

Briefing Note – PST Exemption on Used Light Vehicle Sales

February 2008

Saskatchewan Chamber of Commerce

Synopsis

The Provincial Government introduced an exemption to the purchase of used cars effective November 8, 2007. While the concept has merit it was done without wide consultation with car dealers and has therefore caused some moderate challenges.

Briefing

Retroactive to the election of the Saskatchewan Party government on November 8, 2007, the application of the Provincial Sales Tax (PST) on used light vehicle sales was removed, which brought Saskatchewan back to the system that was utilized prior to 2000 when the sales of used vehicles was first subject to PST.

Light vehicles eligible for the PST exemption are:

- All cars;
- All sport utility vehicles;
- All light vans (mini-vans, passenger vans and cargo vans that are rated one-ton or less); and
- All light trucks (quarter-ton, half-ton, three-quarter ton and one-ton trucks).

Excluded from the exemption are heavy vehicles, buses, trailers, motor homes, motorcycles, mopeds and leisure vehicles such as ATV's, snowmobiles and boats.

Only eligible Used light vehicles on which the PST was previously paid in full qualify for the tax exemption. This includes an eligible used light vehicle on which tax was paid on the net purchase price after allowing a deduction for a trade-in. Although tax is only paid on the net difference (after the trade-in allowance) these vehicles are considered to be tax-paid since the total amount of tax due at the time of purchase was paid in full.

Some used light vehicles do not qualify for the tax exemption as the PST has not been paid in full by a previous owner, which includes:

- Vehicles purchased from outside Saskatchewan (other than settler's effects for those newly resident in the province and bringing their vehicles in);
- Vehicles imported by vehicle dealers for sale in Saskatchewan;
- Vehicles on which tax was only partially paid such as leased vehicles;

- Vehicles used interjurisdictionally that were subject to a tax pro-rate plan spread out over a given period of time;
- Vehicles purchased from a status Indian who would not have had to pay the PST or the federal government; and
- Vehicles received as a gift from a non-resident donor.

The return to the system of taxation on light vehicle sales to the pre-2000 structure, while popular with the electorate was brought into effect without any consultation with relevant stakeholder groups including the Saskatchewan Auto Dealers Association. They indicated the following issues with the exemption as it was implemented:

a) The changes would encourage the growth of "back yarders", curbers, or other non-licensed dealers – removing some accountability from the system. PST was a method in which to determine how much of that activity was occurring by any one individual which could then be investigated;

b) It would open up many scenarios and loopholes in which the PST would or would not be collected or charged. For a dealer, it becomes an administrative nightmare, internally, as to what attracts PST and what doesn't, and errors could be made in administering this system which may only be discovered during the audit process. The dealer could be held liable for levying the sales tax where an exemption existed, or vice-versa.

c) It would encourage dealers to bump up the price of a tax paid used vehicle to the same transaction price of a non tax paid used vehicle so the dealers have parity in the market place – creating a zero-sum scenario for the consumer in terms of savings. Dealers sell outside of this province, as well, so all trade-in values are based on a Canadian market value irrespective of Saskatchewan tax law, and;

d) The gains made in clarity of advertising terms and conditions as far as the sales tax is concerned could be again made convoluted with respect to which vehicles are subject to the PST.

The auto industry in Saskatchewan generates less used vehicles than the market demands and, as a result, for several decades, Dealers have imported vehicles from other markets and now from the United States. In order to be able to purchase these units from the various sources available to them, transport them to this market, and prepare them for sale, dictates that they are bought at a price that will allow these units to be competitive when placed for sale.

The Saskatchewan Auto Dealers Association proposed to the Saskatchewan Party during the 2007 Election campaign to present the PST exemption on used vehicles as a Consumer Rebate, in order to alleviate the above issues, as well as:

- creating less administrative hassles for Government and auto dealers in the province;
- continued harmonization among dealers in other Canadian provinces, and;
- creating less confusion for consumers and delivering cash in hand upon receipt of the rebate which could be then put towards other consumer purchases if so desired.

This would cost the Province money in administration and check verification.

Summary

The principle behind the Saskatchewan Party's policy was well-intentioned but lacked real value or merit to the industry.

While the Industry has resolved some outstanding matters the process of creating a database to determine which vehicles are tax-exempt is still a complicated and ongoing process.

Related websites

Saskatchewan Government Website on PST on Used Cars Rebate:

<http://www.gov.sk.ca/news?newsId=2b5b4e7e-8bdb-4121-b6a3-31e4a38e5ef1>

Saskatchewan Chamber of Commerce Action to date

-Discussion with CAA, Saskatchewan Auto Dealers Association, and some members.

-Tabling of briefing note to the Saskatchewan Chamber's Expert Committees on Finance and Investment and Growth for review and determination of further action.