

PST-38

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THE PROVINCIAL SALES TAX ACT

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INFORMATION FOR NON-RESIDENT REAL PROPERTY AND SERVICE CONTRACTORS

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

Changes to this bulletin are indicated by a (|) in the left margin.

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A. REGISTRATION AND REPORTING REQUIREMENTS

Effective April 1, 2017, all non-resident contractors carrying on business in Saskatchewan, providing services to real property, are required to be registered with the Revenue Division as Licenced Vendors for the purpose of collecting and remitting PST on their sales of taxable services and reporting tax payable on supplies, equipment, vehicles and tools used in Saskatchewan.

Prior to April 1, 2017, contractors were issued Registered Consumer numbers. PST account numbers will no longer identify businesses as vendors or consumers; therefore, contractors with a Registered Consumer number will retain and use their existing number when reporting as a Licenced Vendor. Contractors not previously registered for PST are required to become licenced by completing and submitting the application form found at the following link:
<http://finance.gov.sk.ca/forms/FI-1213ApplicationforVendorsLicence-ConsumerRegistration.pdf>

Please see Information Bulletin PST-5, *General Information* for information regarding vendor responsibilities and tax return filing.

Note: A resident contractor is defined as having a permanent place of business in Saskatchewan and includes having an established branch office with full time staff and complete accounting records for Saskatchewan operations. Resident contractors please see PST-12, *Information for Businesses Providing Services to Real Property*.

B. SERVICES TO REAL PROPERTY

Effective April 1, 2017, PST applies to services to real property. Taxable services include construction, alteration, repair, erection, remodeling, improvement, or any other service in relation to real property or a building or other structure on real property, whereby the value or use of the real property is improved. Some maintenance services such as snow clearing and lawn care remain exempt from PST.

The primary changes effective April 1, 2017, regarding the application of PST to real property services are as follows:

- Contractors performing services to real property are now licensed as vendors rather than consumers.
- Contractors are required to collect PST on the total charge to construct, alter, repair, erect, remodel or improve real property. Effective April 1, 2017, these charges, which were previously exempt from PST, become taxable and PST must be shown as a separate line item on the invoice to the customer.
- Contractors will purchase materials exempt from PST and collect the tax from their customer on the total contract, rather than paying PST on the purchase cost of the materials.
- Contractors building residential or commercial premises for resale must collect PST on the retail selling price of the premises, excluding the value of the land.

A contractor engaged in services to real property is required to collect PST on the total charge to the customer for the services, including all charges for labour, materials, transportation, insurance, service fees, overhead expenses and any tax, levy or duty, other than the GST. PST must be shown as a separate line item on the invoice to the customer.

Contractors acquiring materials in Saskatchewan, that are resold as part of their contract, may purchase these items exempt from PST by quoting their vendor's licence number to their suppliers. Suppliers are required to verify the number quoted is an active vendor's licence number by accessing the PST On-Line Registry at <http://www.skpstregistry.gov.sk.ca/> and if valid, record the vendor's number on the invoice at the time of sale when selling PST exempt.

Contractors may claim a credit for any tax that has been paid on materials sold or incorporated into a real property contract where PST is collected. Credits claimed will be subject to audit verification and can be used to reduce the tax reported and remitted.

When materials are taken from an exempt resale inventory for the contractor's own personal or business use, the PST must be self-assessed on the cost of the materials and remitted directly to the Ministry of Finance using the regular PST return form. PST continues to apply to new and used equipment, supplies and taxable services purchased for use in the contractor's business operations.

See Section F for the application of PST to equipment, vehicles and tools brought into Saskatchewan for use in completing contracts.

Note: For information regarding the application of PST to contracts on Indian reserves please see PST-12, *Information for Businesses Providing Services to Real Property*.

C. SUBCONTRACTORS

Subcontractors are not required to collect PST on services provided to a contractor who is licensed as a vendor and indicates they are acquiring the subcontractor's service for resale, since the contractor will collect PST on the total charge to their customer. To purchase the services of the subcontractor without paying the PST, the contractor must quote their vendor's licence number to the subcontractor and the number must be recorded on the invoice.

D. BUILDERS OF RESIDENTIAL OR COMMERCIAL PREMISES

Contractors building residential or commercial premises for resale are required to collect PST on the retail selling price of the premises, excluding the value of the land.

In these instances, the contractor is not considered the consumer or user in the building of the premises, providing:

- (a) The premises are sold to the customer at fair market value;
- (b) The builder includes in the sale to the customer all materials and services to real property acquired and provided by the builder that form part of the value of the premises sold to the customer; and,
- (c) The premises remain in the builder's salable inventory and use of the premises does not change (i.e. the premises remains for sale by the builder and is not used, rented, or otherwise occupied.)

E. DEFINITION OF REAL PROPERTY

Real property includes land or buildings or property that is permanently attached to land or buildings. In general, goods become real property upon installation when affixed or attached to the land or building in a permanent manner (i.e. sunk into, cemented into, bolted to, built or framed into, plumbed or wired into, or otherwise secured), thereby becoming an integral component of the property. The goods become a permanent and substantial improvement to the real property, being attached to the building such that they add value and cannot be easily removed.

Examples of items that become real property when installed in a building or attached to land include windows, doors, light fixtures, furnaces, central air conditioners, railings, underground sprinklers, fences and plumbing materials.

In addition, items that are so large and heavy they cannot be moved may also be considered real property, even if they are not otherwise affixed to the land or a building. For example, most production machinery and equipment is considered to become real property after being permanently installed and becoming an integral component of a processing activity, regardless of being attached or affixed to the land or building.

F. CALCULATION OF TAX ON EQUIPMENT, VEHICLES AND TOOLS

A non-resident contractor who brings equipment, vehicles and tools into Saskatchewan is required to pay PST by using one of the methods outlined below.

If equipment, vehicles and tools are purchased in Saskatchewan, the tax must be paid to the vendor at the time of purchase.

(a) **Depreciated value**

- Calculate tax on the depreciated value of equipment, vehicles and tools.
- To determine depreciated value, straight-line depreciation of 1.5 per cent per month or part month to a maximum of 60 per cent is allowed from the date of purchase to the original date of entry into Saskatchewan. Depreciation applies to the contractor's original purchase price (excluding all taxes) before deduction of a trade-in.
- Calculate the tax on the full amount of any freight charges incurred on the first entry to bring the equipment, vehicles or tools into Saskatchewan.

Example:

A piece of equipment entered Saskatchewan for the first time on February 1, 2011. It was purchased on July 15, 2008 for \$80,000. The number of months or part months from the date of purchase to the date of first entry into Saskatchewan is 31; therefore, the purchase price will be depreciated by 46.5% (31 x 1.5%) or \$37,200. This results in a taxable value of \$42,800. The PST due is \$42,800 x tax rate. This is a one-time payment and you are not required to pay additional PST on this equipment upon re-entry into Saskatchewan.

(b) **Temporary use formulas**

(i) If a retail sales tax, other than Harmonized Sales Tax (HST) or Quebec Sales Tax (QST), has been paid in full to another jurisdiction the PST is determined as follows:

- Calculate the tax on equipment, vehicles and tools on the contractor's original purchase price (excluding all taxes) **before** the deduction of a trade-in (no depreciation is allowed).
- Remit 1/36 of the tax calculated above for each month or part month the equipment, vehicles, or tools are in Saskatchewan. Payment will continue for each 30 day period the unit enters the province until full tax (36/36) has been paid or the equipment, vehicles, or tools are permanently removed from Saskatchewan.

- Calculate the tax on the full amount of any freight charges incurred to bring the equipment, vehicles or tools into Saskatchewan, once per 12 month period freight charges are incurred, until the equipment, vehicles and tools are fully tax paid.

Example:

A vehicle is brought into Saskatchewan from Manitoba on August 26, 2011, and is removed November 4, 2011. The original purchase price of the vehicle was \$45,000. Manitoba Retail Sales Tax was paid at the time of purchase.

The number of months or part months the vehicle was in Saskatchewan is three. The PST due is $\$45,000 \times 1/36 \times 3 \times \text{tax rate}$. Note that if the vehicle enters Saskatchewan again after November 24, 2011, additional tax will be due.

(ii) If a retail sales tax has **not** been paid in full to another jurisdiction, including where HST or QST was paid, the PST is determined as follows:

- Calculate the tax on equipment, vehicles and tools on the contractor's original purchase price (excluding all taxes) **before** the deduction of a trade-in (no depreciation is allowed).
- Remit 1/3 of the tax calculated above for each year or part year the equipment, vehicles or tools are in Saskatchewan. Payment will continue until full tax (3/3) has been paid or the equipment, vehicles, or tools are permanently removed from Saskatchewan.
- Calculate the tax on the full amount of any freight charges incurred to bring the equipment, vehicles or tools into Saskatchewan, once per 12 month period freight charges are incurred, until the equipment, vehicles and tools are fully tax paid.

Example:

A piece of equipment is brought into Saskatchewan from Alberta on August 6, 2010, and is removed January 25, 2011. The original purchase price of the equipment is \$120,000. A retail sales tax has not been paid on the equipment. The PST due is $\$120,000 \times 1/3 \times \text{tax rate}$. Note that if the equipment is brought into Saskatchewan again after August 5, 2011, the second 1/3 of the PST will be due.

(c) **Leased or rented units**

Leased or rented vehicles, equipment and tools brought into Saskatchewan are subject to tax on the total daily, weekly, monthly or yearly lease/rental charges, including financing, freight, maintenance charges etc., with no pro-ration allowed. For vehicles, equipment and tools leased or rented in Saskatchewan, the PST must be paid to the vendor at the time of lease/rental.

Example:

A piece of equipment is brought into Saskatchewan on September 1, 2011, and is removed October 10, 2011. It is leased for \$5000 per month. The number of months or part months the equipment is in Saskatchewan is two. The PST due is \$5000 x 2 x tax rate.

(d) **Employee Owned Vehicles**

Note: Company owned vehicles and vehicles plated personally by owners and directors of the company are subject to the methods outlined in (a) to (c) above.

Businesses are required to self-assess PST on reimbursement charges paid to employees for use of their vehicles in the following circumstance:

- a non-resident employee brings their personal vehicle into Saskatchewan;
- the vehicle is utilized in the performance of the contract (other than for personal transportation to the job site); and,
- the business reimburses the employee by some method.

Note: Vehicles registered inter-jurisdictionally for the transportation of goods or passengers will be subject to the Prorated Vehicle Tax at the time of registration and not the methods outlined above. If you require further information regarding the Prorated Vehicle Tax, please see PST-50, *Information for Interjurisdictional Carriers* or contact the Revenue Division at 1-800-667-6102.

G. OUT OF PROVINCE REPAIR SERVICES

Non-resident contractors are required to self-assess PST on repair services, including parts and labour, when in the course of carrying on business in Saskatchewan, equipment or component parts are shipped outside the province for repairs and subsequently returned. Freight charges in and out of the province related to these repairs are not subject to tax.

Repair services provided by a person to that person's employer for the sole use of the employer are not subject to tax.

Note: In province services for the repair and installation of tangible personal property are subject to tax. For further information, please see PST-57, *Information for Businesses Providing Repair and Installation Services*.

H. FUEL TAX

Saskatchewan fuel tax must be paid on all purchases or imports of gasoline and diesel fuel, except where specifically exempt under *The Fuel Tax Act, 2000*. No exemption is available in Saskatchewan for off-road use of these fuel products.

Every person who imports fuel in bulk (i.e. more than 200 litres) into Saskatchewan must either: (a) report and pay an amount equal to the tax that would be payable if the fuel had been purchased in Saskatchewan prior to the fuel entering Saskatchewan; or, (b) become a licensed importer, report monthly and make semi-monthly payments.

For further information on the Fuel Tax, please refer to FT-1, *General Information* and FT-7, *Information for Fuel Importers*.

I. RETAIL SALES

A contractor who makes supply only sales must collect tax from the customer on the retail selling price of the items sold and show PST collected on the customer's invoice. PST that was paid to the supplier or self-assessed on the cost of those goods may be deducted from the tax collected and the difference reported when submitting your tax return form. The contractor may purchase the materials exempt from PST by quoting their vendor's licence number to their Saskatchewan suppliers.

J. BONDING AND THE CLEARANCE PROCESS

Under Section 29 of *The Provincial Sales Tax Act*, non-resident and resident contractors carrying on business in Saskatchewan are required to post a guarantee bond or cash deposit in an amount equivalent to six per cent of the total amount to be paid under the contract with respect to the sale of:

- a taxable service related to real property; or,
- a taxable service related to real property where tangible personal property is installed in conjunction with a taxable real property service.

It is the responsibility of the principal to ensure that contractors comply with this provision. Failure to do so can leave the principal liable for any taxes which the contractor fails to remit, in addition to possible fines and penalties.

Alternatively, contractors required to demonstrate to a principal that their security obligation has been fulfilled can request a clearance letter from Finance. If approved, the letter obtained from Finance can be provided to the principal. It is recommended that principals maintain a holdback of six per cent until a clearance letter is provided or proof of bonding is obtained.

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 complete and submit the *Non-Resident Contractors Request for Contractors Clearance Form* located on our website at www.finance.gov.sk.ca. Supplementary Worksheets are also available on our website to help you calculate the tax owing. If you require assistance with completing these forms, please call 1-800-667-6102, extension 0956. 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.

K. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

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 PST 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 email notification service that allows the option to be notified by email that a tax return should be filed. This replaces the paper forms normally received in the mail.

FOR FURTHER INFORMATION

Write: Ministry of Finance
Revenue Division
PO Box 200
REGINA SK S4P 2Z6

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

Email: sask.tax.info@gov.sk.ca

In-Person: Ministry of Finance
Revenue Division
2350 Albert St
REGINA SK S4P 4A6

Fax: 306-787-9644

Internet: Bulletins, forms and information are available on the Internet at:
<http://www.finance.gov.sk.ca/taxes>

To receive automatic email notification when this or any other bulletin is revised, go to www.finance.gov.sk.ca/taxes, click on the "What's New" information then click on the "subscribe" button.