

Buying a Business

Provincial Sales Tax Act

This bulletin explains how PST applies to buying and selling a business.

For buying and selling the assets of related corporations, see [Bulletin PST 210](#), *Related Party Asset Transfers*. For buying and selling partnerships or an interest in a partnership, see [Bulletin PST 319](#), *Partnerships*.

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Overview

PST applies to the sale of new and used goods and software, unless a specific exemption applies. If you buy all or part of the assets of a business, you must pay PST on the assets that are taxable goods or software.

If you buy shares of a business (either some or all of a corporation's shares), the shares are **not** taxable and you do not pay PST.

Before buying a business, you should ensure that you have a clearance certificate issued by us, to confirm that the seller has paid and remitted all outstanding taxes and any related penalties and interest.

Taxable Assets

When you buy the assets of a business, you pay PST on taxable goods and software, unless a specific exemption applies, including:

- affixed machinery (see below)
- business equipment, such as vehicles, shop equipment and appliances
- computer hardware
- shelving and display equipment
- stationery, furniture and office equipment

- supplies for your own use, such as office supplies (e.g. ink, toner and paper) or cleaning supplies
- software, (see [Bulletin PST 105](#), *Software*), and
- tools used to perform your services.

Affixed Machinery

Generally, affixed machinery is machinery, equipment or apparatus that is:

- used directly in the manufacture, production, processing, storage, handling, packaging, display, transportation, transmission or distribution of goods, or in the provision of software or a service, and
- is affixed to, or installed in, a building, a structure or land so that it becomes part of real property.

For example, items that may be affixed machinery depending on how they are installed include automatic teller machines (ATMs), draught beer dispensers, barbeque chicken machines and pizza ovens.

There is some equipment that meets the definition of affixed machinery above, but is not considered affixed machinery for the purposes of the PST, including equipment that is attached to or installed in a building for the purpose of heating, air conditioning or lighting.

If the business you are purchasing includes real property that has affixed machinery already installed, you must pay PST on the purchase price of that affixed machinery, unless a specific exemption applies. For more information, see [Bulletin PST 503](#), *Affixed Machinery*.

However, you may be eligible to purchase certain affixed machinery exempt from PST if the affixed machinery qualifies for the production machinery and equipment exemption. For more information, see [Bulletin PST 110](#), *Production Machinery and Equipment Exemption*.

Non-Taxable Assets

When you buy the assets of a business, you do not pay PST on:

- accounts receivable
- franchise fees (see below)
- goodwill (see below)
- inventory (goods purchased solely for resale to customers - see below)
- permits and licenses
- real property (see below)
- equipment that qualifies for the production machinery and equipment exemption (see [Bulletin PST 110](#), *Production Machinery and Equipment Exemption*)
- other exempt goods, such as certain publications and safety equipment (see [Bulletin PST 200](#), *PST Exemptions and Documentation Requirements*)

Franchise Fees

Franchise fees and royalty fees are fees that a franchisee pays to a franchisor for the right to market a product or service using the trademark and trade name of another company. Franchise fees and royalty fees are not subject to PST unless they include the purchase of taxable goods or software.

Goodwill

Goodwill represents the value of a business's good reputation and relationship with customers beyond the value of the other business assets. Goodwill is not subject to PST.

However, the value of the goodwill that the purchaser and seller agree to must be reasonable. The purchaser and seller cannot agree to increase the price of goodwill and reduce the price of the taxable assets below fair market value to avoid paying PST. We may ask for information that supports the amount of goodwill paid.

Inventory

You are exempt from PST on inventory (i.e. goods for resale). To purchase the seller's inventory exempt from PST, give the seller your PST number or, if you do not have a PST number, a completed *Certificate of Exemption – General* ([FIN 490](#)).

However, if you take taxable items from your resale inventory for business or personal use, you must self-assess and remit the PST due on your next PST return. If you are not yet registered for PST, you must self-assess the PST due using a *Casual Remittance Return* ([FIN 405](#)) on or before the last day of the month following the month you converted the taxable items to business or personal use. For example, if you use a taxable item in your business in June, you must file the return and pay the PST no later than July 31.

Real Property

Real property is land and anything that is attached to the land so it becomes part of real property upon installation (i.e. ceases to be personal property at common law). PST does not apply to real property.

Real property generally includes:

- buildings
- structures
- leasehold improvements (e.g. flooring, lighting, or permanent signage)
- items that are attached to land (or to buildings or structures) by some means other than their own weight

PST applies to affixed machinery, even when included in a purchase of real property (see *Affixed Machinery* above).

For more information, see [Bulletin PST 501](#), *Real Property Contractors*.

Please note: While you do not pay PST on purchases of or transfers of an interest in real property, you may have to pay the property transfer tax. For more information, see [Bulletin PTT 001](#), *Property Transfer Tax*.

Paying and Remitting PST

When buying a business, you must pay PST on all taxable business assets. The seller, if registered or required to be registered to collect PST, must charge and collect PST on the sale of taxable business assets.

If the seller is not registered to collect PST or does not charge PST on the taxable assets, you must self-assess and remit the PST due on your next PST return.

If you do not have a PST number, you must self-assess the PST due using a *Casual Remittance Return* (**FIN 405**) on or before the last day of the month following the month you purchased the taxable items. For example, if you purchase a taxable item in July, you must file the return and pay the PST no later than August 31.

For more information on the requirement to be registered to collect PST, see **Bulletin PST 002, Charging, Collecting and Remitting PST**. If you are required to be registered, you must be registered **before** you make any sales or leases in BC.

Bundled Sales

If you buy taxable and non-taxable assets together for a single price, you generally pay PST on the fair market value of the taxable assets. The fair market value is the price that a good or service would normally sell for in the open market. If you buy a business for a single price from a seller who is registered or required to be registered to collect the PST, the seller must charge you PST on the fair market value of any taxable goods and services included in the sale.

For example, if you buy pizza ovens that are affixed machinery (taxable), office equipment (taxable) and real property (not taxable) together for a single price, you are making a bundled purchase. You pay 7% PST on the fair market value of the pizza ovens and office equipment.

For more information, including exceptions to the bundled sales rule, see **Bulletin PST 316, Bundled Sales and Leases**.

Examples

The following examples show how the PST applies to purchases of a business:

Example 1 – Buying a Restaurant

You are buying a restaurant. You arrange with the seller to buy the industrial grill and ranges, cooking dishes, inventory, tables and chairs, office equipment and serving dishes and utensils. You and the seller agree that you will pay \$100,000 for the business. Goodwill is included in the purchase price.

Because this is a bundled sale, you must pay PST on the fair market value of the taxable items. You do not yet have a PST number but you provide the seller with a completed *Certificate of Exemption – General* (**FIN 490**) for the inventory. The goodwill is non-taxable. The industrial grill and ranges are subject to PST as affixed machinery. In these circumstances, you pay PST on the industrial grill and ranges, cooking dishes, tables and chairs, office equipment and serving dishes and utensils as follows:

Assets	Price (based on fair market value)
Industrial grill and ranges Cooking dishes Tables and chairs Office equipment Serving dishes and utensils	\$85,000
Inventory (i.e. goods for resale such as take out containers and merchandise)	\$5,000
Goodwill	\$10,000
Subtotal	\$100,000
PST 7% (Applied to \$85,000)	\$5,950

Example 2 – Buying a Winery

You are buying a winery. You arrange with the seller to buy the buildings and land, winemaking equipment (e.g. presses, tanks), office equipment, accounts receivable and goodwill.

The winemaking equipment qualifies for the production machinery and equipment exemption. You provide the seller with a completed *Certificate of Exemption – Production Machinery and Equipment* ([FIN 492](#)) and do not have to pay PST on the equipment. The real property, accounts receivable and goodwill are non-taxable. In these circumstances, you pay PST on the office equipment only as follows:

Assets	Price
Real property	\$300,000
Winemaking equipment	\$50,000
Office Equipment	\$5,000
Accounts Receivable	\$3,000
Goodwill	\$100,000
Subtotal	\$458,000
PST 7% (Applied to \$5,000 of office equipment)	\$350

Clearance Certificates

If you are buying a business, you should ensure that you have a clearance certificate issued by us. The certificate confirms that the seller has paid and remitted all outstanding taxes and any related penalties and interest (up to the date the certificate was issued). If you do not obtain the certificate, you must pay any amounts owing when you purchase the business.

The seller of the business can apply for duplicate copies of the clearance certificate and provide one copy to you, or with the consent of the seller, you can obtain a copy of the clearance certificate directly by completing an *Application for Clearance* ([FIN 447](#)).



Need more info?

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Access our forms, publications, legislation and regulations online at gov.bc.ca/PST (go to **Forms** or **Publications**).

Subscribe to our **What's New** page to receive email updates when new PST information is available.

The information in this bulletin is for your convenience and guidance and is not a replacement for the legislation.

References: *Provincial Sales Tax Act*, sections 1, “affixed machinery”, “collector”, “registrant”, “software”, “tangible personal property”, “taxable service”, 26, 27, 28, 33, 34, 37, 81, 105, 145, 168, 178-179, 186-187, 189; Provincial Sales Tax Exemption and Refund Regulation, sections 16, 32-35, Part 5; Provincial Sales Tax Regulation, sections 79-81.