

# Bundled Sales: Taxable and Non-Taxable Goods or Services Sold Together for a Single Price

## *Social Service Tax Act*

This bulletin explains how social service tax, also called the provincial sales tax (PST), applies to bundled sales — taxable and non-taxable goods or services sold together for a single price. Although the tax applies to purchasers, we use the term “bundled sales” rather than “bundled purchases” because this bulletin is directed primarily at vendors. These rules came into effect February 18, 2004.

For information on applying PST to goods you give away as a promotion, please see [Bulletin SST 080, Promotional Goods](#).

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

#### **Bundled Sales**

Bundled sales occur when you sell taxable and non-taxable goods or services together for a single price.

#### **Fair Market Value**

Fair market value is the price for a good or service that a willing purchaser would pay to a willing seller in an arm's-length retail sale on the open market.

### APPLYING PST TO BUNDLED SALES

Sometimes a vendor sells several goods or services together for a single price. This bundling leads to different tax applications, depending on the price of the bundle and the value of the taxable goods or services in the bundle.

The general rule is: 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, PST applies only to the fair market value of the taxable portion.

There are two exceptions to the general rule.

1. If the bundled sale is less than \$500 and the value of the taxable portion is more than 90% of the total price, then PST applies to the total sale.
2. If the value of the taxable portion is \$50 or less and represents 10% or less of the total selling price, then the package may be sold PST-exempt.

See SMALL PACKAGE EXEMPTION on page 2 for more information.

## SMALL PACKAGE EXEMPTION

The small package exemption is limited to bundled sales with a price of \$500 or less where the taxable portion is:

- pre-packaged with the non-taxable portion or not ordinarily sold separately from the non-taxable portion
- valued at 10% or less of the total price
- valued at \$50 or less
- not part of a promotional distribution
- not a telecommunication service or legal service and does not include such a service
- not liquor

**Example:** You sell a gift basket that contains food (non-taxable) and a candle (taxable) together for \$30. The candle has a fair market value of \$2. Because the taxable portion (the candle) is valued at less than \$50 and forms less than 10% of the bundled sale price, there is no PST on the sale.

For bundled sales where the small package exemption does not apply, see EXAMPLES OF BUNDLED SALES.

### Determining Fair Market Value

The fair market value of a good or service is its normal retail selling price.

**Example:** You sell a teddy bear (taxable) with oatmeal cookies (non-taxable) for a single price of \$15. If the teddy bear normally sells for \$10 and the cookies normally sell for \$8, you would collect PST on the \$10 fair market value of the teddy bear.

Sometimes it is difficult to determine the exact price of the taxable portion of a bundled sale. In such a case, you may make a reasonable determination of the fair market value and collect PST on that value. Keep a record of how you determined the taxable value.

### The Ministry May Determine the Fair Market Value

Occasionally, at the request of a taxpayer or as a result of an audit, we may be required to determine the fair market value of a taxable good or service. If this happens, you must remit PST on the value we determine.

You may request a valuation from us if you are uncertain about the fair market value of a good or service included in a bundled sale. Please include the following information in your request:

- the goods or services included in the bundled sale and whether you consider them to be taxable or non-taxable
- the condition of the goods
- whether the goods are new or used
- evidence of the purchase price of the taxable portion, if sold separately
- the reason why you are unable to make a determination of the fair market value

Also include any other relevant information so we can make an accurate determination applying specifically to your situation.

## EXAMPLES OF BUNDLED SALES

### PST on the Bundled Sale Price

**Example:** You sell a wicker basket (taxable) that contains roses (taxable) and chocolates (non-taxable) for a single price of \$100. The basket and roses have a fair market value of \$92 (representing 92% of the total price). Because the bundled sale price is less than \$500 but the fair market value of the taxable portion is more than 90% of the bundled sale price, you collect PST on the full bundled sale price of \$100.

### PST on the Fair Market Value of the Taxable Portion

**Example:** You sell and ship textbooks (non-taxable) with other educational materials (taxable) for a single price of \$490. If the value of the taxable educational materials and the portion of the delivery charge for those taxable materials is \$49 or less, then you do not collect PST on the bundled sale price. If the value of, and the delivery charge for, the taxable educational materials is more than \$49, you collect PST on the fair market value of, and delivery charge for, those materials.

### Bundles that Include Liquor

If you are operating as a delivery service under the liquor licensing laws, you will not have a liquor licence and therefore, you may not mark up the

price of liquor. You may only charge a delivery fee in addition to being reimbursed for your cost of the liquor, including tax. Since you paid tax when you bought the liquor and may not mark up its price, there is no further PST due on the liquor, including liquor sold in a bundled sale. The remainder of the bundle is taxed according to the bundled sale rules.

**Example:** You sell a wicker gift basket (taxable) that contains a bottle of champagne (tax already paid), crystal champagne flutes (taxable), and cheese, crackers and strawberries (non-taxable) for a single price of \$125. The basket and crystal flutes have a fair market value of \$58, the food has a fair market value of \$19, and the wine cost \$62, including the tax you paid when you purchased it.

Because the taxable portion is more than 10% but less than 90% of the total value of the bundled sale, PST applies only to the fair market value of the taxable portion. Therefore, you collect PST on only the \$58 fair market value of the basket and crystal champagne flutes.

If you have a liquor licence and are permitted to mark up the price of liquor, the liquor is treated like any other taxable portion in a bundled sale.

Liquor is taxed at 10% and other taxable goods or services are taxed at 7%.

## DOCUMENTING BUNDLED SALES

When you sell a taxable good or service bundled with a non-taxable good or service, you must be able to show the amount of PST you collected on the sale. If you are audited later, you may need to produce documentation that verifies the fair market value of the taxable portion. As audits can go back as far as six years, you may want to record the fair market value on the sales invoice or contract at the time of the sale.

If you find that you have incorrectly charged PST on a non-taxable good or service, you still remit the PST you collected to us. Your customer may apply to us for a refund of the PST they paid in error.

### 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 e-mail your questions to [CTBTaxQuestions@gov.bc.ca](mailto:CTBTaxQuestions@gov.bc.ca)

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.

## SUMMARY OF HOW PST APPLIES TO BUNDLED SALES

Bundled Price	Value of Taxable Portion	PST**
\$500 or more	Any value	PST on the fair market value of the taxable portion
Less than \$500	More than 90% of the bundled sale price	PST on the total bundled sale price
	11% to 90% of the bundled sale price	PST on the fair market value of the taxable portion
	10% or less of the bundled sale price	No PST on the total bundled sale price, provided <b>all</b> of the small package exemption criteria are met.

\*\* These rules may change if your bundled sale includes liquor. See the information under Bundles that Include Liquor.

**References:** *Social Service Tax Act*, Sections 1, 69.1 and 82 and Regulations 5.11, 12 and 12.1