

Information Bulletin

PST-21

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THE PROVINCIAL SALES TAX ACT

MANUFACTURERS

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.

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

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A. WHO IS A MANUFACTURER?

A manufacturer is a person who manufactures, fabricates, produces or assembles goods for sale.

B. COLLECTING THE TAX

Manufacturers must collect the tax on taxable sales made to the ultimate consumer. However, if the goods sold are for resale or further manufacture, the purchaser must quote their PST licence number in order to obtain the goods without tax.

C. PRODUCTION MACHINERY AND OTHER GOODS AND SERVICES FOR OWN USE

The tax must be paid on production machinery, services and other goods for a manufacturer's own use whether taken from inventory, manufactured internally or purchased from a supplier who did not charge the tax.

If they are purchased from a licensed supplier, tax must be paid to the supplier. If they are purchased from an unlicensed supplier located outside Saskatchewan, tax must be submitted with your return on the laid down cost, which includes exchange, transportation charges, customs duties and importation charges, but not the GST.

D. EQUIPMENT TRANSFERS

A manufacturer who transfers plant equipment into Saskatchewan must pay tax on the value of the equipment at the time of the transfer. To determine value, straight-line depreciation of 1½ 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 manufacturer's original purchase price (excluding the GST).

E. GOODS MANUFACTURED INTERNALLY

If goods for own use, including printed matter, are manufactured internally, the tax is payable on the manufactured cost. This includes the total of the following costs (excluding the GST and the PST paid on materials) if specific cost records are available:

- direct materials
- direct labour
- all overhead costs including rent, insurance and depreciation on machinery

However, if specific cost records are not available, the tax is payable on the total of the following costs (excluding the GST and the PST paid on materials).

Goods, other than printed matter:

- direct material
- direct labour
- one hundred and fifty percent (150%) of the cost of direct labour

Printed matter:

- direct materials
- two hundred and twenty percent (220%) of the cost of direct materials

Note: If the total manufactured cost of printed matter is less than \$5,000 per year, the tax may be accounted for on the cost of materials rather than on the manufactured cost.

For further reference, please see Information Bulletin [PST-37, Manufactured Cost of Goods Produced for Own Consumption](#).

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
- water treatment chemicals used to treat water used directly in the manufacturing process
- mould sprays
- chemicals which come in direct contact with the product being manufactured
- carbon electrodes and related casings and rings for furnaces, cottrell rods, dross rakes, furnace pokers, ladle lips, lancing pipe, roaster rabblers and tuyere punchers
- silicone release agents applied to baking pans
- cutting lubricants
- film consumed by photographers in the production of portraits
- refractory brick and materials for relining furnaces and kilns
- rolls used in forming products

The following are not considered to be direct agents:

- production machinery and equipment, including repairs
- baking pans and sheets
- materials and supplies such as drill bits, grinding wheels and abrasive paper used to repair equipment, tools and attachments
- power, air and hand tools
- tool fixtures, tool holders, boring bars, clamps, springs, shims and set screws
- consumables whose contact with products being manufactured is only incidental and not part of the manufacturing process (e.g. bearings, seals and gaskets)
- welders, including nozzles, insulators, cutting tips and cables
- laboratory supplies
- protective materials used in the storage and stacking of parts and raw materials, including corrugated paper, plastic film, parts bags and tags
- boiler treatment chemicals

- lubricating oils, grease and coolants, except when used as a cutting aid
- cleaners, including solvents

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. BUSINESSES NOT ELIGIBLE FOR MANUFACTURERS' EXEMPTIONS ON DIRECT AGENTS

Businesses are not considered to be a manufacturer or processor, for the purposes of the tax exemption on direct agents, if they perform any of the following activities:

- 1) farming or fishing
- 2) logging
- 3) construction
- 4) operating an oil or gas well, extracting petroleum or natural gas from a natural accumulation thereof or processing heavy crude oil recovered from a natural reservoir to a stage that is not beyond the crude oil stage or its equivalent
- 5) extracting minerals from a mineral resource
- 6) processing ore from a mineral resource to any stage that is not beyond the prime metal stage or its equivalent
- 7) producing industrial minerals, other than sulphur produced by processing natural gas
- 8) producing or processing electrical energy or steam, for sale
- 9) processing gas, if such gas is processed as part of the business of selling or distributing gas in the course of operating a public utility

H. ELECTRICITY AND FUEL

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

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. Please contact the Ministry of Finance for the applicable rate for your industry. 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 on only the taxable portion of your power billings.

I. CHEMICAL REAGENTS AND CATALYSTS

Chemical reagents and catalysts which are used in the transformation or manufacture of a product by contact or temporary incorporation with the raw materials being processed, fabricated or manufactured are not subject to tax.

A catalyst is a substance that initiates a chemical reaction and enables it to proceed under milder conditions than otherwise possible.

A reagent is a substance that takes part in one or more chemical reactions or biological processes and is used to detect other substances.

J. RAW MATERIALS AND COMPONENT PARTS

All raw materials and component parts that are processed, fabricated or incorporated into manufactured goods for sale are not subject to tax. Your PST licence number must be quoted to the supplier when you are purchasing these items.

K. PROTOTYPE EQUIPMENT

A manufacturer is not required to pay the tax on prototype equipment used for research and development purposes. Prototype equipment is considered to be an original model produced for testing purposes. It does not have to be successful to qualify for the exemption.

The exemption for prototype equipment applies to the total production costs, including materials and research and development costs. This exemption includes raw materials and component parts purchased for the purpose of being processed, fabricated or incorporated into prototype equipment.

If the prototype equipment is ultimately sold, the tax must be collected on the selling price provided the item falls into a taxable category.

L. CONTAINERS, PACKAGING MATERIALS AND LABELS

Containers, packaging materials, labels and product literature that are sold with a product are not subject to tax. You may purchase these items tax free by providing the supplier with your vendor's licence number.

Returnable containers and packaging materials that are utilized for handling merchandise before delivery, returned for a deposit and not for resale are subject to tax. The tax must be paid to the supplier. If the tax is not paid to the supplier, the tax must be submitted with your return on the purchase price or on the manufactured cost if produced internally.

M. RELATED INFORMATION BULLETINS

Equipment Installation and Repairs

For information regarding repair and installation services, please refer to Information Bulletin [PST-57, *Repair and Installation Services*](#).

Manufacturing and Processing Incentives

The Saskatchewan Investment Tax Credit (ITC) for Manufacturing and Processing (M&P) is a 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 PST. Please see Information Bulletin [MP-2, *Saskatchewan Investment Tax Credit for Manufacturing and Processing*](#) for details on how the program is administered.

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.

N. 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.

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.

For further reference please see Information Bulletin [PST-58, *Used Goods*](#).

O. SASKATCHEWAN eTAX SERVICES (SETS)

Finance has made it possible to report and remit tax electronically through a secure, fast, easy and convenient online self-service portal. Several services are currently available to businesses through SETS (sets.saskatchewan.ca):

- Register for secure, self-managed access to all your tax accounts.
- Apply for a new tax account.
- File and pay returns and amend previously filed returns.
- Make payments on account, including post-dated payments.
- View account balance and statement information.
- Authorize employees or accountants to file on your behalf.
- Receive notifications by email when a tax return should be filed. This replaces the paper forms usually sent in the mail.
- Submit a service request to update the mailing address or add a new business location.
- Submit a service request to receive tax information, interpretations or rulings related to your specific business activities.
- View and download up-to-date tax information promptly.
- Subscribe to receive email notifications when new and revised tax publications are available.

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: sasktaxinfo@gov.sk.ca

Internet: Tax bulletins, forms and information are available at saskatchewan.ca/business-taxes.

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Government website: Saskatchewan.ca