

PROVINCIAL SALES TAX – SERVICES TO REAL PROPERTY

Effective April 1, 2017, the Provincial Sales Tax (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.

Primary Changes

The primary changes 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.

Effective April 1, 2017

A contractor engaged in services to real property is required to become a Licensed Vendor and 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 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 by their customer 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.

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 service for resale to their customer, 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.

A contractor who builds or constructs a residential or commercial premises for the purpose of resale, is not a consumer or user in the building of those premises. The contractor/builder must collect PST on the retail selling price of the premises to the user or consumer, excluding the value of the land. Additional information for builders can be found in Information Bulletin PST-12, *Information for Businesses Providing Services to Real Property*.

Prior to April 1, 2017

Prior to April 1, 2017, labour charges relating to the construction, alteration, repair, erection, remodeling or improvement of real property were not subject to tax. When entering into a contract for the construction, alteration, repair, erection, remodeling or improvement of real property, the contractor was considered the consumer of materials incorporated into the property and was required to pay PST on the cost of equipment, materials and supplies used or consumed. Contractors could not choose to collect tax from their customers rather than paying tax and doing so did not absolve the contractor from their responsibility to account for the PST on the cost of materials, tools and equipment.

The PST paid by the contractor on materials, supplies and other goods used in the completion of a real property supply and install contract was recovered by including it in the lump sum contract price to the customer. To inform the customer that PST was paid, the contract price is quoted and invoiced as "Provincial Sales Tax Included". PST is not shown as a separate line item on the invoice.

Transition Rules

Written agreements for services to real property, other than real property Master Service Agreements, that are entered into prior to April 1, 2017, are subject to the rules in place for the application of PST prior to April 1, 2017, as outlined above. This includes nominal change orders that occur on or after April 1, 2017, where nominal is defined as a change not exceeding 10 per cent of the original contract amount. Where a change on or after April 1, 2017, exceeds 10 per cent of the original contract amount, the services are subject to tax based on the application of PST effective on April 1, 2017.

Transactions initiated April 1, 2017, or later in relation to real property Master Service Agreements are subject to tax based on the application of PST effective on April 1, 2017.

When internal credits are claimed for tax paid on materials used in contracts dated April 1, 2017, or later, and they exceed the tax to be submitted in a return period, the credit balance must be carried forward and claimed in subsequent reporting periods. A refund will not be processed for tax paid on materials used in real property service contracts.

For transitional rules related to the PST rate change, please see Information Notice 2017-01, *Provincial Sales Tax Rate Transitional Rules*.

Licensing

Contractors with a Registered Consumer Number will retain their existing number for use as a Licensed Vendor. Contractors who are not registered with a PST number are required to become licensed by completing and submitting the application form found at the following link:

<http://finance.gov.sk.ca/forms/FI-1213ApplicationforVendorsLicence-ConsumerRegistration.pdf>

For further reference regarding the application of PST to real property contracts, please see Information Bulletin PST-12, *Information for Businesses Providing Services to Real Property* or 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
<u>Internet:</u>	Bulletins, forms and information are available on the Internet at: http://www.finance.gov.sk.ca/taxes		