

Darlene Loucks

From: Lorrie Schmalenberg
Sent: Tuesday, March 11, 2014 9:29 AM
To: Cindy Bernhardt; Les Malawski; Greg Markewich
Subject: Asphalt

The lady from the province did some research and will send me a written (e-mail) to explain how this works. For now, suffice it to say that there isn't anything I heard that would prevent us from going ahead with sales. They are not aware of any restrictions on this type of sale (may have been in the past). Further, we currently SA on our inputs for our production of Asphalt for our own use. We are tax exempt for purchases of sand and gravel for our own use. We never lose that exemption on purchases for our own use. What happens is that, we would be recommended to self assess on all purchases of oil, slag, labour and overhead for all production of asphalt initially to ensure we do not underpay. Then, when we sell the product to a 3rd party, we charge tax and remit that tax. The tax is only intended to be paid once on the final product, so we do not have to self assess on that portion since the final consumer pays it. So, at year end or periodically, we then go back and do an adjustment for what we "over paid" by self assessing everything. The reasoning is that it's difficult to separate what we bought for own use and for sale so it's easier to self assess as we go and adjust when we know the sales amount.

I hope this makes at least enough sense that we are comfortable with the report being taken forward. I will forward the E-mail when it comes, hopefully later this week. If she has questions during the week, I will forward those if I can't answer them.

The research was done by the person who conducted our last audit so I believe he has knowledge to answer correctly.

Lorrie

Darlene Loucks

From: Lorrie Schmalenberg
Sent: Wednesday, March 12, 2014 12:29 PM
To: Summer Xia; Cindy Bernhardt; Greg Markewich; Les Malawski
Cc: Curtis Smith; Janet Aird; Dawn Schikowski; Nicollette Harbis
Subject: FW: Saskatchewan Provincial Sales Tax
Attachments: PST-28 Road Builders.pdf; PST Worksheet Supplement.pdf; PST Worksheet Instructions.pdf

Summer, please save this with our other tax bulletins

Curtis, just an FYI.

Cindy, I don't know who handles the SA now but I believe Les said we do this annually, so this is just another adjustment to make

Nikki, just an FYI – we can discuss further if you would like

It seems we don't really change anything, other than we now charge PST on sales to retail customers and then we have to fill out these forms to remit PST. Internally, we ensure that we do not "double count" the pst. Since we self assess on all inputs during the year, the part that is sold externally, we can now "reverse" the self assessment since we charged the customer and remitted to the province and they only collect the tax once from the final customer.

Does this make sense to everyone?

The province was very quick with this – I'm quite impressed.

From: Fessler, Lori FI [mailto:Lori.Fessler@gov.sk.ca]
Sent: Wednesday, March 12, 2014 8:45 AM
To: Lorrie Schmalenberg
Subject: Saskatchewan Provincial Sales Tax

Good morning Lori. Thank you for the enquiry regarding the application of Provincial Sales Tax on the retail sale of asphalt that is manufactured by the City of Regina.

Based on my understanding, our previous telephone conversation and your file history, the City manufactures asphalt for your own use on city roadways. PST is calculated on the manufactured cost of the product, including manufacturing labour, manufacturing overhead and slag. Tax is paid at source or self assessed on the liquid asphalt; sand and gravel are exempt when purchased by the municipality.

You indicated that you may start making retail sales of asphalt.

Supply only sales of asphalt paving mixtures including hot mix, cold mix, and specialty asphalt mixtures are subject to tax on the selling price. Delivery and loading charges are exempt from tax providing the charges are segregated on the customer's invoice. If the delivery and loading charges are not segregated on the customer's invoice, the total charge is subject to tax. Please refer to the attached information bulletin PST 28 for information regarding exempt customers.

It is recommended that you handle the PST as follows:

- Continue to self assess PST on the manufactured cost of all asphalt manufactured by the City and continue to pay tax to suppliers on the liquid asphalt used in the manufacturing process.
- Collect PST from your taxable customers on the selling price of asphalt.
- Make a year-end internal adjustment for the amount of tax self assessed on asphalt that was manufactured and resold. Please complete the attached “worksheet supplement” and retain for your records when calculating the tax credits and applying them against tax payable for the period.

Please contact me if you require additional information.

Lori Fessler
Government of Saskatchewan
Tax Officer
Tax Information & Compliance Branch, Ministry of Finance
3rd Fl - 2350 Albert Street
REGINA SK Canada S4P 4A6
Telephone: 306-787-6718
Toll Free: 1.800.667.6102

Email: sask.tax.info@gov.sk.ca
Website: www.finance.gov.sk.ca

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Completing the PST Worksheet Supplement

Record of PST Credits and Adjustments

This is a supplementary worksheet for the **PST return form**. It is designed for those businesses who require a means to record PST credits (if any) as shown in **Step 1** and to record how these credits are applied to your tax return for this period as shown in **Step 2 & Step 3**. You are required to keep this form and supporting documentation for audit verification purposes.

Step 1 – Recording Tax Credits

Tax credits generally represent PST paid on goods and services purchased for resale as well as PST you have remitted to our office on a previous return that has since been refunded to your customer(s) or written off on bad debts. These amounts can be used to offset your current tax payable.

Box 1 - Represents the unused credits (if any) as carried forward from the **PST Worksheet Supplement** of your previous return.

Box 2 - Tax paid on items purchased for resale (keep a copy of receipts for audit verification)

- For retailers and wholesalers this typically includes PST paid to suppliers for resale inventory items and non-returnable packaging materials.
- For manufacturers this may include PST paid to suppliers on raw materials, direct agents or non-returnable packaging materials.

Box 3 - Tax refunded to customers. This represents PST remitted to our office on a prior period return that was refunded to your customer in the current period. Please keep records showing when the tax was collected, remitted to our office and then refunded to your customer. These typically include:

- Tax goods that have been returned by your customer for a refund.
- Tax refunded to customers on items where tax was incorrectly charged on sales of exempt items (e.g. food or children's clothing) or items you have sold to individuals entitled to an exemption (e.g. qualifying status Indian or farmer).

Box 4 - Tax written off on bad debts. This represents PST you have remitted on goods sold on credit, where the sale was written off as a bad debt for accounting purposes.

Box 5 - Other credits. This represents mathematical errors or adjustments where you have remitted the PST and since refunded your customer the amount over collected.

Box 6 - Represents the total amount of credits you have recorded in your records for this period. (Boxes 2, 3, 4 and 5)

Box 7 - Represents the total tax credits available this period (**Box 1 plus Box 6**). These tax credits can be used to reduce your current tax payable by offsetting the tax collected on sales and the tax payable on consumption as noted in **Steps 2 & 3**.

Step 2 – Applying Credits to Tax collected on Sales

The tax credits are first applied to **Tax collected on sales (Box 8)**. This amount represents the total PST collected on sales as recorded in your records for this period. It's important to note that the portion of tax credits applied cannot exceed the amount of tax collected. Any remaining tax credits are recorded in **(Box 11)** and these can be applied to the tax payable on consumption as shown in **Step 3**.

Please ensure that the amount of tax credits applied do not exceed the tax collected, since the **“Net Tax Collected”** amount from **Box 10** which is to be recorded in **Box B** of the PST remittance form, cannot be less than zero.

Step 3 – Applying Credits to Tax on Consumption

The remaining tax credits from **Box 11** can be applied to **Tax on consumption (Box 12)**. This amount represents the total PST payable on goods and services that were used in this period. It's important to note that the portion of credits applied cannot exceed the amount of tax payable. Any remaining tax credits are recorded in **(Box 15)** and this amount can be carried forward to your next reporting period or you can apply for a refund by submitting a copy of this **Worksheet Supplement** form along with supporting documentation.

Please ensure that the amount of tax credits applied do not exceed the tax payable, since the **“Net Tax on Consumption”** amount from **Box 14** which is to be recorded in **Box E** of the PST remittance form, the amount cannot be less than zero.

Use of this guide

This guide was prepared as a means to assist you in the preparation of your tax return. It is not a substitute for legislation. If you require additional information or assistance please contact us.

FOR FURTHER INFORMATION

Call the Tax Inquiry Line at 1-800-667-6102 or (306) 787-6645 in Regina.

Or Write:

Provincial Sales Tax
Saskatchewan Finance
2nd Floor, 2350 Albert Street
Regina, Saskatchewan
S4P 4A6

Fax: (306) 787-9644

Website: www.gov.sk.ca/finance

EFile: www.gov.sk.ca/finance/revenue/efile

E-mail: sask.tax.info@finance.gov.sk.ca



Provincial Sales Tax Worksheet Supplement Record of PST Credits and Adjustments

*** This is a supplementary worksheet for the PST Tax Return. It is designed for those businesses that require a means to record PST credits (**STEP 1**) and to show how the credits are applied to your tax payable for this period (**STEP 2 & STEP 3**).

Account Number:

Account Name:

Return Period:

Recording Tax Credits

Tax credits represent tax paid on goods and services purchased for resale as well as tax you have already paid to our office but have since refunded to your customer or written off on bad debts.

Credits Carried Forward from Previous Period

Credits and Adjustments (for current period).

- Tax Paid on Items Purchased for Resale.

- Tax Refunded to Customers.

- Tax Written Off on Bad Debts.

- Other: _____

Total Credits Recorded for this Period. (Box 2 + Box 3 + Box 4 + Box 5)

Total Tax Credits (Box 1 + Box 6)

STEP 1

Applying Credits to Tax on Sales

The Total Tax Credits (**Box 7**) are first applied to Total Tax Collected on Sales (**Box 8**) to arrive at the Net Tax Collected (**Box 10**). The Remaining Tax Credits (**Box 11**) can be applied to tax payable on consumption **Step 3**.

- Total Tax Collected on Sales in this Period.

- Portion of Credits Applied (**Box 7**)
(Credits applied cannot exceed tax in **Box 8**)

Net Tax Collected (Cannot be less than zero.)

▶ Transfer to Box B on the PST Return Form.

Remaining Tax Credits (Box 7 less Box 9)

STEP 2

Applying Credits to Tax on Consumption

The Remaining Tax Credits (**Box 11**) are applied to Total Tax on Consumption (**Box 12**) to arrive at the Net Tax on Consumption (**Box 14**). The Remaining Tax Credits (**Box 15**) can be carried forward to your next reporting period or you can apply for a refund by submitting this form along with supporting documentation to our office.

- Total Tax on Consumption

- Portion of Credits Applied (**Box 11**)
(Credits applied cannot exceed tax in **Box 12**)

Net Tax on Consumption (cannot be less than zero.)

▶ Transfer to Box E on the PST Return Form.

Remaining Tax Credits (Box 11 less Box 13)

STEP 3

Important

A copy of this worksheet and supporting documentation must be retained in your records for audit verification purposes.

Please see the detailed set of instructions or contact our office if you require additional information or assistance.



PST-28

Issued: January, 1988

Revised: March, 2011

THE PROVINCIAL SALES TAX ACT

Was this bulletin useful?

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READER SURVEY

INFORMATION FOR ASPHALT PAVING CONTRACTORS AND SUPPLIERS OF ASPHALT PAVING MIXTURES

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. Supply Only (Retail Sales) of Asphalt Paving Mixtures
- B. Supply and Installation of Asphalt Paving Mixtures
- C. Calculating Tax on the Manufactured Cost
- D. Exemption for Electricity Used to Operate a Stationary Asphalt Plant
- E. Manufacturing and Processing Incentives
- F. Sales of Used Business Assets
- G. Equipment and Goods for Own Use
- H. Saskatchewan Electronic Tax Service (SETS)

A. SUPPLY ONLY (RETAIL SALES) OF ASPHALT PAVING MIXTURES

Supply only sales of asphalt paving mixtures including hot mix, cold mix, and specialty asphalt mixtures are subject to tax on the selling price. Delivery and loading charges are exempt from tax providing the charges are segregated on the customer's invoice. If the delivery and loading charges are not segregated on the customer's invoice, the total charge is subject to tax.

Supply only sales of asphalt paving mixtures to the following are exempt from tax:

- Federal government departments and agencies. (**Note:** retail sales to federal government Crown corporations and provincial government ministries, agencies and Crown corporations are taxable).
- Other retailers for resale providing the retailer's vendor's licence number is recorded.
- Residents or non-residents providing the goods are shipped or delivered out of the province by the retailer.

- Status Indians or Indian bands providing the goods are delivered to a reserve by the retailer and the *Certificate of Indian Status* card or band number is recorded on the invoice. The complete 10 digit card number must be recorded on the sales invoice. If the federal identification card number is only 3 to 5 digits, record the number and the name of the band on the sales invoice. **Proof of delivery to the reserve must be retained.**

B. SUPPLY AND INSTALLATION OF ASPHALT PAVING MIXTURES

Contractors that **supply and install** asphalt paving mixtures are considered to be the consumer of the materials used in those contracts. As the consumer of the materials, the contractor is required to pay tax on the cost to acquire or manufacture those goods. Depending on the circumstances, the contractor will:

- pay tax directly to the supplier of the asphalt; or
- self-assess tax on the cost of the asphalt purchased from an unlicensed vendor; or
- self-assess tax on the cost of asphalt manufactured for installation.

For instructions on how to self-assess tax on the cost of manufactured goods, please refer to Section C.

In supply and install contracts the PST is included as part of the cost of the materials supplied. Customer invoices for supply and install contracts should read "**PST included.**"

C. CALCULATING TAX ON THE MANUFACTURED COST

When the customer supplies all of the raw materials, the asphalt contractor **is not** required to account for tax on the manufactured cost of the asphalt paving mixtures used in road construction.

When the contractor supplies any portion of the raw materials, they must account for tax on the manufactured cost of the asphalt paving mixtures using one of the methods discussed below:

- 1) **When complete detailed cost records are available for each contract**, the contractor should calculate tax on the total of the following costs (excluding the GST and PST paid on materials):
 - the laid-down cost of all raw materials supplied by the contractor;
 - direct labour; and
 - manufacturing overhead.

Please refer to PST Ruling 44.0 online at www.finance.gov.sk.ca/taxes/pst or contact our office at 1-800-667-6102 if you require a detailed list of the cost components related to manufacturing overhead. In cases where these detailed costs are not available for each contract, please refer to the methods discussed on page 3 to calculate an estimated value of direct labour and manufacturing overhead costs associated with each contract.

- 2) To simplify the calculation of tax **when detailed cost records of direct labour and manufacturing overhead are not available for each contract**, one of the following methods may be used to determine the total manufactured cost of each contract for PST purposes:
- a) **When the contractor supplies all of the raw materials**, tax may be calculated on the total of the following costs (excluding the GST and PST paid on materials):
- the laid-down cost of all raw materials supplied by the contractor; and
 - the cost of direct labour and manufacturing overhead, calculated by using **twenty five per cent (25%)** of the cost of raw materials supplied by the contractor.
- b) **When the contractor supplies only a portion of the raw materials**, including when reconditioned asphalt is manufactured from a combination of old lifted asphalt and new raw materials, tax may be calculated on the total of the following costs (excluding the GST and PST paid on materials):
- the laid-down cost of all raw materials supplied by the contractor; and
 - the cost of direct labour and manufacturing overhead, calculated by using **fifty per cent (50%)** of the cost of raw materials supplied by the contractor.

Note: Remit the amount of tax calculated above less any tax paid on raw materials to the supplier at the time of purchase.

The following example illustrates how to calculate tax using one of the simplified methods above:

Cost of all raw materials supplied by the contractor over the tax return period (excluding the GST and PST)	\$100,000
Direct labour and manufacturing overhead (calculated at 25% of raw materials supplied by the contractor)	<u>25,000</u>
Total manufactured cost	<u>\$125,000</u>
Tax at 5%	6,250
Less tax paid on raw materials at the time of purchase	<u>1,000</u>
Total tax to be reported on return	<u>\$5,250</u>

Contractors who own their own gravel pit are required to account for tax on the manufactured cost of the gravel used as a raw material component of an asphalt paving mixture as well as crushed, screened and pit run bases produced internally and used by them in road construction.

D. EXEMPTION FOR ELECTRICITY USED TO OPERATE A STATIONARY ASPHALT PLANT

An exemption for manufacturing electricity applies to the electricity that is consumed by stationary equipment and machinery used in a direct manufacturing process. Electricity consumed for other purposes, including lighting of premises, ventilation, 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 Saskatchewan 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.

E. MANUFACTURING AND PROCESSING INCENTIVES

The Saskatchewan Investment Tax Credit (ITC) for Manufacturing and Processing (M&P) is a non-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 Saskatchewan PST.

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.

F. SALES OF USED BUSINESS ASSETS

Businesses are required to collect the tax on the sale of all 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.

Note: For information on the exemption of tax on "eligible used light vehicles" please refer to Information Bulletin PST-58.

G. EQUIPMENT AND GOODS FOR OWN USE

Businesses are required to pay tax on purchases of new and used equipment and supplies used in their business. If 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.

H. SASKATCHEWAN ELECTRONIC TAX SERVICE (SETS)

Saskatchewan Ministry of 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 E-Mail Notification Service that allows the option to be notified by e-mail that a tax return should be filed (replaces the paper forms normally received in the mail).

FOR FURTHER INFORMATION

<u>Write:</u>	Ministry of Finance Revenue Division 2350 Albert Street Regina, Saskatchewan S4P 4A6	<u>Telephone:</u>	Toll Free 1-800-667-6102 Regina 306-787-6645
		<u>E-mail:</u>	sask.tax.info@gov.sk.ca
		<u>Fax:</u>	306-787-9644

Internet: Provincial Sales Tax bulletins, forms and information are available on the Internet at:

<http://www.finance.gov.sk.ca/taxes/pst>

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