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Saskatchewan's 2017-18 budget: Provincial Sales Tax changes

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In this Update

- Saskatchewan's government released its budget (the Budget) on March 23, 2017
- the Budget included significant changes to the Provincial Sales Tax (PST) regime
- key tax-related changes in the budget including expanding the PST to real property and construction contracts, certain oil and gas contracted services equipment, insurance premiums, restaurant meals and children's clothing
- key implications of these tax-related changes for Saskatchewan businesses

On March 23, 2017, Saskatchewan's government released its 2017-2018 budget (the Budget). Included in the Budget were some significant changes to Saskatchewan's Provincial Sales Tax (PST) regime. Beyond the headline-grabbing rate jump from 5% to 6%, a large emphasis was placed on "broadening the tax base," i.e. removing current exemptions from the generally unrecoverable PST, and taxing new goods and services which were not previously subject to tax. A few of the key changes are described below.

Real property and construction

Certain services in relation to real property, which were previously not subject to PST, have now become subject to PST. In particular, contracts for the repair, construction, renovation or improvement of real property will become taxable on the total contract price. In addition, developers who build residential or commercial premises for resale will have to charge PST on the selling price excluding the value of the land. Building contractors will, however, no longer have to pay unrecoverable PST on the cost of building materials. While the changes to the legislation have not actually been released yet — so it is not entirely clear how transition rules (if any) will work — the Budget states that these rules should apply to new contracts entered into on or after April 1, 2017.

Oil and gas contracted services and equipment

A new bulletin — PST Information Bulletin PST-13 dealing with Petroleum Drilling and Well Servicing Contractors — was released around the same time as the Budget, and includes a list of services to real property which became taxable effective April 1, 2017. This list includes: welding services to real or tangible property, well site preparation services, drilling services, down-hole pumping and well stimulation services, coring and logging services, cementing and perforating services, road-building services and pipeline laying and servicing.

The Budget also eliminates the PST remission which was previously in place for certain permanently mounted equipment used in the oil and gas industries (generally for exploration and development of oil or gas). This repeal was effective April 1, 2017 such that this equipment will be subject to PST going forward.

Insurance premiums

The Budget proposes to apply PST to insurance premiums for most payments relating to insurance of liabilities in Saskatchewan, which are due on or after July 1, 2017. This would include policies related to life, vehicle, liability and casualty, property, etc., but would not include reinsurance or self-insurance.

Restaurant meals and children’s clothing

Effective April 1, 2017, PST will be applied to meals purchased at restaurants, adding 6% to the costs of these meals. PST will also be applied to snack foods, prepared foods sold at grocery stores, carbonated beverages and single serving beverages. These changes being made are intended to make the PST apply to food in the same manner as the goods and services tax (GST) currently applies to the same products.

The exemption for footwear and clothing for children (aged 17 and under) has also been removed as of April 1, 2017. However, exemptions related to diapers and toilet training shall remain in effect.

Other changes to the PST include the removal of the “value of a trade-in allowance” for vehicle purchases, the removal of the exemption for bulk gasoline purchases, and the reduction of the exemption for bulk diesel purchases to only cover 80% of the purchase.

Corporate tax changes unrelated to the PST

Beyond the changes to the PST, there were other minor changes to taxes and tax credits affecting businesses in Saskatchewan. Of these, the most consequential is the gradual reduction in the general Corporate Income Tax Rate, which is proposed to be reduced by a half point in July 2017 and again by a half point in July 2019.

Other changes include:

- An increase to the Corporate Capital Tax Rate for large financial institutions, raising it to 4% as of April 1, 2017.
- The offering of a new lower corporate income tax rate for income earned from intellectual property.
- The implementation of a cap on the existing non-refundable Research and Development Tax Credit.
- An increase to taxes on liquor and tobacco.

Future harmonization?

The changes in the exemptions for the PST are intended at least in part to bring the PST rules more in line with the federal GST rules, which do not provide exemptions for items such as restaurant foods or children’s clothing. We note that these changes should make it easier for a Saskatchewan government to proceed to full harmonization of its PST regime with the GST in the future. In particular, we understand that when British Columbia tried to harmonize its sales tax regime with the GST, strong resistance to harmonization came from restaurant groups, whose meals had not been subject to tax under the old sales tax regime but would be taxable under the harmonized sales tax regime. If Saskatchewan's government is looking at harmonizing its PST with the GST, the removal of these exemptions, and the taxation of restaurant meals in particular, could lead to less resistance if harmonization is proposed in the future.