a Single Price*

### **Replacement Under Manufacturer's Warranty or Recall**

Where a part is replaced free of charge under a manufacturer's warranty or a manufacturer's recall, tax does not apply to the replacement part or to the taxable services provided to install the replacement part. This means that there is no tax collection or remittance obligation on the manufacturer or installer of the equipment.

### **Limited Coverage**

If there is a limit to what is covered under the warranty, tax applies to any charge to the customer for taxable services over the covered amount. For example, if a warranty covers the first \$200 of repairs, tax is payable on the purchaser's \$100 portion of a \$300 charge.

## **FIXTURES AND OTHER ITEMS SPECIFICALLY EXEMPTED FROM TAXABLE SERVICES**

### **Taxable Service Exemption**

Regulation 2.45 of the Act provides an exemption for various taxable service items. Goods that qualify for this exemption include clothing and footwear, and household appliances, such as ovens, refrigerators, washing machines and dryers. Taxable services provided to fixtures, excluding travelling cranes and hoists that are attached to, or rest upon, tracks or rails that are themselves attached to a building, are also exempt.

### **Parts**

While taxable services provided to these items may be exempt, there is no similar exemption under the Act for parts designed to repair or maintain these items. Therefore tax applies to the parts used in the performance of the service contract. The obligation for payment of the tax due on the parts depends on the type of service contract being purchased.

### **Mandatory Contracts**

Tax must be collected from the purchaser on the sale of a mandatory service contract because the charge for the service contract forms part of the purchase or lease price of the tangible personal

property being acquired. Tax applies to the total cost of the contract, including both the services and parts.

### **Optional With Parts and Services Sold for a Single Price**

Where the agreement is an optional agreement with scheduled or limited servicing, and the repair services and parts are sold for a single price, the contract is considered to be a contract to provide services only and is not subject to tax when purchased. Under these conditions, the service provider is the user of the parts and is required to pay tax on the cost of the repair parts used in carrying out the agreement. Tax does not apply to any taxable services provided to carry out the contract, even if the services are provided by a third party.

If the sales invoice indicates separate prices for the parts and services to be provided, tax must be collected on the cost of the parts. Under these conditions, persons providing maintenance or service coverage **are not required** to pay tax on their costs for any parts provided under the agreement. Purchasers of the service contract are required to pay tax on the cost of the parts provided under the contract. Tax does not apply to any services provided to carry out the contract.

### **Optional With As-Needed Servicing**

If the agreement is an optional agreement with as-needed servicing, tax does not apply to the contract price. The service provider must pay tax on any purchases of parts used in the performance of the contract. The services used to carry out the contract are not subject to tax.

## **REAL PROPERTY**

### **Application of Tax**

The application of tax to service contracts for real property is similar to the application of tax to fixtures as outlined above (i.e., services not subject to tax while parts are taxable). The only difference is where the agreement is a mandatory condition of the purchase of the real property. Purchases of mandatory service contracts are **not** subject to tax because the agreement forms part of the purchase or lease price of the real property being acquired. Purchases of real property are **not** subject to tax. The service provider must pay tax on any purchases of parts it uses in the performance of its contract. The taxable services used in the performance of the contract are not subject to tax, even if the services are provided by a third party.

### **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](http://www.gov.bc.ca/sbr) While there, you can subscribe to our free electronic update service.**

**References:** *Social Service Tax Act*, Sections 1 "Fixture" and "Taxable Service", 40, 42, 69.1, 76(k), 77(c) and Regulations 2.45, 2.46, 2.47, 12, 12.1, 13