



Information Bulletin

PST-59 Issued: December, 2000 Revised: May, 2005

RE: **THE PROVINCIAL SALES TAX ACT**

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INFORMATION FOR THE MINING INDUSTRY

This bulletin has been prepared to help you apply and collect the Provincial Sales Tax. It is a general guide and not a substitute for the legislation.

The changes to this bulletin are indicated by a (I).

The contents of this bulletin are presented under the following sections:

- A. Tangible Personal Property vs. Real Property
- B. Taxable Goods
- C. Taxable Services
- D. Exemptions
- E. Contractors
- F. Sales and Transfers of Business Assets
- G. Saskatchewan Electronic Tax Service (SETS)

A. TANGIBLE PERSONAL PROPERTY VS. REAL PROPERTY

In order to properly apply the Provincial Sales Tax in certain situations, it is necessary to distinguish between tangible personal property and real property. The applicability of tax to production machinery and equipment is often determined by whether the equipment remains tangible personal property (see Section B) or whether the equipment is incorporated into real property by the contractor (see Section E). Distinguishing between tangible personal property and real property is also necessary when determining the application of tax to repair labour services (see Section C) and on sales of business assets (see Section F).

The Department of Finance follows Common Law rules to distinguish real property from tangible personal property. These are rules that have been established by many years of court decisions.

Property that is sunk into, bolted onto, cemented to, or otherwise "permanently" affixed to the land is normally considered real property. As well, goods that are so large and heavy that they cannot be moved are often considered as real property, even if they are not otherwise affixed to the land. However, some goods, such as portable buildings, photocopiers, and computer equipment that are affixed to the land or building may be considered to be tangible personal property if it is intended that the goods are to be periodically moved or are subject to repossession by a creditor.

Most production machinery and equipment is considered to become real property after installation. A plant, even though it is mostly made up of machinery, storage tanks, pipes, etc., once affixed to land, with the intention that it will not be moved, is also considered real property.

B. TAXABLE GOODS

1. Equipment, Tools, Materials, Supplies and Repair Parts

Equipment, tools, materials, supplies and repair parts that are purchased for use in Saskatchewan, whether new or used, are subject to tax.

When these goods are purchased outright with no installation charges or if they are intended to remain as **tangible personal property** after installation, tax is due on the total selling price of the goods, including any installation charges. If the goods are purchased from a licensed supplier, the tax must be paid to the supplier. If the goods are purchased from an unlicensed supplier located outside Saskatchewan, the tax must be self-assessed and submitted with your return on the purchase price, plus any foreign exchange, transportation and installation charges, customs and excise duties and importation charges, but not the GST.

For equipment and goods that are manufactured for your own use, please refer to Information Bulletin PST-21 (Manufacturers).

2. Railcars Used in Saskatchewan

Tax is due on railcars when stops and deliveries or pickups are made in the province. In order to avoid multiple taxation, the following procedures may be used to determine the amount of tax payable:

(a) Company Owned Railcars

Tax applies on: $\text{Cost of the Railcar} \times \frac{\text{Saskatchewan miles for the year}}{\text{Total miles for the year}}$

The cost includes the original cost of the car, capitalized additions, and maintenance charges (repair parts and outside repair labour).

(b) Leased Railcars

Tax applies on: $\text{Total lease charge} \times \frac{\text{Saskatchewan miles for the year}}{\text{Total miles for the year}}$

The total lease charge includes the lease charge and any maintenance charges (repair parts and outside repair labour) paid by the lessee.

3. Crushed Rock and Gravel

Tax is due on the value of crushed rock and gravel (e.g. roadbuilding). For further information on this area, please refer to Information Bulletin PST-28 (Roadbuilders).

C. TAXABLE SERVICES

1. Labour Services

Labour services provided to repair, install, assemble, dismantle, adjust, restore, recondition, examine, refinish or maintain **tangible personal property** are subject to tax. Tax does not apply to mileage and travel charges related to these labour services providing these charges are segregated on the customer's sales invoice.

When these labour services are provided to **real property** they are not subject to tax. Installation, removal, and on-site repair or maintenance labour related to real property are exempt. When goods or equipment are removed to an off-site location for repair, the shop labour is taxable since the goods become **tangible personal property** when removed from the site.

Labour services provided by an employee during the course of employment are not subject to tax.

2. Other Taxable Services

Other taxable services include engineering and geoscience services, legal services, accounting services, architectural services, computer services, commercial building cleaning services, employment placement services and advertising services. Information bulletins concerning the taxation of these services are available on our web site at www.gov.sk.ca/finance.

Where taxable services are provided in relation to more than one jurisdiction, only the fees related to Saskatchewan are subject to tax. If a breakdown of charges by jurisdiction is not available, a reasonable allocation for the Saskatchewan portion of the services must be made.

Taxable services provided by a person to that person's employer for the sole use of the employer are not subject to tax. A person is considered to be an employee when the employer makes regular deductions from wages as required by the Income Tax Regulations (Canada).

3. Engineering, Geoscience and Architectural Services

Engineering and geoscience services means those services provided by a person conducting "the practice of professional engineering" or "the practice of professional geoscience" as defined in The Engineering and Geoscience Professions Act. Services provided by a professional engineer or engineering firm that are not included in the practice of professional engineering or geoscience are not subject to tax.

"Architectural services" means those services provided by a person conducting the "practice of architecture" as defined in The Architects Act, 1996.

Engineering, geoscience and architectural services that are in the nature of feasibility studies, environmental studies, general consulting or advisory services are not subject to tax.

Engineering and geoscience services related to the exploration of potash and other minerals are exempt of tax. These services are exempt up to the point that the mine/mill is put into commercial production as defined in regulations made pursuant to The Crown Minerals Act, The Mineral Resources Act, 1985 and The Mineral Taxation Act, 1983 or if not defined, to the point that product from the mine/mill is first sold.

Site specific engineering, geoscience or architectural services related to the development, maintenance, enhancement or decommissioning of existing production facilities are taxable.

For further information on engineering, geoscience and architectural services, please refer to Information Bulletin PST-65.

D. EXEMPTIONS

1. Electricity and Fuel

Electricity, natural gas, and propane used in the processing of minerals are not subject to Provincial Sales Tax.

Electricity that is consumed by equipment and machinery used in the processing of minerals is exempt. The power exemption typically begins when the raw materials enter the mill and ends when the final product is moved to storage. Electricity consumed for any other purpose, including lighting of premises, underground extraction of minerals, shaft hoist and elevators, movement of raw materials prior to processing, water pumping, ventilation, and movement of finished product to storage, is subject to tax.

If your power billings are less than \$200,000 per year, you are allowed an exemption based on 80% of your electrical consumption. If your power billings exceed \$200,000 per year, you are required to contact Saskatchewan Finance and complete a power survey.

Natural gas and propane used to produce steam that is used in the milling process is not subject to tax. Natural gas and propane used for other heating purposes is also exempt of tax.

Please see Information Bulletin FT-11 concerning the application of Fuel Tax to diesel fuel used to generate electricity for mineral exploration.

2. Chemical Reagents and Catalysts

Chemical reagents and catalysts, which are used in the transformation or manufacture of a product by contact or temporary incorporation with the raw materials being processed, fabricated or manufactured, are not subject to tax.

“Catalyst” means a substance that by its presence causes, speeds up or retards a chemical reaction but does not itself undergo any chemical change as a result of that reaction.

A reagent is a substance that is involved in one or more chemical reactions or biological processes and is used to detect other substances.

If you are unsure if a chemical qualifies for this exemption, information regarding the chemical should be referred to Saskatchewan Finance for a ruling.

3. Containers, Packaging Materials and Labels

Containers, packaging materials, labels and product literature which are sold with a product are not subject to tax. You can purchase these items tax free by providing the supplier with your vendor's licence number.

Returnable containers and packaging materials which are utilized for handling merchandise before delivery, returned for a deposit and not for resale are subject to tax. The tax must be paid to the supplier. If the tax is not paid to the supplier, the tax must be self-assessed and submitted with your return on the purchase price or on the manufactured cost if produced internally.

4. Equipment Used for Mineral Exploration

Specially designed equipment used exclusively for mining exploration or geophysical surveys in Saskatchewan is not subject to tax. Eligible equipment includes:

- (i) computer software programs specially designed for mining exploration or geophysical surveys;
- (ii) drill rigs designed for mining exploration, including any vehicle on which a drill rig is permanently mounted;
- (iii) electromagnetic transmitters, receivers and antennae;
- (iv) geotechnical instrumentation;
- (v) gravimeters and other instruments designed to measure the elements, variations and distortions of the natural gravitational force;
- (vi) induced polarization transmitters and receivers;
- (vii) magnetometers;
- (viii) magnetic susceptibility equipment;
- (ix) magnetotelluric survey equipment;
- (x) radiometric equipment;
- (xi) radio imaging transmitters and receivers;
- (xii) seismic survey equipment, including recording equipment;
- (xiii) specialized aircraft equipped with geophysical survey or exploration equipment; and
- (xiv) global positioning satellite (GPS) equipment used to locate survey spots;

but does not include:

- (xv) equipment not specially designed for mining exploration or for conducting geophysical surveys;
- (xvi) goods which are consumed during mining exploration or geophysical surveys, including drill bits and drill stem;

- (xvii) motor vehicles, snowmobiles and watercraft; and
- (xviii) any equipment, tools or other items used solely for the development, production or extraction of mineral resources.

5. Royalty Charges and Technology License Fees

A royalty charge paid to the manufacturer of equipment for the continuing right to use the manufacturer's technology is not subject to tax. Technology license fees paid for the right to use certain technology, for mine or mill processes, are also exempt of tax.

E. CONTRACTORS

1. Supply and Install Contractors

A contractor is any person who constructs, alters or improves real property. When a contractor enters into a contract for the repair, renovation or improvement of **real property**, the contractor is considered to be the consumer of materials incorporated into the property. Tax must be paid by the contractor on the cost of the materials for on-site construction and on the cost of equipment and supplies used in the performance of the contract. On-site labour charges are not subject to tax.

A contractor is not required to report, to the principal, the amount of tax paid on the materials, supplies and other goods used in the performance of a construction contract. Therefore, the contract price to the principal must be quoted "Provincial Sales Tax Included".

A contractor who supplies and installs goods that remain **tangible personal property** must collect tax on the total contract price from the customer, including labour charges to install, assemble or adjust the property.

For further information, please refer to Information Bulletin PST-12.

2. Non-Resident Contractors

A non-resident contractor working in Saskatchewan is required to post a Guarantee Bond or cash deposit in an amount equivalent to 5% of the total contract amount. This security is intended to ensure that the non-resident contractor accounts for and remits the tax payable on materials and equipment used to carry out the contract. It is the duty of the general contractor or principal to ensure that the non-resident contractor complies with this provision. Failure to do so makes the general contractor or principal liable for any taxes which the non-resident contractor may fail to remit.

Before the final payment is made on a contract, the sub-contractor must obtain a clearance letter from the Revenue Division and provide a copy of the letter to the general contractor or principal. To obtain a clearance letter, please telephone 1-800-667-6102, extension 7750. If the contractor's account is not in good standing, the general contractor or principal will be requested to withhold from any hold back an amount equal to the tax due and remit this amount to the Revenue Division.

For further information, please refer to Information Bulletin PST-38.

F. SALES AND TRANSFERS OF BUSINESS ASSETS

1. Sales of Used Equipment

Tax must be collected on the full selling price of used equipment. If an item is received in trade and tax has been paid on the trade-in, tax is collected on the cash difference.

Tax only applies on sales of items that are tangible personal property, such as vehicles and office equipment. Sales of real property, such as buildings and plant equipment, are not subject to tax provided the property remains in place when sold. Tax must be collected on the sale of real property if the property is removed and sold separately.

2. Sales of Properties

There are no tax implications with the sale of joint venture partner interests as long as the operator of the properties has not changed. Tax does not apply to real property involved with the sale of mineral properties.

3. Equipment Transfers Between Properties

Transfers of equipment between company-operated properties within Saskatchewan are not subject to tax. As long as the properties are operated by the same company, equipment transfers are not considered to be a change in ownership whether or not the joint venture participation is affected.

Equipment transferred from outside Saskatchewan is subject to tax in all cases, unless it can be shown that the tax has been previously paid.

4. Property Transfers Between Closely Related Parties

An exemption from tax is provided on transfers of tangible personal property where, in effect, financial control and ownership of the property does not change.

For further information on transfers of business assets between closely related parties, please refer to Information Bulletin PST-60.

G. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

Saskatchewan Finance has made it possible to report and remit tax electronically through the use of a standard Internet connection. The Saskatchewan Electronic Tax Service (SETS) offers a secure, fast, easy and convenient alternative to filing returns in paper format. Several E-File services are currently available through SETS.

Businesses may use SETS to file and pay returns for Provincial Sales Tax and other provincial taxes.

SETS allows businesses to:

- File and pay returns or make payments on account.
- File a return and post-date the payment to the due date.
- View account balance and statement information.
- Authorize your accountant to file on your behalf.
- Subscribe to an E-mail Notification Service that allows the option to be notified by e-mail that a tax return should be filed (replaces the paper forms normally received in the mail).

FOR FURTHER INFORMATION

Write: Saskatchewan Finance
Revenue Division
2350 Albert Street
Regina, Saskatchewan
S4P 4A6

Telephone: Toll Free 1-800-667-6102
Regina 306-787-6645

E-mail: sask.tax.info@finance.gov.sk.ca

Fax: 306-787-9644

Internet: Provincial Sales Tax bulletins, forms and information are available on the Internet at:

<http://www.gov.sk.ca/finance/revenue/pst/pst.htm>

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