



Information Bulletin

PST-37

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THE PROVINCIAL SALES TAX ACT

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INFORMATION FOR MANUFACTURING CONTRACTORS

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).

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A. WHO IS A MANUFACTURING CONTRACTOR?

A manufacturing contractor is a contractor who manufactures, in shop, goods for use in the performance of a construction contract.

Businesses that make and install the following goods (among others) qualify as a manufacturing contractor:

- kitchen cabinets and vanities
- doors and windows
- ornamental and wrought iron railings
- sheet metal work
- aluminum work
- siding
- eavestroughing
- prefabricated buildings, walls, partitions and roof trusses

B. PAYING THE TAX

When a contractor enters into a contract for the repair, renovation or improvement of real property, the contractor is considered the consumer of materials incorporated into the property. Real property is a building or other structure attached to land.

Permanent additions to a building are also considered to be real property. Tax must be paid on:

- (a) the cost of the equipment and supplies;
- (b) the manufactured cost of the materials when the materials are manufactured in shop and taken to the job site for installation.

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. **The contract price to your customer should be quoted "Provincial Sales Tax included"**. Tax should not be shown as a separate item on your customer's invoice.

C. CALCULATING THE TAX ON THE MANUFACTURED COST

A manufacturing contractor who uses goods of their own manufacture in the performance of a construction contract is required to calculate and remit the tax on the manufactured cost of those goods using one of the following methods:

- (a) If specific cost records are available, the contractor should account for the tax on the total of the following costs (excluding the GST and the Provincial Sales Tax paid on materials):
 - direct materials;
 - direct labour;
 - all overhead costs including rent, insurance and depreciation on machinery.
- (b) If specific cost records are not available, the tax may be accounted for on the total of the following costs (excluding the GST and the Provincial Sales Tax paid on materials):
 - direct material;
 - direct labour;
 - one hundred and fifty per cent (150%) of the cost of direct labour.

- (c) Sheet metal contractors may account for the tax on:
- Galvanized iron or tinplate on the laid down cost of all materials used (including wastage but excluding the GST and the Provincial Sales Tax paid on materials) plus 100 per cent.
 - Aluminum on the laid down cost of all materials used (including wastage but excluding the GST and the Provincial Sales Tax paid on materials) plus 75 per cent.
 - Copper, monel metal or stainless steel on the laid down cost of all materials used (including wastage but excluding the GST and the Provincial Sales Tax paid on materials) plus 40 per cent.

- (d) Contractors who manufacture and install ornamental and other iron products, kitchen cabinets and display signs may account for the tax using the following steps:

From the total contract amount (excluding the GST and the Provincial Sales Tax paid on materials) subtract:

- Actual installation costs. If installation costs are not available the following percentages may be used to determine these costs:
 - (i) Ornamental iron (iron railings, fire escapes, steel stairs and steel balconies) - 20 per cent of the total contract amount;
 - (ii) Other iron products such as fences, flower boxes, flag poles, steel posts, bumper guards - 15 per cent of the total contract amount;
 - (iii) Kitchen cabinets - 10 per cent of the total contract amount;
 - (iv) Illuminated and non-illuminated display signs - 15 per cent of the total contract amount.
- Profit.

Apply the Provincial Sales Tax on the resulting amount.

NOTE: After deduction of installation cost, profit, GST and the Provincial Sales Tax, the taxable amount should not be less than the cost of materials.

- (e) Contractors who manufacture and install kitchen cabinets may account for the tax using one of the following methods:
- (i) methods (a), (b) or (d) above; or
 - (ii) apply the Provincial Sales Tax to 70% of the total contract amount (excluding the GST and the Provincial Sales Tax paid on materials) .

NOTE: Remit the amount of tax calculated above less any tax paid on materials at the time of purchase.

D. SUPPLY AND INSTALL CONTRACTS ON INDIAN RESERVES

Contractors who have paid the tax on materials used in the completion of a supply and install contract on an Indian reserve may apply for a refund of the tax paid providing the contract with the Indian band or band empowered entity **specifically excludes the tax**. Only the general contractor on qualifying contracts may apply for a refund. Although subcontractors are not eligible, the general contractor may obtain a breakdown of the tax paid by the subcontractor and include it in the refund application.

Copies of the purchase invoices showing the tax paid and a copy of the contract should be submitted to the Revenue Division with the refund submission.

E. GENERAL CONTRACTOR'S AND PRINCIPAL'S REQUIREMENTS

Notification of Subcontracts

The general contractor or principal must provide the Revenue Division with the following information on all subcontracts which are awarded by them:

- the name and address of each subcontractor;
- the nature of each subcontract;
- the value of each subcontract and who is responsible for the tax;
- the proposed date of commencement and completion of each subcontract.

Bonding

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. 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 that the non-resident contractor may fail to remit.

Contract Clearance on Final Payment

Before the final payment is made to a contractor, the general contractor or principal must obtain a contract clearance letter from the Revenue Division. To obtain a contract clearance letter, please telephone 1-800-667-6102 extension 7750. If the contractor has not provided an accounting of the tax, the general contractor or principal will be requested to withhold from any holdback an amount equal to the tax due and remit this amount to the Revenue Division.

F. DIRECT AGENTS

- Direct agents are those materials consumed or used by a manufacturer or processor in the transformation or manufacture of a product by contact or temporary incorporation into the raw materials being manufactured or processed.

- Direct agents include the following:
 - dies, jigs, moulds, forms, patterns and stencils
 - cutting attachments for power and air tools, including drill bits, slot drills, reamers, carbide inserts, shear blades, threading jaws, cut-off blades and honing shoes and stones used during the manufacturing process
 - abrasives, including grinding balls, wheels and discs, polishing wheels, rotary steel brushes, steel and glass shot, steel wool, emery paper and powder, abrasive paper, sanding discs and belts and sand used for sand blasting
 - polishing compounds
 - mould sprays
 - cutting lubricants
- The following are not considered to be direct agents:
 - production machinery and equipment, including repairs
 - materials and supplies such as drill bits, grinding wheels and carbon inserts used to repair equipment, tools and attachments
 - power, air and hand tools
 - tool fixtures, tool holders, boring bars, clamps, springs, shims and set screws
 - welders, including nozzles, insulators, cutting tips and cables
 - lubricating oils, grease and coolants, except when used as a cutting aid
 - cleaners, including solvents
 - consumables whose contact with the product being manufactured is only incidental and not part of the manufacturing process (e.g. bearings, seals, gaskets, etc.)
- For the purposes of the tax exemption on direct agents, the following definitions apply:
 - Die: A solid or hollow form used for shaping or marking goods in process by cutting, stamping, pressing or extruding, but does not include a die set or tap set used for cutting threads.
 - Jig: A device used in accurate machining of goods in process which holds the goods firmly, and guides the working tools, or which bends the goods in process.
 - Mould: A hollow form into which materials are placed to produce desired shapes, matrices, or cavities which shape or form goods in process.

A die, jig or mould does **not** include any machinery, equipment, apparatus or device to which the die, jig or mould may be attached, or that is necessary to carry out the function or process of the die, jig or mould.

G. ELECTRICITY AND FUEL

Electricity, diesel fuel, domestic fuel oil, coke and gas used in a direct manufacturing process are not subject to Provincial Sales Tax.

The exemption for manufacturing electricity applies only to the electricity that is consumed by equipment and machinery used in a direct manufacturing process. Electricity consumed for any other purpose, including lighting of premises, ventilation, refrigeration and elevators, is subject to tax.

If your power billings are less than \$200,000 per year, you will be allowed an exemption based on a fixed percentage of your electrical consumption. If your power billings exceed \$200,000 per year, you will be required to contact our office and complete a power survey. If you are presently paying tax on all of your electricity and your power billings are less than \$200,000 per year, a refund of tax paid on previous power billings may be obtained by submitting copies of your power billings.

Please provide us with a copy of your current power bill and we will notify your supplier of electrical power to collect tax only on the taxable portion of your power billings.

H. MANUFACTURING AND PROCESSING INCENTIVES

The Saskatchewan Investment Tax Credit (ITC) for Manufacturing and Processing (M&P) is a non-refundable income tax credit which is designed to encourage plant and equipment investment for use in M&P activities in Saskatchewan. The percentage rate of the ITC parallels the rate of the Saskatchewan Provincial Sales Tax (PST).

The Saskatchewan Manufacturing and Processing Profits Tax Reduction is a corporation income tax reduction for manufacturing and processing profits. The reduction uses a base amount (equal to the difference between the Saskatchewan's general corporate income tax rate and 10 per cent) which will be multiplied by the corporation's allocation of income to Saskatchewan to arrive at the net Saskatchewan tax rate reduction. The net Saskatchewan tax rate reduction is then applied to the corporation's Saskatchewan share of Canadian manufacturing and processing profits to determine the amount of the tax reduction. Saskatchewan-based firms with a high allocation of income to Saskatchewan will receive a larger tax reduction than firms with a low allocation of income.

I. REGISTRATION AND REPORTING REQUIREMENTS

Contractors must become registered with the Revenue Division to enable them to report any tax payable on materials, supplies, and construction equipment. Tax returns will be forwarded on a regular basis.

J. SALES OF USED BUSINESS ASSETS

Businesses are required to collect tax on the sale of used assets, such as vehicles and equipment. When used assets are being sold as part of the closure of a business, the purchaser is required to self-assess and report the tax.

K. 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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