



Buying and Selling a Business

Provincial Sales Tax Act

Latest Revision: *This bulletin has been completely rewritten and replaces the previous version dated November 2014.*

This bulletin explains how PST applies to the purchase and sale of business assets as part of a sale of a business.

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

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Definitions and Overview

Definitions

In this bulletin:

- a **collector** is a seller who is registered to collect PST or a seller who is not registered to collect PST but is required to be registered.
- a **bulk transaction** occurs when a purchaser buys any of the following:
 - substantially all (more than 90%) of a collector's inventory in BC;
 - substantially all of a collector's goods or software in BC that is used in the collector's business carried on in BC; or
 - an interest in a collector's business carried on in BC.
- the **fair market value** is generally the retail price that a good, software or a service would normally sell for in the open market. If you never sell the good, software or service on its own, the fair market value is the amount that the item would normally be sold for in the open market (see Bundled Sales below).

Overview

PST applies to the sale of new and used goods and software, unless a specific exemption applies. When all or part of the assets of a business are sold, PST applies to the assets that are taxable goods or software.

Shares of a business are not taxable.

Before buying a business or purchasing goods, software or an interest in a business through a bulk transaction, the purchaser should ensure that they have a clearance certificate issued by us. The certificate confirms that the collector has paid and remitted all outstanding PST and any related penalties and interest (see Clearance Certificates below).

If a newly purchased business is required to be registered to collect and remit PST, the business must be registered before it makes any taxable sales or leases in BC. For more information on the requirement to be registered, see [Bulletin PST 001, Registering to Collect PST](#).

Taxable Assets

PST applies to the assets of a business that are taxable goods and software, unless a specific exemption applies. Taxable assets include:

- affixed machinery (see below)
- business equipment, such as vehicles, shop equipment and appliances
- computer hardware
- shelving and display equipment
- software (see [Bulletin PST 105, Software](#))
- stationery, furniture and office equipment
- supplies for your own use, such as office supplies (e.g. ink, toner and paper) or cleaning supplies
- 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 that is being purchased includes real property that has affixed machinery already installed, PST applies to the purchase price of that affixed machinery, unless a specific exemption applies. For more information, see [Bulletin PST 503](#), *Affixed Machinery*.

However, certain affixed machinery is 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

PST does not apply to the following:

- accounts receivable
- franchise fees (see below)
- goodwill (see below)
- inventory (goods purchased solely for resale to customers - see below)
- lease inventory (goods purchased solely for leasing to customers - see [Bulletin PST 315](#), *Rentals and Leases of Goods*)
- permits and certain licenses (e.g. copyright and timber licenses but not software or telecommunication 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. PST does not apply to franchise fees and royalty fees, 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. PST does not apply to goodwill.

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 value of the taxable assets.

Inventory

PST does not apply to inventory (i.e. goods for resale). To purchase the seller's inventory exempt from PST, the purchaser must give the seller their PST number or, if the purchaser does not have a PST number, a completed *Certificate of Exemption – General* ([FIN 490](#)).

However, if the seller takes taxable items from their resale inventory for business or personal use, they must self-assess and remit the PST due on their next PST return. If the seller is not yet registered for PST, they 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 they converted the taxable items to business or personal use. For example, if the seller uses a taxable item in their business in June, they 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 PST does not apply to purchases or transfers of an interest in real property, property transfer tax may apply. For more information, see [Bulletin PTT 001](#), *Property Transfer Tax*.

Paying and Remitting PST

When buying a business, PST applies to all taxable business assets. If the seller is a collector, the seller must collect and remit PST on the sale of taxable business assets. A collector must collect and remit PST on taxable sales until the date of cancellation of their registration.

If the seller is not a collector or does not charge PST on the taxable assets, the purchaser must self-assess and remit the PST due on their next PST return.

If the purchaser does not have a PST number, they 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 the taxable items were purchased. For example, if a taxable item was purchased in July, the return must be filed and the PST paid no later than August 31.

For more information, see [Bulletin PST 002](#), *Charging, Collecting and Remitting PST*.

Bundled Sales

A bundled sale occurs when taxable and non-taxable assets are sold together for a single price. Generally, PST only applies to the fair market value of the taxable assets. If a seller who is a collector makes a bundled sale, they must charge the purchaser PST on the fair market value of any taxable goods included in the sale.

For example, if pizza ovens that are affixed machinery (taxable), office equipment (taxable) and real property (not taxable) are sold together for a single price, the collector must charge the purchaser 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 when buying and selling a business.

Example 1 – Buying a Restaurant

A purchaser is buying a restaurant. The purchaser arranges with the seller who is a collector to buy the industrial grill and ranges, cooking dishes, inventory, tables and chairs, office equipment and serving dishes and utensils. The purchaser and the seller agree that the purchaser will pay \$100,000 for the business. Goodwill is included in the purchase price.

Because this is a bundled sale, PST applies to the fair market value of the taxable assets. The purchaser does not yet have a PST number, so they 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, PST applies to the industrial grill and ranges, cooking dishes, tables and chairs, office equipment, and serving dishes and utensils as follows:

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

Example 2 – Buying a Winery

A purchaser is buying a winery. The purchaser arranges with the seller who is a collector 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. The purchaser provides the seller with a completed *Certificate of Exemption – Production Machinery and Equipment (FIN 492)* and is exempt from PST on the equipment. The real property, accounts receivable and goodwill are non-taxable. In these circumstances, PST only applies to the office equipment as follows:

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

Clearance Certificates

Before buying a business or buying goods, software or an interest in a business through a bulk transaction, the purchaser should ensure that they have a clearance certificate issued by us. The certificate confirms that the collector has paid and remitted all outstanding PST and any related penalties and interest (up to the date the certificate was issued). If the purchaser does not obtain the certificate, they are liable for an amount equal to any outstanding amount owed by the collector.

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



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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.