



Provincial Sales Tax (PST) Bulletin

Bulletin PST 319

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Partnerships

Provincial Sales Tax Act

Latest Revision: *The revision bar (|) identifies changes to the previous version of this bulletin dated February 2014. For a summary of the changes, see Latest Revision at the end of this document.*

This bulletin provides information to help businesses understand how PST applies to partnership assets.

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Overview

A partnership is a type of business entity that is a relationship between persons carrying on business in common with a view to profit.

If you are a partner in a partnership, you need to know how PST applies whenever taxable assets are acquired by, transferred into, or transferred out of, the partnership, or when a new partner acquires an interest in the partnership. Taxable assets include goods, software and telecommunication services.

PST applies to the sale of goods, software, and telecommunication services, unless a specific exemption applies. A sale includes a transfer of title or possession for a price or other consideration. Examples of taxable goods include equipment, motor vehicles, clothing and computers. Examples of taxable software include source code, executable code, operating system software, application software, “apps” and gaming software. For examples of telecommunication services, see [Bulletin PST 107](#), *Telecommunication Services*.

The law relating to partnerships is complicated. While we have set out guidelines and examples for you in this bulletin, if you are unsure how PST applies, please contact us. We will provide you with an answer that applies to your particular situation.

This bulletin assumes that the taxable goods being transferred in the provided examples are subject to 7% PST. In certain cases, other PST rates may apply (e.g. private sales of vehicles, boats or aircraft are taxed at 12%).

For other types of business asset transfers, see [Bulletin PST 210, Related Party Asset Transfers](#).

General Partnerships Including Limited Liability Partnerships (LLPs)

Ownership of Partnership Assets

A partnership is not an entity that can own property. All of the partners in a general partnership have an ownership interest in the partnership assets. Limited liability partnerships (LLPs) are treated the same way as general partnerships, except that there are legal limitations on traditional partnership liability. LLPs are **not** limited partnerships.

Unless a written partnership agreement provides otherwise, for PST purposes, each partner is considered to own a proportionate share of the partnership assets equal to that partner's interest in the partnership.

For example, you are a partner in a partnership of four equal partners. The partnership has equipment worth \$100,000. You, and each of your partners, own a 25% share, or \$25,000 in equipment.

Note: Limited partnerships are treated differently. For more information, see Limited Partnerships below.

Formation of a Partnership

When a partnership is formed, each partner that contributes taxable assets to the partnership is considered to transfer an interest in the assets to the other partner(s). Each partner acquires a proportionate share of the assets contributed to the partnership equal to their interest in the partnership. This means that each partner pays PST on the portion of the value of the taxable assets that is equal to their interest in the partnership.

The amount of PST you pay on the interest you acquire in goods contributed by your partner(s) may be offset by the amount of tax you already paid on goods you contributed to the partnership. This reduction applies as long as you paid (or were exempt from) one of the following taxes on the goods you contribute:

- PST (under the *Provincial Sales Tax Act*)
- Tax on designated property
- BC portion of the HST
- PST (under the *Social Service Tax Act*)

Note: This reduction does not apply to software and telecommunication services.

Example 1:

You form a new partnership of two equal partners. You contribute \$100,000 in cash to the partnership. Your partner contributes \$100,000 in equipment on which your partner has already paid PST. You trade a 50% interest in the cash to your partner in exchange for a 50% interest in your partner's equipment. In this case, you pay PST on the \$50,000 (50% x \$100,000) in equipment you acquire from your partner. Your partner pays no further PST on the equipment.

Example 2:

You form a new partnership of two equal partners. You (Partner A) contribute \$100,000 in tax-paid equipment, and your partner (Partner B) contributes \$50,000 in tax-paid equipment to the partnership. You give up a 50% interest in your equipment to your partner in exchange for a 50% interest in your partner's equipment.

PST applies as follows.

Partner A:

Interest acquired in Partner B's equipment (50% X \$50,000):	\$25,000
Less: tax-paid interest in equipment contributed to partnership (50% X \$100,000)	<u>-\$50,000</u>
Taxable equipment	-\$25,000

Partner A pays no PST as the offset value exceeds the value of the equipment acquired from Partner B.

Partner B:

Interest acquired in Partner A's equipment (50% X \$100,000):	\$50,000
Less: tax-paid interest in equipment contributed to partnership (50% X \$50,000)	<u>-\$25,000</u>
Taxable equipment	\$25,000
PST payable (7% X \$25,000)	\$ 1,750

Partner B pays \$1,750 PST on \$25,000 in equipment acquired from Partner A.

Example 3:

You form a new partnership of two equal partners. You and your partner each contribute \$100,000 in tax-paid equipment to the partnership. You give up a 50% interest in your equipment to your partner in exchange for a 50% interest in your partner's equipment. Since both interests have equal value and all the equipment qualifies for the offset reduction, no PST is payable.

Transfers to a Partnership

The transfer of assets to a partnership is considered to be a transfer to each partner.

When your partnership acquires assets, you acquire a proportionate share of the assets equal to your interest in the partnership. This means that you pay PST on the portion of the value of the taxable assets that is equal to your interest in the partnership.

For example, you are a partner in a partnership of four equal partners. The partnership purchases taxable equipment for \$100,000. You, and each of your partners, acquire ownership of a 25% share, or \$25,000 in equipment. You each pay \$1,750 PST on \$25,000 in equipment acquired.

Acquisitions of Partnership Interests

When you become a partner in an established partnership, you acquire an interest in that partnership.

When you acquire an interest in a partnership, you are considered to purchase an interest in the partnership's assets proportionate to the interest you acquire in the partnership.

For example, you acquire a 25% interest in an established partnership. The partnership has taxable equipment worth \$200,000. You are considered to purchase a 25% share, or \$50,000 in equipment. You pay \$3,500 PST on \$50,000 in equipment acquired.

Transfers from a Partnership to a Partner

A transfer of assets from a partnership to a partner is considered to be a sale of the assets from all the partners. If you acquire taxable assets from the partnership, you pay PST on the portion of the value of the taxable assets not already attributed to you.

For example, you are a partner in a partnership of two equal partners. The partnership transfers taxable equipment worth \$100,000 to you. This is considered to be a sale from the partnership (you and your partner) to you. You already own a 50% share in the equipment and purchase the other 50% from your partner. Therefore, you pay \$3,500 PST on \$50,000 in equipment acquired.

Dissolution and Disposition of Interest of the Partnership

When a partnership is dissolved, the assets and liabilities of the partnership are distributed to the partners.

If the value of any taxable assets you receive on dissolution is proportionate to your interest in the partnership, you pay no additional PST. This is because the taxable assets you receive represent the portion of the assets already attributed to you.

However, if the value of any taxable assets you receive is greater than your proportionate share, you pay PST on the portion of the value of the assets not already attributed to you.

If you are the sole remaining partner and you purchase your partner's interest in an existing partnership, you pay PST on the portion of the value of the taxable assets of the partnership that represents the increase in your interest in the partnership.

Example 1:

You are a partner in a partnership of two equal partners. The partnership assets are \$4,000 in taxable equipment and \$11,000 in cash. When the partnership is dissolved, you and your partner each receive \$2,000 in equipment and \$5,500 in cash. No PST is payable because you and your partner each receive a proportionate share (50%) of the value of the equipment equal to your interests in the partnership.

Example 2:

You are a partner in a partnership of two equal partners. The partnership assets are \$15,000 in taxable equipment, \$45,000 in cash and \$20,000 in accounts receivable.

When the partnership is dissolved, you receive \$15,000 in equipment and \$25,000 in cash, while your partner receives \$20,000 in cash and \$20,000 in accounts receivable. The value of the equipment you receive (100% of \$15,000) is greater than your proportionate interest (50%)

in the partnership. In this case, PST is payable on the 50% interest in the equipment not already attributed to you. You pay \$525 PST on \$7,500 in equipment acquired.

Example 3:

You are a partner in a partnership of two equal partners. Each partner has 50% interest in the partnership. The partnership assets are \$25,000 in taxable assets and \$45,000 in cash. When the partnership is dissolved, you receive your partner's 50% interest in the partnership, which is paid in cash out of the partnership's cash account. You continue operating the same business by yourself, using the same tax-paid assets that were formerly held by the partnership.

In this case, your partner has sold its 50% interest in the taxable assets of the partnership to you. You must PST on the portion of the value of the taxable assets of the partnership that represents the increase in your interest in the partnership. The increase is from a 50% interest to a 100% interest. Therefore, you must pay PST on 50% of the value of the taxable assets. You pay \$875 PST on \$12,500 of the value of the taxable assets.

Exemption for Related Corporations, and Transfers to New Corporations

If partners are related corporations, such as wholly-owned subsidiaries of the same parent corporation, transfers of goods and software between the partners may be eligible for an exemption under the exemptions for transfers of goods and software between related corporations, provided that the required conditions are met. Partnerships may also be eligible to transfer goods and software PST exempt to a new corporation, provided the required conditions are met.

For more information, see [Bulletin PST 210](#), *Related Party Asset Transfers*.

Limited Partnerships

Limited partnerships are treated differently than general partnerships. Limited partnerships have both limited and general partners. Limited partners contribute capital (money or other assets) and have a limited liability for the debts of the partnership (to the amount of capital contributed). The limited partners do not take a management role in the partnership. For PST purposes, unless a limited partnership agreement provides otherwise in writing, the general partner(s) is considered to own the partnership's assets. If you acquire a limited interest in such a partnership, you are not considered to be purchasing an interest in the partnership's assets and, therefore, do not need to pay PST.

Unless a limited partnership agreement provides otherwise in writing, any transaction involving the limited partnership is considered to be a transaction with the general partner(s). A transfer of assets from the partnership to a limited partner is treated as a sale from the general partner to the limited partner. The limited partner pays PST on the full value of the taxable assets because the limited partner does not have an interest in the assets prior to the transfer.

Example 1:

You are a limited partner in a limited partnership that consists of three limited partners and one general partner. The limited partnership agreement does not state who owns the partnership assets. The partnership transfers taxable equipment worth \$100,000 to you in payout of your contribution to the partnership. This is considered a sale from the general partner to you. As you do not have an interest in the equipment before the transfer, you pay PST on the full value of the equipment (i.e. you pay \$7,000 PST on \$100,000 in equipment acquired).

Example 2:

You are a limited partner in a new limited partnership that consists of three limited partners and one general partner. The limited partnership agreement does not state who owns the partnership assets. You contribute \$100,000 in tax-paid equipment to the partnership in exchange for your interest in the limited partnership. This is considered a sale from you to the general partner. As the general partner does not have an interest in the equipment before the transfer, PST is payable on the full value of the equipment. In this case, the general partner pays \$7,000 PST on \$100,000 in equipment acquired.

Partnerships Involving First Nations

General Partnerships and LLPs

General partnerships and LLPs with a First Nations partner(s) who is eligible to make exempt purchases on First Nations land are entitled to an exemption for their purchases on First Nations land proportional to that First Nations partner's interest in the partnership. The purchases must meet all the criteria for the exemption for First Nations individuals or bands.

For example, an individual forms a general partnership with a First Nations individual. Each of the general partners owns a 50% share of the partnership interest. The purchase of taxable assets on First Nations land (that meets all the criteria for exemption) is 50% exempt from PST.

Limited Partnerships

Limited partnerships in which **all** of the partners are First Nations individuals or bands may purchase taxable goods on First Nations land exempt from PST, provided all the criteria for the exemption are met.

For example, a band forms a limited partnership to carry on a business in which all of the general and limited partners are First Nations individuals or bands. Because all of the partners are First Nations individuals or bands, the purchase of taxable assets on First Nations land by the limited partnership (that meets all the criteria for exemption) is fully exempt from PST.

Limited partnerships in which one or more of the general or limited partners is a First Nations individual or band may or may not qualify for exemption from PST, depending on the terms of the partnership agreement.

Note: With all limited partnerships, the specific terms of the limited partnership agreement can affect how PST applies to the purchases made by the partnership.

Example 1

A limited partnership consists of a non-First Nations individual as the sole limited partner with a 99% interest in the partnership, and a band as the general partner with a 1% interest in the partnership. Under the limited partnership agreement, the general partner (the band) acts as an agent for the limited partner and its powers and responsibilities include the sale and acquisition of assets for the partnership's business.

In this case, assets purchased on First Nations land by the limited partnership are exempt from PST. This is because a general partner in a limited partnership is considered to own the partnership's assets and the general partner is a band.

Example 2

A limited partnership consists of a band as the sole limited partner with a 99% interest in the partnership, and a band-owned corporation as the general partner with a 1% interest in the partnership. Under the limited partnership agreement, the corporate general partner acts as an agent for the limited partners and its powers and responsibilities include the sale and acquisition of assets for the partnership's business.

In this case, assets purchased on First Nations land by the limited partnership are subject to PST. The general partner is the purchaser and owner of the assets and a band-owned corporation does not qualify for exemption as a First Nations individual or band. Although the general partner acts as agent for the limited partner, the limited partner's band status does not impact the general partner's obligation to pay PST since the limited partner does not own the assets.

For more information on the criteria for exemptions for purchases by First Nations individuals and bands on First Nations land, see [Bulletin PST 314, Exemptions for First Nations](#).



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

Latest Revision

July 2017

- Clarified the examples in the Partnerships Involving First Nations section
 - Other minor revisions
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References: *Provincial Sales Tax Act*, sections 1 “band”, “First Nation individual”, “purchaser”, “software”, “tangible personal property”, “telecommunication service”, “sale”, 9, 10 and 24; Provincial Sales Tax Exemption and Refund Regulation, sections 1 “First Nation land”, 68.1, 88.1 and 149-155.