



## Real Property – PST Changes

Information Session  
in conjunction with the  
Lloydminster Construction  
Association

Presenter: Jeff Harrison, CPA, CMA  
Partner – Indirect Tax  
Date: June 1, 2017

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## Legal Caveat

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### Presenter

- 26 yrs specialist in GST/HST and PST
- 19 yrs in public practice with major professional advisory firms as an indirect tax specialist;
- Partner with MNP LLP;
- CMA designation in 1998;
- Based in Regina, Sask.



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### Agenda:

- Overview
- Real property in general
- New PST rules
- Transitional Period
- Transition on Rate Change
- Consumables

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### Overview

- Categorical change to the tax status of real property services
- Impacts sale of NEW real property structures
- Almost all construction, repairs, alterations, improvements to land, buildings, structures – taxable on retail price
- Sale of LAND - Exempt
- Sale of USED buildings/structures - Exempt
- Lease of new or used real property - Exempt

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### What has happened

**Old Rules**

**New Rules**

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### Old PST Rules

- "Consumer" was subcontractor and/or general contractor in many arrangements;
- PST paid on materials used

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### New PST Rules

Quote PST # to buy exempt

- "Consumer" is now the customer
- Taxable goods/services used now acquired exempt
- Tax on retail selling price (labour, OH, Profit now taxed)

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### Taxable Real Property Services

- Construction
- Repair/Demolish
- Altering/Improvement
- Erecting new structures
- Remodelling/renovation
- Related services (warranties, maintenance contracts, insurance premiums)

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### Examples:

- Build a new house, commercial/industrial building (**land sale is exempt**)
- Road construction
- Install a gas line, water line, pipeline, etc.
- Renovate interior/exterior of a building
- Install fascia, soffits, eavestrough
- Install HVAC, plumbing, electrical, etc.
- Repair/alter/improve any of the above, etc.

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### Maintain Real Property

- Maintenance services are not taxed
- Caution on defining what is maintenance vs repair
- Maintenance: Snow clearing, lawn care, etc.
  - Grade a road – taxable service to real property
  - Install sod, sprinklers – taxable - service to real property
  - Maintain lawn (e.g.; spray for weeds) - Exempt
  - Use bobcat to clear snow – Exempt services
  - Use bobcat to fill/repair potholes in road – Taxable service

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## Land Development

- Infrastructure going into land – PST taxable on retail selling price
- Sale of land remains exempt
- WATCH to ensure PST is paid on taxable services to real property and tangible personal property going into the land
- Sale of new structure (FMV of land is not taxed; new structure is taxable)

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## Renovations

- Old tax base rules followed on projects underway and/or contracted before April 1, 2017;
- Contracted after March 31, 2017:
  - Renovation service taxed on entire service
  - If doing renovations for yourself (e.g.; in a business, for your business), PST payable on materials;
  - If contracted – entire price
    - Internal labour component on your own renovations is not self-assessed
  - If charging for services, retail selling price rules apply (e.g.; new rules)
  - Subsequent sale of property – PST exempt

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## Transition Rules

- Agreement in place **before April 1, 2017**
  - Contractor and subcontractors to that original agreement are grandfathered under old rules
    - **NEED EXECUTED DOCUMENTS TO SUPPORT THIS!**
    - **NOT ALL SUBCONTRACTORS WILL BE GRANDFATHERED**
  - Work that is tendered and closed before April 1, 2017 should fall to old tax base rules
  - Bids, letters of intent, PO's – not sufficient on their own
  - MUST have documented support old rules are eligible to be followed
  - Invoicing would continue under old rules
    - This period may be closed off in the near future

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### Transitional Rules – Old Rules Land Developers/Contractors

- One of more of these conditions need to be met:
  - 1) Executed service agreement in place prior to April 1, 2017
  - 2) Work was solicited and awarded prior to April 1 (within 60 calendar days letter of award must be received)

**NEED SUPPORTING DOCUMENTS**

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### Transitional Rules – Old Rules Residential/Commercial Construction

- One of more of these conditions need to be met:
  - 1) Executed contract in place in place prior to April 1, 2017, or an offer available for acceptance with a 30 day period in place prior to April 1, 2017 (price has been determined)

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### Transitional Rules – Old Rules Residential/Commercial Construction

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### Transitional Rules – Old Rules Developers/Builders/Contractors

- One of more of these conditions need to be met:
  - 2) Residential or commercial building is *under construction* before April 1, 2017;
  - 3) Based on dollar value majority of subtrade agreements have been entered into before April 1, 2017

**NEED SUPPORTING DOCUMENTS**

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### Phased Development

- Those phases that qualify under the old rules -> follow old rules through completion (change order exception)
- Therefore, phase by phase project work must be considered carefully

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### Transitional - Change Orders

- First change order that causes total to exceed 10% (and all subsequent change orders) fall to new PST rules
- Based on original contract price and change orders up to March 31 (becomes the new value to measure the 10% change)
- Cumulative change order measured April 1, 2017 onward
- Once exceeds 10% - all post-10% change orders subject to PST on retail selling price (taxed at 6% rate)

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## Transitional - Change Orders

- Agreements that include conditions yet to be removed that impact pricing
- These are treated as change orders
- If under old rules, watch for 10% limit

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## Transitional Rules

- Master Services arrangements not eligible
  - Open ended agreements to provide services as needed
  - Not viewed as specific arrangement to be grandfathered
  - New rules apply for service provided after March 31, 2017

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## Transition Specifics Pre-April 1, 2017

- Builds under pre-April 1, 2017 contract remain under old rules
- Inventory for sale (e.g. new houses, spec houses, etc.) – Exempt on sale
- In-progress construction – exempt on sale or on construction services
- PST paid on materials not eligible for credits

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### Transitional - Inventory

- PST paid materials are eligible for a credit when in relation to NEW rule application
- Credit is used to reduce PST collectible in a subsequent return
  - Cannot create a refund; claim remaining credit in another PST return
  - DOCUMENT support for the PST credits

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### Examples – Existing Services

- Old tax base rules:
  - Building inventory completed prior to April 1st
  - Builds under construction prior to April 1<sup>st</sup>
  - Agreements in place prior to April 1st, construction not started
  - Constructed house/commercial/industrial building completed or under construction prior to April 1 and subsequently leased
  - Subtrades to these contracts – old rules

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### Examples – New Services

- New Rules
  - Construction contract not in place by March 31<sup>st</sup> (subtrades to the main contract also under new rules)
  - Construction/alteration/improvement contracted after March 31
    - New builds, construction services, renovations, etc
  - Change orders >10% on a cumulative basis from Apr 1/17 onward (e.g.; contract under old rule); 6% PST applies on change orders beyond the 10%.

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## PST Rate Change - Transition

- Contracts grandfathered to old tax base rules → not necessarily to 5% tax rate
- Grandfathering is contract specific
- Example: GC to Sub; may not be to supplier

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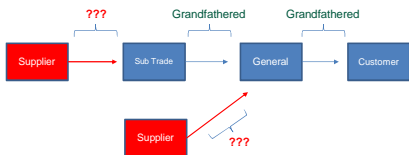
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## Old PST Rules



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## PST Rate Change Transition

- The 5 per cent tax rate applies to taxable goods purchased before March 23, 2017. This includes:
  - Goods fully or partially paid for prior to March 23, 2017, including goods delivered on or after March 23, 2017.
  - Goods delivered prior to March 23, 2017, including goods that are paid for on or after that date.
  - Goods purchased on credit or under deferred payment arrangements where the purchaser takes legal title or possession of the goods before March 23, 2017, even though the purchaser pays the credit card company, financing company or vendor after March 23, 2017.
- Otherwise, 6% applies

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### PST Rate Change Impact

- General and subcontractors may be grandfathered;
- Suppliers to GC and Sub may not be;
- Unless conditions are met for 5% rate; 6% should be expected as applying
- Do contracts contain tax adjustment/price adjustment clauses?

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### Specific Issues

Lloydminster PST  
Consumables  
Temporary Imports

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### Lloydminster Regulations

- PST relief on specific supplies with in city limits
- Normal PST application outside of city limits
- PST must be paid on equipment, tools, vehicles brought into Lloydminster
  - Even if real property contract is PST-exempt
  - Temporary import rules apply
- PST must be paid on equipment, tools, vehicles bought in Lloydminster for use in Saskatchewan (outside city limits)

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### Non-Resident working in Lloydminster

- Tools, equipment vehicles used still under temporary importation application
- PST to be remitted on use
- Services supplied to follow Lloydminster PST regulations

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### Work outside of Lloydminster

- PST relieved assets require PST to be paid
  - Temporary use rules should be used
  - Similar to if Lloydminster business were not resident in Saskatchewan

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### Consumables

- Consumables should be considered goods/services acquired to use or consume in providing your service
- Itemizing on invoice may not be a supply
  - Example: Rented tools to use; were not rented/supplied to customer
- Consider stays/belongs to the customer vs what stays/belongs to the contractor

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### Temporary Use Formula

- Three options
  - 1) Lump sum depreciated method
  - 2) PST paid asset – 1/36<sup>th</sup> method
  - 3) Non-PST paid asset – 1/3<sup>rd</sup> method

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### Temporary Use Depreciated Method

- Calculate the depreciated method
- Allowed 1.5% per month to a maximum 60% depreciation of tools, equipment, vehicles
- Dep'n is from purchase date to date of 1<sup>st</sup> entry
- Value is original purchase price
- Remit 6% of depreciated amount

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### Example:

- \$50,000 truck
- Purchased: Jan 1, 2014
- 1<sup>st</sup> date of Entry: Dec 1, 2016
- Depreciation:
  - 35 months x 1.5% x \$50,000 = \$26,250
- Value: \$50,000 – 26,250 = \$23,750
- 6% PST due: \$1,425

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### Temporary Use PST Paid Asset

- PST or sales tax paid in other jurisdiction
- Not HST or QST
- Use original purchase price (no depreciation or deduction of trades)
- Remit 1/36<sup>th</sup> of the 6% PST for each month or part month it is in Saskatchewan
- Remit until full 36/36ths is paid or property is permanently removed from Saskatchewan

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### Example

- \$50,000 vehicle
- PST was paid in MB
- Bought in 2009
- Entry date: Jan 1, 2017
- Exit date: March 28, 2017
- PST:  $\$50,000 \times 6\% \times 3/36^{\text{th}}$ : \$250

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### Temporary Use Non-PST Paid Asset

- PST or sales tax has not been paid in other jurisdiction
- Use original purchase price (no depreciation or deduction of trades)
- Remit 1/3<sup>th</sup> of the 6% PST for each year or part year it is in Saskatchewan
- Remit until full 3/3rds is paid or property is permanently removed from Saskatchewan

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### Example

- \$50,000 vehicle
- HST was paid in Ontario
- Bought in 2009
- Entry date: Jan 1, 2017
- Exit date: March 28, 2017
- PST:  $\$50,000 \times 6\% \times 1/3\text{rd}$ : \$1,000

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### Other temporary imports

- Rented or leased equipment, tools or vehicles subject to PST
- Taxed on total daily, monthly, yearly lease/rental charges
- No proration – part month = full month
- Employee owned vehicles (used in performing the contract)
  - Business would self-assess on reimbursement to employee/owner/director

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### Conclusion

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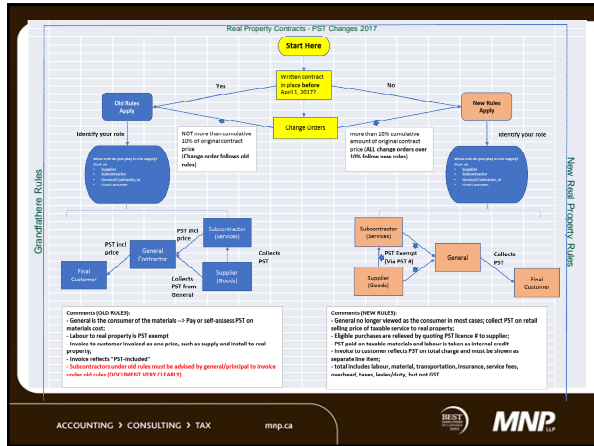
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## Words of Caution

- **DOCUMENT** why you are under the old rules during period of transition
- **RISK** is 6% on labour, overhead, profit you may have missed collecting or paying
- **CANNOT** use PST account to buy goods for own use on PST exempt basis
  - Don't abuse the PST account - intended to buy taxable goods/services for further resale
  - Equipment, tools, consumables, etc. are for use in providing services for example

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## Words of Caution

- Rules are evolving
- When in doubt - seek a ruling from Sask Finance or professional advice to interpret
- PST is very administrative and policy driven
- Not all contracts will be grandfathered
- Supplier contracts - 5% or 6%? Review documents

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Thank – you !

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