

Alternative Fuel Vehicles: Calculating the Tax Reduction

Social Service Tax Act

This bulletin assists **sellers and lessors** in collecting the appropriate social service tax, also called the provincial sales tax (PST), on sales and leases of eligible alternative fuel vehicles that take place on or after February 16, 2005.

Persons who purchased or leased alternative fuel vehicles before February 16, 2005 remain eligible for the partial refund of tax paid. Information on the previous refund program is available on the ministry website at www.sbr.gov.bc.ca/ctb

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

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WHAT IS AN ALTERNATIVE FUEL VEHICLE?

An **alternative fuel vehicle** is a motor vehicle, not including a multi-jurisdictional vehicle or two-wheeled vehicle, that:

- (a) is manufactured to operate exclusively on electricity, ethanol, methanol, natural gas or propane; as a hybrid electric vehicle (see

definition following); or as a bi-fuel vehicle (see definition following); and

- (b) is a new vehicle (i.e., has not, since its manufacture, been sold or leased at a retail sale or retail lease); and
- (c) is designed to be operated on a highway and is licensed for use on a highway; and
- (d) meets the standards prescribed under the *Motor Vehicle Safety Act* (Canada).

DEFINITIONS

Bi-Fuel Vehicle: A motor vehicle that has two separate fuel storage tanks so that the vehicle can be propelled by an alternative fuel, other than electricity, (ethanol, methanol, natural gas or propane) or by gasoline or diesel fuel.

Hybrid Electric Vehicle: A motor vehicle that has both an internal combustion engine and an electric motor, and that is:

- (a) designed to automatically shut off the engine while idling, braking or coasting (commonly referred to as "idle stop");
- (b) designed to capture and store electricity generated during braking (commonly referred to as "regenerative braking"); and

- (c) capable of sustained propulsion either:
- simultaneously by the internal combustion engine and the electric motor (sometimes referred to as motor assist); **or**
 - solely by the electric motor, operating on electricity generated by the internal combustion engine.

Some vehicles referred to by manufacturers and in advertisements as "hybrid electric vehicles" DO NOT qualify for the tax reduction. To qualify for the tax reduction as a hybrid electric vehicle, the vehicle must meet the criteria listed above.

Passenger Bus: A motor vehicle that is used for the purpose of carrying passengers within British Columbia and has a seating capacity of at least 30 passengers, but does not include a multi-jurisdictional vehicle.

Passenger Vehicle: A motor vehicle designed primarily as a means of transport for individuals, including 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, passenger buses and shuttle buses, ambulances, motor homes, camperized vans, hearses, snowmobiles, and trucks and vans larger than 3/4 ton.

Shuttle Bus: A motor vehicle that is used for the purpose of carrying passengers within British Columbia and has a seating capacity of 14 to 29 passengers, but does not include a multi-jurisdictional vehicle.

Tax Rate Value: For the purpose of determining the tax rate applicable to leased passenger vehicles (as defined earlier), 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 of the vehicle).

TAX RATE ADJUSTMENT FOR PASSENGER VEHICLES PRICED AT \$55,000 OR MORE

Passenger vehicles priced at \$55,000 or more are subject to the higher tax rates of 8%, 9% and 10%. Because of the cost of alternative fuel technology, a passenger vehicle that is an alternative fuel vehicle is generally more expensive than a comparable gasoline or diesel model. For this

reason, alternative fuel vehicles that are passenger vehicles are eligible for an adjustment to the vehicle price for the purposes of determining the applicable tax rate.

On purchases, the adjusted tax rate is the rate that would apply if the purchase price were reduced by \$7,000. *The resulting tax rate is applied to the full purchase price before the \$7,000 reduction.*

Leased alternative fuel passenger vehicles are also eligible for the tax rate adjustment provided that:

- it is the first retail lease after the vehicle's manufacture, and
- the lease is for a continuous period of at least **12 months**.

For leased vehicles, the adjusted tax rate is the rate that would apply if the tax rate value (see definitions) were reduced by \$7,000. *The resulting tax rate is then applied to the down payment and to each lease payment for the duration of the lease.*

The tax rate adjustment for passenger vehicles that are hybrid electric vehicles will be reduced to \$3,500 on April 1, 2008, and will be eliminated on April 1, 2009. There are no changes to the tax rate adjustment for other passenger vehicles that are alternative fuel vehicles.

The following tax rate thresholds for passenger vehicles come into effect on February 22, 2006.

Purchase Price (or tax rate value for leases)	Tax Rate
Less than \$55,000	7%
\$55,000 - \$55,999.99	8%
\$56,000 - \$56,999.99	9%
\$57,000 and over	10%

TAX REDUCTION FOR ALTERNATIVE FUEL VEHICLES

Effective February 16, 2005, purchases and leases of all qualifying alternative fuel vehicles, including alternative fuel passenger vehicles, are eligible for a reduction in the tax that would otherwise be payable on that purchase or lease.

The amount of the tax reduction varies depending on the type of alternative fuel vehicle purchased or leased as follows.

- Hybrid electric vehicles other than shuttle buses and passenger buses: 100% of the tax payable to a maximum of \$2,000. This reduction applies to all new vehicles purchased on or after February 16, 2005 and

before April 1, 2008, and lease agreements for new vehicles that are entered into during this period. On April 1, 2008, the tax reduction amount will be reduced to a maximum of \$1,000; on April 1, 2009 the tax reduction will be eliminated.

- Alternative fuel vehicles other than hybrid electric vehicles, shuttle buses and passenger buses: 50% of the tax payable to a maximum of \$1,000.
- Alternative fuel shuttle buses: 50% of the tax payable to a maximum of \$5,000.
- Alternative fuel passenger buses: 50% of the tax payable to a maximum of \$10,000.

CALCULATING THE TAX PAYABLE ON PURCHASES

The effective date for the point of sale tax reduction on purchases is February 16, 2005. This means the tax reduction applies to alternative fuel vehicles:

- purchased on or after February 16, 2005, or
- ordered before the effective date, with or without a deposit, that are paid for and delivered after the effective date, unless title passed before the effective date.

The point of sale tax reduction **does not apply** to alternative fuel vehicles:

- purchased before the effective date,
- purchased through a financing arrangement entered into before the effective date, or
- in all other situations where title or possession passes before the effective date.

Persons who purchased alternative fuel vehicles before February 16, 2005, remain eligible for the partial refund of tax paid. Information on the previous refund program is available on the Consumer Taxation Branch website at www.sbr.gov.bc.ca/ctb

The following examples are provided to assist sellers in calculating the appropriate amount of tax to collect on sales of alternative fuel vehicles that take place on or after February 16, 2005 and before April 1, 2008.

Hybrid Electric Passenger Vehicle: Sale Price over \$55,000

In the following example, the qualifying alternative fuel vehicle is a hybrid electric vehicle that qualifies as a passenger vehicle. The maximum reduction available is the lesser of 100% of the tax payable or \$2,000.

As the full selling price is \$62,000, the sale attracts the higher rate of tax, even after the \$7,000 adjustment to the purchase price. Therefore, the applicable tax rate adjustment must be calculated before determining the tax due.

Determine Adjusted Tax Rate

Sale price	\$62,000
Less the adjustment amount	- <u>\$7,000</u>
Value for applying the tax rate	\$55,000
The tax rate is 8%.	

Calculate Reduced Tax Payable

Taxable selling price	\$62,000
Tax rate 8%	x <u>.08</u>
Tax payable before reduction	\$4,960
Tax reduction (lesser of 100% of \$4,480 or \$2,000)	- <u>\$2,000</u>
Tax collectible	\$2,960

Hybrid Electric Vehicle: Sale Price under \$55,000

In the following example, the qualifying alternative fuel vehicle is a hybrid electric vehicle. The maximum reduction available is the lesser of 100% of the tax payable or \$2,000. As the full selling price before the \$20,000 trade-in deduction is \$35,000, the purchase does not attract a higher rate of tax and no tax rate adjustment is required.

Calculate Reduced Tax Payable

Sale price	\$35,000
Trade-in value	- <u>\$20,000</u>
Taxable selling price	\$15,000
Tax rate 7%	x <u>.07</u>
Tax payable before reduction	\$1,050
Tax reduction (lesser of 100% of \$1,050 or \$2,000)	- <u>\$1,050</u>
Tax collectible	NIL

Alternative Fuel Vehicle: Sale Price under \$55,000

In the following example, the qualifying alternative fuel vehicle is not a hybrid electric vehicle, shuttle bus or passenger bus. The maximum reduction available is the lesser of 50% of the tax payable or \$1,000. As the full selling price before the \$20,000 trade-in deduction is \$35,000, the purchase does not attract a higher rate of tax and no tax rate adjustment is required.

Calculate Reduced Tax Payable

Sale price	\$35,000
Trade-in value	- <u>\$20,000</u>
Taxable selling price	\$15,000
Tax rate 7%	x <u>.07</u>
Tax payable before reduction	\$1,050
Tax reduction (lesser of 50% of \$1,050 or \$1,000)	- <u>\$525</u>
Tax collectible	\$525

Alternative Fuel Passenger Vehicle: Sale Price over \$55,000

In the following example, the qualifying alternative fuel vehicle is not a hybrid electric vehicle, shuttle bus or passenger bus. The maximum reduction available is the lesser of 50% of the tax payable or \$1,000. The full selling price before the \$20,000 trade-in deduction is \$56,000. As this vehicle is a passenger vehicle, it is subject to the higher tax rate of 9%. The applicable tax rate adjustment must be calculated before determining the tax due.

Determine Adjusted Tax Rate

Sale price	\$56,000
Less the adjustment amount	- <u>\$7,000</u>
Value for applying the tax rate	\$49,000

The tax rate is 7%.

Calculate Reduced Tax Payable

Sale price	\$56,000
Trade-in value	- <u>\$20,000</u>
Taxable selling price	\$36,000
Tax rate 7%	x <u>.07</u>
Tax payable before reduction	\$2,520
Tax reduction (lesser of 50% of \$2,100 or \$1,000)	- <u>\$1,000</u>
Tax collectible	\$1,520

CALCULATING THE TAX PAYABLE ON LEASES

The tax reduction applies to all lease agreements entered into on or after February 16, 2005.

Persons who leased alternative fuel vehicles before February 16, 2005 remain eligible for the partial refund of tax paid. Information on the previous refund program is available on the ministry website at www.gov.bc.ca/sbr

The tax reduction is applied to leases as follows:

1. Calculate the total amount of tax normally payable before reduction on both the down payment (if any) plus all of the lease payments under the term of the lease.
2. Calculate the total amount of the tax reduction.
3. Allocate the tax reduction first to the tax payable on the down payment and apportion any remaining amount of the tax reduction equally to the tax payable on all lease payments under the term of the lease.

The following examples are provided to assist lessors in calculating the appropriate amount of tax to collect on leases of alternative fuel vehicles that take place on or after February 16, 2005 and before April 1, 2008.

Hybrid Electric Passenger Vehicle – Tax Rate Value under \$55,000

In the following example, the alternative fuel vehicle is a hybrid electric vehicle that qualifies as a passenger vehicle (maximum tax reduction of \$2000). The tax rate value (see definition) of \$30,000 does not attract a higher rate of tax, so there is no tax rate adjustment. A down payment of \$5,000 is made on the vehicle, the monthly lease payment is \$380 and the term of the lease is 48 months. These are the steps to follow.

1. Calculate the Total Amount of Tax Normally Payable Before Reduction

Down payment	\$5,000
Tax rate 7%	x <u>.07</u>
Tax payable on down payment	\$350 (A)
Total of all monthly lease payments (\$380 x 48)	\$18,240
Tax rate 7%	x <u>.07</u>
Total tax payable on all monthly lease payments	\$1,276.80 (B)
Total tax normally payable before reduction (A+B=C)	<u>\$1,626.80 (C)</u>

2. Calculate Total Available Tax Reduction

Lesser of \$2,000 or (100% x \$1,626.80)	\$1,626.80 (D)
Total Tax Collectible (C-D)	NIL

In this example, no tax is payable on either the down payment or subsequent lease payments over the full four-year lease term because the total tax reduction is equal to the amount of tax normally payable before reduction.

Alternative Fuel Vehicle – Tax Rate Value under \$55,000

In the following example, the qualifying alternative fuel vehicle is not a hybrid electric vehicle, passenger bus or shuttle bus (maximum tax reduction is \$1,000). The tax rate value (see definition) is \$30,000. The tax rate value does not attract a higher rate of tax, so there is no tax rate adjustment.

A down payment of \$5,000 is made on the vehicle, monthly lease payments are \$380 and the term of the lease is 48 months. The total tax reduction is first applied to the tax payable on the down payment, and the balance is then distributed over the tax payable on the full term of the lease. These are the steps to follow.

1. Calculate the Total Amount of Tax Normally Payable Before Reduction

Down payment	\$5,000
Tax rate 7%	<u>x .07</u>
Tax payable on down payment (before reduction)	\$350 (A)
Total payable on all monthly lease payments (\$380 x 48)	\$18,240
Tax rate 7%	<u>x .07</u>
Total tax payable on all monthly lease payments	\$1,276.80 (B)
Total tax normally payable before reduction (A+B)	\$1,626.80

2. Calculate Total Available Tax Reduction

Lesser of \$1,000 or
(50% x \$1,626.80 = \$813.40) \$813.40 (C)

3. Calculate Tax Payable by Lessee

Total available tax reduction (C above)	\$813.40
Less tax payable on down payment (A above)	- <u>\$350.00</u>
Remaining tax reduction to reduce tax payable on monthly payments over term of lease (C-A=D) (\$813.40-\$350)	<u>\$463.40 (D)</u>
Tax normally payable on each monthly lease payment. Calculate as (B÷48)	
(\$1,276.80÷48)	\$26.60
Less tax reduction available for each monthly lease payment (D÷48) (\$463.40÷48)	- <u>\$9.65</u>
Tax collectible on each monthly lease payment (\$26.60-\$9.65)	<u>\$16.95</u>

In this example, no tax is payable on the down payment as the total tax reduction is greater than that amount. The lessee is required to pay \$16.95 tax on each of the 48 lease payments under the lease agreement.

Hybrid Electric Passenger Vehicle – Tax Rate Value over \$55,000

In the following example, the qualifying alternative fuel vehicle is a hybrid electric vehicle that qualifies as a passenger vehicle. The tax rate value (see definitions) is \$66,000. The tax rate value attracts a higher tax rate even after the \$7,000 adjustment to the tax rate value. Therefore, the applicable tax rate adjustment must be calculated before determining the tax due.

A down payment of \$10,000 is made on the vehicle and the term of the lease is 48 months. The total tax reduction is first applied to the tax payable on the down payment, and then distributed over the tax payable on the full term of the lease.

1. Determine Adjusted Tax Rate

Tax rate value	\$66,000
Less adjustment amount	- <u>\$7,000</u>
Value for applying tax rate	\$59,000
Applicable tax rate is 10%	

2. Calculate the Total Amount of Tax Normally Payable Before Reduction

Down payment	\$10,000
Tax rate 10%	<u>x .10</u>
Total tax payable on down payment (before reduction)	\$1,000 (A)
Total payable on all monthly lease payments (\$760 x 48)	\$36,480
Tax rate 10%	<u>x .10</u>
Tax payable on all monthly lease payments	\$3,648 (B)
Total tax normally payable before reduction (A+B)	\$4,648

3. Calculate Total Available Tax Reduction

Lesser of \$2,000 or
(100% x \$4,648) \$2,000 (C)

4. Calculate Tax Payable by Lessee

Total available tax reduction (C above)	\$2,000
Less tax payable on down payment (A above)	- <u>\$1,000</u>

Remaining tax reduction
to reduce tax payable on
monthly payments over term
of lease (\$2,000-\$1,000) \$1,000 (D)

Tax normally payable on
each monthly lease payment.
Calculate as (B÷48) (\$3,648÷48) \$76.00

Less tax reduction available
for each monthly lease payment
(D÷48) (\$1,000÷48) - \$20.83

**Tax collectible on each monthly
lease payment (\$76.00-\$20.83) \$55.17**

In this example, no tax is payable on the down
payment as the total tax reduction is greater
than that amount. The lessee is required to
pay \$55.17 tax on each of the 48 lease
payments over the lease agreement's term.

DOCUMENTATION OF REDUCED TAX

When providing a reduction in the tax payable on the
sale or lease of an alternative fuel vehicle, the seller
or lessor must ensure that:

- the vehicle model meets the eligibility criteria
outlined in this bulletin,
- the amount of the reduction is clearly
documented on the sales or lease invoice, and
- records are maintained to substantiate that the
vehicle qualifies as an alternative fuel vehicle
and of the method by which the reduced tax
was calculated.

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.**