

## Application of Tax to Manufactured Homes Purchased for Residential Use

### *Social Service Tax Act*

On February 18, 2004 the Minister of Finance announced changes to the way social service tax (PST) applies to manufactured homes. These changes, as outlined below, apply to all sales that take place on or after February 18, 2004.

#### **What qualifies as a manufactured home?**

A manufactured home is a mobile or modular home designed for and used as a residential dwelling. The home must meet the Canada Standard Association standard Z240 for a mobile home or standard A277 for a modular home, or be a home of similar design and construction. Recreation vehicles, travel trailers (including Park Model travel trailers), tents, trailers, motor homes, slide-on campers, chassis mounted campers, or other similar vehicles do not qualify.

#### **What has changed?**

Due to the nature of the industry, there is little practical change to who must pay and collect tax. Sellers are still required to pay tax on the cost of the home if they are selling to their customers an improvement to real property under a lump sum supply and install contract. Under such contracts, the seller is the user of all materials and goods supplied and installed under the terms of the contract. The seller is, therefore, required to pay the tax.

As most manufactured homes are sold under on a lump sum supply and install basis, the change should not affect most dealers. However, the application of the tax to sales of manufactured homes under time and material contracts has changed.

Under the previous legislation, tax was payable by a dealer who purchased the manufactured home for resale on 50% of the dealers' cost of the mobile home and 55% of the cost of a modular home. A dealer who was the manufacturer of the home paid tax on the materials used to construct the home.

Under the new provisions, **when manufactured homes are sold under time and material contracts, the sellers must collect the tax from their customers.** Manufacturers selling directly to the consumer must also collect the tax, unless they are selling to dealers for resale.

#### ***Sales to First Nations Purchasers***

First Nations are exempt from tax on purchases that take place on reserve if:

- the home is purchased under a time and material contract;
- the contract clearly states that transfer of title to the home occurs on delivery to the reserve location; and,
- all other criteria for exemption are met (refer to Bulletin 034, *Procedures for Making Exempt Sales or Leases to Indians and Indian Bands*).

### **When Does the Change Take Effect?**

This legislation is retroactive to January 1977, but the retroactive amendments do not affect past sales or purchases. Therefore there is no change to purchases that occurred prior to February 18.

However, where a time and materials contract was entered into before February 18, 2004 but delivery, installation and payment occurred after that date, tax applies as follow:

- If the dealer has remitted the tax for that sale, the dealer is considered to have paid tax on behalf of the customer. Tax does not have to be collected from the customer.
- If the dealer has not remitted tax on that sale, the dealer is required to collect from the customer an amount equal to 50% or 55% of the seller's cost of the manufactured home.

### **What happens with tax paid inventory?**

Dealers who have tax paid inventory on hand on February 18, 2004 are eligible for a refund of tax. Similarly, manufacturers who are also dealers of manufactured homes, and who have paid tax on materials used to construct the homes, are eligible for a refund of the tax paid.

Refund applications must be submitted to the Consumer Taxation Branch by February 17, 2005. All refund applications must be accompanied by documentation substantiating that tax was remitted to the province on the inventory.

### **MORE INFORMATION**

Should you require additional information, please visit the Consumer Taxation Branch web site at [www.rev.gov.bc.ca/ctb](http://www.rev.gov.bc.ca/ctb) or contact the Consumer Taxation Branch at 604 660-4524 in Vancouver, or toll-free at 1 877 388-4440.