

Stratos Commentary:

The Government of Saskatchewan has issued an updated Bulletin that provides clarification for Contractors on the application and collection of PST:

"PST-12 INFORMATION FOR CONTRACTORS" - please refer to pages 2-7 below.

The Government of Saskatchewan has also issued an Information Notice that provides guidance regarding the contractor's responsibility for PST and invoicing on real property supply and install contracts:

"PROVINCIAL SALES TAX AND INVOICING FOR REAL PROPERTY SUPPLY AND INSTALL CONTRACTS" - please refer to pages 8-9 below.

PST-12

Issued: February 1985

Revised: December 2015

THE PROVINCIAL SALES TAX ACT

INFORMATION FOR CONTRACTORS

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READER SURVEY

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

The changes to this bulletin are indicated by a (I) in the left margin.

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

- A. Registration and Reporting Requirements
- B. Who is a Contractor?
- C. Supply and Install Contracts on Site
- D. Invoicing the PST on Real Property Supply and Install Contracts
- E. Contractors Who Make Retail Sales
- F. Supply and Install Contracts on Indian Reserves
- G. Notification of Subcontracts
- H. Bonding for Non-Resident Contractors
- I. Clearance on Final Payment
- J. Manufacturing Contractors
- K. Casual Rentals
- L. Sales of Used Business Assets
- M. Goods and Services for Your Own Use
- N. Saskatchewan Electronic Tax Service (SETS)

A. REGISTRATION AND REPORTING REQUIREMENTS

Contractors are required to be registered with the Revenue Division for the purpose of reporting any tax payable on materials, supplies and equipment used in their contracts. The application form is located on our website at www.finance.gov.sk.ca. Please see Information Bulletin PST-5 for information regarding registered consumer responsibilities and tax return filing.

B. WHO IS A CONTRACTOR?

A contractor is any person who is involved in the construction, alteration, repair or improvement 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.

Contractors include:

- I. general contractors; and,
- II. subcontractors, including carpenters, bricklayers, stonemasons, plasterers, flooring, tile and terrazzo, electrical, plumbing, heating, air conditioning, insulating, ventilating, papering, roofing, painting, decorating, concrete finishing contractors, landscaping contractors, etc.

SERVICE CONTRACTORS

The application of tax outlined in this bulletin also applies to service contractors such as consultants, land surveyors, inspectors, jobsite supervisors, project managers, etc.

Note: Oil and gas service contractors, please see PST-13, *Petroleum Drilling & Well Servicing Contractors*.

C. SUPPLY AND INSTALL CONTRACTS ON SITE

When a contractor enters into a contract for the construction, repair, renovation or improvement of real property, the contractor is considered the consumer of materials incorporated into the property.

The contractor is required to pay PST on the cost of equipment, materials and supplies used in the contract. Contractors cannot choose to collect tax from their customers rather than paying tax on their cost of materials, and doing so does not absolve the contractor from their responsibility to account for the PST on the cost of materials, tools and equipment used to complete their contract.

When the materials and supplies are purchased from a licensed supplier, the tax must be paid to the supplier at the time of purchase.

When the materials and supplies are purchased from an unlicensed supplier such as one located outside of Saskatchewan, the tax must be self-assessed and submitted with your PST

return form on the laid-down cost which includes currency exchange, freight charges, customs and excise duties and importation charges; but not the GST.

Labour charges to construct, repair, renovate or improve real property are not subject to tax.

Note: For details regarding off-site repair services and supply and installation of tangible personal property, please refer to PST-57, *Information for Businesses Providing Repair and Installation Services*.

D. INVOICING THE PST ON REAL PROPERTY SUPPLY AND INSTALL CONTRACTS

The Ministry of Finance does not require contractors to report to the customer the amount of PST paid on their materials, supplies and other goods used in the performance of a contract for the construction, repair, renovation or improvement of real property.

Contractors recover the PST they've paid on the cost of materials, supplies and other goods used in the completion of a real property supply and install contract by including it in the lump sum contract price to the customer. To inform the customer that the PST has been paid, the contract price should be quoted and invoiced as "Provincial Sales Tax included". PST should not be shown as a separate line item on the invoice.

Itemizing Materials

When the principal requires the contractor to itemize and price the goods used in the completion of a real property contract, the contractor is still responsible for tax on their cost and any amounts shown for materials and supplies should include the PST.

PST should not be shown as a separate line item and the invoices are still required to be quoted as "Provincial Sales Tax included".

Note: Where the principal requires the contractor to show the PST they have paid on materials, the invoice should state that the "tax shown represents a recovery of PST paid (by the contractor) on itemized materials, not tax due on the selling price."

E. CONTRACTORS WHO MAKE 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 on the cost of those goods may be deducted from the tax collected and the difference reported when submitting your tax return form.

F. SUPPLY AND INSTALL CONTRACTS ON INDIAN RESERVES

Contractors who 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 status Indian, Indian band, band-empowered entity or an unincorporated tribal council **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 should be submitted to the Revenue Division upon completion of the contract. A copy of the contract must be included with the refund submission.

G. NOTIFICATION OF SUBCONTRACTS

General contractors, subcontractors and principals must provide the Revenue Division with the following information on all non-resident subcontracts which are awarded by them:

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

H. BONDING FOR NON-RESIDENT CONTRACTORS

Under Section 29 of *The Provincial Sales Tax Act*, a non-resident contractor working in Saskatchewan is required to post a Guarantee Bond or cash deposit in an amount equivalent to 5 per cent 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 can leave the general contractor or principal liable for any taxes which the non-resident contractor fails to remit. In order to help meet this requirement, it is common practice to maintain a holdback of 5 per cent until a contract clearance is obtained.

I. CLEARANCE ON FINAL PAYMENT

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 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.

Non-resident contractors, please see PST-38, *Information for Non-Resident Real Property and Service Contractors*.

J. MANUFACTURING CONTRACTORS

A manufacturing contractor is a contractor who manufactures, in shop, goods for use in the completion of a real property contract. The contractor is required to pay PST on the manufactured cost of those goods. For further information, please refer to PST-37, *Information for Manufacturing Contractors*.

K. CASUAL RENTALS

Contractors who occasionally rent out their equipment must collect tax on the rental charge.

L. SALES OF USED BUSINESS ASSETS

Businesses are required to collect tax on the sale of used assets, such as taxable 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.

When individuals purchase used goods for personal use, other than vehicles, tax applies to the selling price of the goods less a deduction of \$300 per item. If a trade-in is involved, the purchaser is entitled to a deduction of \$300 or the value of the trade-in, whichever is greater. If the goods are for commercial use, the \$300 deduction does not apply.¹

M. GOODS AND SERVICES FOR YOUR OWN USE

Businesses are required to pay tax on purchases of new and used equipment, supplies and taxable services purchased for use in their business operations. Tax is payable as follows:

- When purchased from a licensed supplier, the tax must be paid to the supplier at the time of purchase.
- When purchased from a supplier who did not collect the tax, or when taken from an exempt resale inventory, the tax must be self-assessed and remitted with the regular tax return. This includes goods taken for personal or business use.
- When purchased from an unlicensed supplier located outside Saskatchewan, the tax must be self-assessed and remitted with the regular tax return on the laid down cost, which includes currency exchange, transportation charges, customs and excise duties, and importation charges; but not the GST.

N. 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; and,
- 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.

¹ Information Bulletin PST-58, *Information on the Taxation of Used Goods*

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

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.

PROVINCIAL SALES TAX AND INVOICING FOR REAL PROPERTY SUPPLY AND INSTALL CONTRACTS

Real Property Supply & Install Contracts

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.

It is the contractor's responsibility to ensure they have either paid Provincial Sales Tax (PST) at source or self-assessed and remitted tax to the Ministry of Finance on their cost of all materials, equipment, vehicles and tools used to complete the contract.

Contractors cannot choose to collect tax from their customers rather than paying tax on their cost of materials, and doing so does not absolve the contractor from their responsibility to account for the PST on the cost of materials, tools and equipment used to complete their contract.

Invoicing the PST on Real Property Supply & Install Contracts

Finance does not require contractors to report to the customer the amount of tax paid on their materials, supplies and other goods used in the performance of a construction contract for the repair, renovation or improvement of real property.

Contractors recover the PST they've paid on the cost of materials, supplies and other goods used in the completion of a real property supply and install contract by including it in the lump sum contract price to the customer. To inform the customer that PST was paid, the contract price must be quoted and invoiced as "Provincial Sales Tax Included". PST should not be shown as a separate line item on the invoice.

Refunds of PST Collected in Error

Labour charges to repair, renovate or improve real property are not subject to tax. If PST was collected in error on labour to improve real property and/or on the selling price of materials installed into real property, the contractor is required to correct their invoice and refund any tax overcharged to the customer.

Where possible, invoicing errors should be brought to the attention of the contractor so the errors can be corrected before payment is made.

If the tax collected in error has already been submitted to Finance, the contractor may submit a refund claim to our office for tax subsequently credited or refunded to their customer.

The refund request must provide sufficient documentation to show the tax has been paid on the cost of all materials, equipment, vehicles and tools and the tax collected in error and remitted to Finance has been credited or refunded to the customer. Refund requests may be submitted to the mail or email address noted below.

For further reference regarding the application of PST to supply and install contracts, please refer to information bulletins PST-12 *Information for Contractors*, PST-37 *Information for Manufacturing Contractors* and PST-38 *Information for Non-Resident Real Property and Service Contractors*.

FOR FURTHER INFORMATION

<u>Write:</u>	Ministry of Finance Revenue Division PO Box 200 REGINA SK S4P 2Z6	<u>Telephone:</u>	Toll Free 1-800-667-6102 Regina 306-787-6645
		<u>Email:</u>	sask.tax.info@gov.sk.ca

<u>In-Person:</u>	Ministry of Finance Revenue Division 2350 Albert St REGINA SK S4P 4A6	<u>Fax:</u>	306-787-9644
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Internet: Bulletins, forms and information are available on the Internet at:
<http://www.finance.gov.sk.ca/taxes>