

Logging Industry

Social Service Tax Act

Are you involved in commercial logging?

Do you need to know how the production machinery and equipment (PM&E) exemption applies to your business?

This bulletin provides specific tax information to help businesses in the logging industry understand how the social service tax, also called the provincial sales tax (PST), applies to their businesses.

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 \(PST\)](#).

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Qualifying for the PM&E Exemption

You may be eligible to purchase or lease production machinery and equipment tax-exempt if:

- you regularly engage in logging activities for commercial purposes, and
- the machinery or equipment is used exclusively for such activities.

For information on the production machinery and equipment that qualify for the exemption, see the section below, Qualifying PM&E.

Regularly means that you undertake the activity on a routine basis. This could be full-time, seasonally or on some other part-time basis.

Used exclusively means that the machinery or equipment is used over 90% for logging activities.

You may measure exclusively in a number of different ways. It depends on the nature of the machinery or equipment. You may measure it in time, volume or some other measurement that is appropriate for that particular type of equipment.

In some cases, you may use the machinery or equipment seasonally or for specific phases in the logging process. When this happens, the time when the machinery or equipment is idle or in storage is not considered use.

For example, if you operate a skidder during the winter and it is stored for the remainder of the year, the total use of that skidder will be based only on the time that it is actually being operated. During the actual period the skidder is in use, if it is used over 90% of the time for logging activities, then it qualifies for the PST exemption.

Logging Activities

The following are qualifying logging activities:

- felling or bucking trees,
- skidding or moving trees or logs to a landing or other first point of accumulation,
- constructing booms in boom grounds on land and on water,
- loading, unloading, sorting, storing or processing trees and logs at landings, log dumps, sort yards, dry land sorts, booming grounds or mill yards,
- salvage and debris removal operations, and
- underwater logging operations.

The following are not qualifying logging activities:

- constructing and/or maintaining landings, log haul roads or other roads, and
- silviculture.

Hog Fuel, Saw Mills and Pulp Mills

Log sorting often creates debris that need to be removed from the log sort grounds. A logging company may gather the debris and grind the raw materials into a fabricated, finished product called 'hog fuel'. Because the production of 'hog fuel' is not a qualifying logging activity, the machinery and equipment you use to produce hog fuel does not qualify for the logging PM&E exemption, but may qualify under the manufacturing exemption.

Similarly, saw mills and pulp mills do not qualify under the logging PM&E exemption, but may qualify under the manufacturing exemption.

For more information, and to see if you qualify as a manufacturer, please see [Bulletin SST 054, Manufacturers](#).

Logging Sites

The logging exemption for PM&E is site specific and limited in scope. These exemptions exist only at qualifying logging sites.

The following are logging sites that qualify for the exemption:

- cut block and first accumulation of logs,
- underwater logging sites,
- sites used in preparation for road building within the cut block, and
- landings, boom grounds, sort yards and other accumulation points.

Machinery or equipment used to transport raw materials or finished products from, or between, eligible sites does not qualify for the exemption.

Qualifying PM&E

If you are eligible, you may purchase or lease qualifying machinery or equipment tax-exempt, provided you use it exclusively for logging activities.

The following machinery or equipment are tax-exempt if all the conditions are met:

- equipment not designed for regular use on a public highway, when used exclusively within the cut block (but not to maintain access roads or roads between the cut block and other sites),
- equipment used for moving trees or logs to the first point of accumulation,
- equipment used for felling, bucking and debarking,
- boom boats purchased or leased on or after February 19, 2003, new or used boom gear, equipment to construct booms and boom sticks,
- truck-mounted equipment that otherwise qualifies, provided it is purchased separately or, if purchased with a truck, is separately itemized on the invoice and reasonably reflects the equipment's value, and
- underwater logging equipment:
 - mobile generators and transformers used to provide electricity to underwater logging equipment and used exclusively on a vessel,
 - felling equipment and controls and delimiting equipment,
 - barges used exclusively to house exempt machinery and equipment (not including barges described below in the section, Examples of Taxable Goods), and
 - cranes used on barges to launch and remove felling equipment from the water and used exclusively on a vessel.

For a more detailed list of non-taxable equipment used by the logging industry, please see our website at www.sbr.gov.bc.ca/ctb/Logging.htm

Parts for Exempt Machinery or Equipment

Effective February 22, 2006, if you are eligible for the machinery and equipment exemptions, you do not pay PST on parts purchased or leased that you use to assemble qualifying machinery or equipment. This does not include materials used to make parts (see the section below, Materials Used to Make Parts).

Effective February 20, 2002, if you are eligible for the machinery and equipment exemptions, you do not pay PST on parts leased or purchased that you use on exempt machinery or equipment.

Between July 31, 2001 and February 20, 2002, only parts that by design would likely be used as replacement parts for industrial machinery and equipment were

exempt. Generic parts were always taxable prior to February 20, 2002. There is no refund for tax paid parts held in inventory.

For information on what is not exempt as a part, see the section below, Taxable Goods.

Parts Inventory

If you have a parts inventory of mixed taxable and exempt items, you may make a reasonable estimate of the portion used on exempt machinery or equipment and purchase that portion without paying PST. Reconcile this estimate to your actual usage. If the reconciliation shows you used more parts for taxable purposes than estimated, you pay the PST owing on the parts you purchased exempt, but used for taxable purposes.

If you have a PST registration number, send in this additional amount with your regular tax return. If you do not have a PST registration number, you self-assess the PST due using the *Return of Tax due on Taxable Tangible Personal Property by a Purchaser/Seller not Registered Under the Social Service Tax Act* form ([FIN 428](#)).

Claiming Exemptions

You give the supplier a completed *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)) when you purchase or lease:

- exempt production machinery or equipment, or
- parts or taxable services for exempt machinery or equipment.

This requirement applies whether you are registered or not registered as a vendor. There is an option of using an alternative approved certification (see below in this section).

You complete all parts of the certificate. Where a description of the items purchased or leased is required, you list each type of machinery or equipment. It is not enough to simply state “production machinery and equipment”.

For example, if you are purchasing saw blades or pre-cut chain for chain saws, you list each as a specific item on the form. If you are purchasing parts for eligible machinery, include what piece of exempt equipment the part is attached to. For example, state “filters used on a skidder” on the certificate not just “filters”.

When you purchase or lease a large quantity of machinery or equipment, you may attach an itemized list or a copy of the sales invoice to the completed certificate.

The invoice must clearly describe the machinery or equipment being purchased or leased and it must indicate which is exempt.

When you are making purchases or leases (rentals) frequently from the same supplier, you may provide one completed certificate to your supplier along with a list of items that you are claiming an exemption for. You can make future exempt purchases/leases of the same items from that supplier based on this same certificate.

You use the *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)) only for claiming exemption on production machinery, equipment, and related parts and taxable services. It does not replace the *Certificate of Exemption* ([FIN 453](#)) used to purchase goods for resale, etc.

As an alternative to using the *Certificate of Exemption—Production Machinery and Equipment* form ([FIN 453/M](#)), you may claim an exemption by stamping or printing a certification on the purchase order.

The purchase order must clearly indicate the purchaser/lessee's name, address, registration number where applicable, and the goods or services being acquired. Stamp or pre-print on the form a certification using the following wording:

Production Machinery and Equipment Exemption:

We certify that the goods and services purchased are eligible for exemption from social service tax under Section 76(1)(k) of the *Social Service Tax Act*, Division 13 of the regulations to the *Act*.

You may also write to us with suggested alternative wording. We must approve the suggested wording before you use it.

Change of Use

If you purchase an item exempt and later use that item for a taxable purpose, PST applies from the moment the use changes. You calculate and self-assess PST on the greater of the depreciated value or 50% of the original purchase price.

For information on depreciation rates, please see our website at www.sbr.gov.bc.ca/ctb/DepreciationRates.htm

Taxable Goods

Unless exempt, your purchase of machinery, equipment or other goods purchased in the province are taxable. You pay PST on the full purchase price at the time of purchase. If the items are leased, you pay PST on each lease payment either when the lease payment is paid or when the lease payment becomes due under the terms of the lease agreement, whichever is earlier.

What is Included in the Purchase Price

When you purchase goods within British Columbia, the purchase price includes charges for transportation and installation, interest, finance, service, customs, and excise when these charges happen at or before the time that the title passes to the purchaser. Include fuel surcharges for delivery but do not include the goods and services tax (GST). The charges remain part of the purchase price even if the charges are separated on either the invoice or on the seller's books.

If the charges occur after the purchaser receives title to the goods, they are not taxable when the charges are separately listed on the invoice. They do not form part of the original purchase price.

For information on goods purchased from out-of province, see the section below, Purchases from Out-of-Province Suppliers.

Goods for Own Use

You pay PST on the purchase or lease of new or used goods that you use in your business, such as:

- stationery, furniture and office equipment,
- computer hardware and software (unless custom software), and
- cleaning cloths, paper towels and cleaning supplies.

If the supplier does not charge you PST on the above items, you self-assess and record the PST due at Step 3 of your next tax return.

If you take items from your resale inventory for business or personal use, you self-assess PST on your cost of the items.

If you have a PST registration number, you send in the tax due on your next tax return. If you do not have a PST registration number, you self-assess the PST due using the *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller not Registered Under the Social Service Tax Act* form ([FIN 428](#)).

Materials Used to Make Parts

Materials you use to make parts are not exempt from PST as parts. If you need to modify materials before you are able to use them, **they are not** parts; they are taxable materials, therefore you pay PST on them.

A part is a pre-manufactured good designed to replace an integral piece of machinery or equipment that no longer functions and that needs only minimal adjustments for installation.

An example of minimal adjustment is when a specified, predetermined cut length of belting needs lacing or adhesive agents, but not fitting (e.g. trimming) or processing before installation. It then qualifies as a part, not as material used to make parts.

Where any modification or manufacturing before use occurs, you are using materials, not exempt parts.

Consumables

Industry often calls consumables, “supplies”. A good consumed or used up in the operation or maintenance of machinery or equipment is a consumable, even if it is necessary for that item’s operation or maintenance.

The following are some examples of consumables.

- Hydraulic fluid in a cylinder is a consumable as it is not attached to or part of the cylinder. The hydraulic fluid retains its separate identity.
- Engine oils, cleaning solutions, lubricants, grease, rags, carpenters chalk and masking tape.
- Oxygen or acetylene gas.

Consumables are taxable unless they qualify for another exemption under the Act. An example of an exempt consumable is water, which is exempt to everyone.

Examples of Taxable Goods

The following are examples of taxable machinery, equipment or goods used by the logging industry:

- vehicles designed for public highway use, such as logging trucks,
- over-width logging trucks and other vehicles used to transport logs from the cut block to landings and other accumulation points,
- machinery or equipment used in the construction or maintenance of landings, log haul roads or other roads outside the cut block,

- furnishings, camp equipment, machinery or equipment related to the use of a building, and machinery and equipment used in construction,
- portable electric generators and alternators not used exclusively on vessels for underwater logging, including their drive motors,
- rail cars, locomotive engines and non-turbine aircraft (non-jet),
- vessels, other than boom boats, and barges used exclusively to house exempt machinery and equipment,
- barges and equipment used in underwater logging operations that serve as the first accumulation point for felled trees and are used to transport trees to the shore (other than barges described in the section above, Qualifying PM&E),
- machinery or equipment used in silviculture, and
- fuel tanks used to store fuel at logging sites.

For a more detailed list of taxable equipment used by the logging industry, please see our website at www.sbr.gov.bc.ca/ctb/Logging.htm

Purchases from Out-of-Province Suppliers

If you purchase or lease taxable goods from an out-of-province supplier, you pay PST on the total amount that you pay to bring the goods into British Columbia, including charges for transportation, customs, excise, and any other costs. You do not include GST, or other provinces' or countries' retail sales tax.

If you have a PST registration number and the supplier does not charge you PST, you self-assess and record the PST due at Step 3 of your next tax return.

If you do not have a PST registration number and the supplier does not charge PST at the time of the sale, you self-assess the PST due using the *Return of Tax Due on Taxable Tangible Personal Property by a Purchaser/Seller not Registered Under the Social Service Tax Act* form ([FIN 428](#)). Do this at the time you bring or ship the goods into British Columbia.

For more information, please see [Bulletin SST 043](#), *Goods Purchased from Out-of-Province Suppliers*.

Equipment Brought Into British Columbia

If you bring taxable equipment into the province for use, you pay PST on the depreciated value of each item. You calculate and self-assess PST on the greater of the depreciated value or 50% of the original purchase price.

Equipment for Temporary Use

If you bring taxable equipment into British Columbia for temporary use only – 6 days or more in a 12-month period – to perform a specific task related to logging, and then take the equipment back out of the province, you pay PST using the temporary use formula (except leased equipment – see the section below, Leased Equipment). The 6 days may be consecutive or spread out over a number of weeks or months.

The temporary use formula allows you to pay PST on one-third of the value of the equipment for each 12-month period that the equipment is in British Columbia.

Leased Equipment

Unlike purchased equipment, you pay PST on taxable leased equipment even if it is brought into the province for less than 6 days.

For more details, please see [Bulletin SST 098](#), *Equipment Brought into the Province for Temporary Use (1/3 Formula)*.

Other Exemptions

Materials Incorporated into a Finished Product

You do not pay PST when you purchase goods that will be processed, fabricated, or manufactured into, attached to, or incorporated into other goods for resale or lease. This exemption does not apply to containers used to package or deliver the finished product, such as loading skids, if the containers are returnable to the seller.

To purchase the above items without paying PST, give the supplier your PST registration number. If you do not have a PST registration number and you qualify, give the supplier a completed *Certificate of Exemption* form ([FIN 453](#)).

Taxable Services Exemption

Generally, you pay PST for services you receive that are related to your goods. This includes services to install, assemble, construct, dismantle, repair, adjust, restore, recondition, refinish or maintain. However, if you are eligible for the PM&E exemption, you do not pay PST on services to exempt production machinery and equipment that you purchased or leased.

The following services provided to the logging industry are non-taxable:

- towing log booms, barges, floats etc.,
- marine salvage services,
- log scaling, involving the estimation of the number of board feet of lumber contained in a log or a pile of logs, and
- log banding, which is the process of wrapping bundles of logs with steel strapping for delivery to a mill or other customer.

For details on how to claim your exemption, see the section above, Claiming Exemptions.

Note: Your service provider does not pay PST on purchases of parts and materials used in providing service(s) if those parts become attached to, and remain with, the machinery and equipment. Your service provider may purchase these items without paying tax by giving their PST registration number to the supplier.

For more information, please see [Bulletin SST 018](#), *Taxable Services*.

Work-Related Safety Items

You do not pay PST on work-related safety equipment designed to be worn by a worker. For example, self-contained breathing apparatus (SCBAs), hard hats and other protective clothing are exempt. There are also safety items that are exempt to everyone, such as portable fire extinguishers and refills, or gas detection monitors. For more information, please see [Bulletin SST 002](#), *Exemption for Safety Equipment*.

Containers, Labels and Packing Materials

You do not pay PST on packing materials, such as bundling wire, that are considered a part of the merchandise sold; these may be purchased without paying PST when certain conditions are met. For more information, please see [Bulletin SST 020](#), *Containers, Labels and Packing Materials*.



Need more info?

Logging Industry website: www.sbr.gov.bc.ca/ctb/Logging.htm

Telephone (Vancouver): 604 660-4524

Toll free in Canada: 1 877 388-4440

E-mail: CTBTaxQuestions@gov.bc.ca

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation. The *Social Service Tax Act* and Regulations are on our website at www.sbr.gov.bc.ca/ctb

Acknowledgments

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References: *Social Service Tax Act*, Sections 1, 5, 9, 11, 12, 14, 19, 20, 21, 24, 71(k), 75(b), 76(1)(c), 76(i)(c.1), 76 (1)(h), 76(1)(i), 76(1)(j.1), 76(1)(k) and 77(c), and Regulations 2.38, 2.39, 2.45(b), 3.26, 3.36, 13.1, 13.2, 13.3, 13.9, 13.10.1, 13.10.2, 13.10.3, 13.11, 13.12 and 13.13