



# Provincial Sales Tax (PST) Bulletin

Bulletin PST 105

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## Software

### Provincial Sales Tax Act

Latest Revision: The revision bar ( | ) identifies changes to the previous version of this bulletin dated February 2022. For a summary of the changes, see Latest Revision at the end of this document.

This bulletin explains how PST applies to intangible software (e.g. provided over the internet, including by email, file transfer protocol (FTP), download or other electronic means).

Unless specifically noted, this bulletin does not explain how PST applies to software purchased on a tangible medium such as a CD or DVD. Software purchased on a tangible medium is a sale of tangible personal property (goods) and is subject to PST in the same manner as other goods.

A purchase of intangible software can be similar to a purchase of a telecommunication service, particularly when accessed through a website. Purchases that do not qualify as software may still be subject to PST as a telecommunication service. For more information, see [Bulletin PST 107](#), Telecommunication Services.

For general information on how PST applies to goods, see the [Small Business Guide to PST](#).

## Table of Contents

Definitions.....	2
PST on Software.....	4
Software Purchased for Use in Multiple Jurisdictions.....	5
Services to Software.....	7
Software and Hardware Maintenance Agreements .....	9
Software Sellers and Software Developers.....	12
Internet Services.....	13
Exemptions .....	19

## Definitions

In this bulletin:

- A **B.C. resident** is a person who resides, ordinarily resides or carries on business in B.C., or a person who enters B.C. with the intention of residing or carrying on business in B.C.
- An **electronic device** means a device by which a person may send, receive, download, view or access telecommunications, or use software. Examples of electronic devices include computers (desktops, laptops and tablets), game consoles, telephones, mobile phones, smart phones and portable media players, TVs, radios and satellites.
- **Goods** mean tangible personal property as defined in the Provincial Sales Tax Act. Tangible personal property is personal property that can be seen, weighed, measured, felt or touched, or that is in any other way perceptible to the senses, and includes:
  - software acquired in a tangible format (i.e. in a physical form), such as on a CD, DVD, USB drive, memory card or computer.

Goods do not include software acquired in an intangible format (e.g. provided over the internet, including by email, FTP, download or other electronic means).

- A **non-resident** is a person who does not reside, ordinarily reside, or carry on business in B.C. and who:
  - owns real property in B.C., or
  - leases, as lessee, real property in B.C. if the term of the lease, including the cumulative total of all options and rights to extend or renew that lease, is at least five years.
- **Software** includes:
  - Software or the right to use software that is delivered or accessed by any means
  - **Software as a Service (SaaS)**, which includes software or the right to use software when possession of the software is maintained by the software provider or another person (e.g. a third-party service provider) who is not the person purchasing the software
  - **Infrastructure as a Service (IaaS)**, which includes access to computational services or the right to access computational services, including computing or processing capacity and electronic storage

- Coded instructions or a right to use coded instructions designed to cause an electronic device to perform a task
- Application programming interfaces (APIs)
- A right under an optional software maintenance agreement to receive software updates if they become available

Examples of software include application software, system software, video games, mobile device apps, IaaS products such as virtual central processing units or remote storage, and SaaS products such as online word processors accessed through a web browser.

## **Devices Ordinarily Situated in B.C.**

For software to be subject to PST in B.C., the software must be purchased for use, or used, on, through or with an electronic device that is ordinarily situated in B.C. The following principles will help determine where a device is ordinarily situated.

### **Stationary Electronic Devices**

Stationary electronic devices, such as desktop computers or televisions, are ordinarily situated in B.C. if they are located at an address in B.C.

If the device is located at the billing address, the software provider can use the billing address to determine whether PST applies.

If the billing address is different from the device location, the software provider should use the address where they provide the software or the Internet Protocol (IP) address of the device instead of the billing address to determine whether PST applies. For example, a company downloads software for desktop computers they use at the B.C. office; however, all the bills are sent to their Toronto head office. As the devices are ordinarily situated in B.C., PST applies to the software.

### **Mobile Electronic Devices**

Mobile electronic devices, such as mobile phones, are considered to be ordinarily situated in B.C. if they are assigned a B.C. area code (e.g. 250, 604, 778, 236). However, other mobile devices do not have an area code (e.g. a laptop or tablet). If there is no area code or the area code is not known, the provider of the service must use another method of determining where the device is ordinarily situated, such as the billing address, IP address or address where the software is provided.

**Note:** If you are a software provider that is registered or required to be registered to charge and collect PST, and you do not charge PST because your customer's

electronic device is not ordinarily situated in B.C., you must keep evidence to show why you did not collect PST.

## **PST on Software**

Unless a specific exemption applies, if you purchase software, you must pay 7% PST on the purchase price of the software if either of the following applies:

- You are in B.C. and you purchase software for use on, through or with an electronic device ordinarily situated in B.C., whether or not you are a B.C. resident.
- You are a B.C. resident or a non-resident (see the definitions above) who purchases software (anywhere, including outside B.C.) and you use that software on, through or with an electronic device ordinarily situated in B.C.

For example, you reside in Vancouver and download an app to your smart phone while in Alberta. You must pay PST on the app because you are a B.C. resident and you used the app on an electronic device ordinarily situated in B.C.

**Note:** If you carry on business in B.C. and you purchase software for use both inside and outside B.C., you may be eligible to pay a proportional amount of PST based on your use of the software in B.C. (see Software Purchased for Use in Multiple Jurisdictions below).

PST applies regardless of the location of the server hosting the software or the delivery method, including software that is downloaded to an electronic device ordinarily situated in B.C., accessed remotely by an electronic device ordinarily situated in B.C., or delivered under the Software as a Service (SaaS) or Infrastructure as a Service (IaaS) model.

For example, if you purchase word processing software and use the internet to access it on a remote server for use on a laptop that is ordinarily situated in B.C., you must pay PST on the purchase price of the word processing software.

## **Self-Assessing PST on Software**

If you purchase software and are not charged PST at the time of purchase, you must self-assess the PST due.

If you have a PST number, you must self-assess 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 in which you first used the software on an electronic device

ordinarily situated in B.C. For example, if you used the software in June, you must file the return and pay the PST no later than July 31.

## **Software Purchased for Use in Multiple Jurisdictions**

### **Paying PST on a Proportional Basis**

If you carry on business in B.C., or enter B.C. with the intention of carrying on business in B.C., you pay a proportional amount of PST on software if you:

- are in B.C. when you purchase the software and the software is for use in the course of your business on both an electronic device ordinarily situated in B.C. and an electronic device ordinarily situated outside B.C., or
- are outside B.C. when you purchase the software but you use the software in the course of your business on both an electronic device ordinarily situated in B.C. and an electronic device ordinarily situated outside B.C.

For example, a company with offices across Canada purchases software in Kamloops for use on their computers in B.C. and throughout Canada. The company pays a proportional amount of PST based on their use of the software in B.C.

When you pay PST on a proportional basis, you do not pay the PST to the software seller. To purchase the software without paying PST to the seller, you must provide the seller with a completed Certificate of Exemption – Self-Assessment on Software ([FIN 443](#)). You are then required to self-assess PST as follows.

### **Calculating the PST**

Calculating the proportional amount of PST you self-assess is a two-step process:

#### **Step 1. Self-Assess PST Based on Estimated Usage During the Relevant Period**

You calculate the proportional amount of PST you self-assess based on the following formula:

$$\text{Tax} = 7\% \times \text{purchase price} \times (\text{B.C. Usage} / \text{Total Usage})$$

**B.C. Usage** = the estimated use of the software in B.C. during the relevant period (see below)

**Total Usage** = the estimated total use of the software during the relevant period (see below)

To determine B.C. Usage, you may use different factors to arrive at your estimate. However, the factors you use must result in a reasonable estimate. These factors may include (but are not limited to) the number of employees using the software in B.C., the number of licences allocated to B.C., or the number of electronic devices on which the software will be used in B.C. You must use the same factor for estimating Total Usage that you use to arrive at your estimate for B.C. Usage.

### **Relevant Period**

The relevant period depends on the type of software you are purchasing:

- If you purchase the entire rights to the software (i.e. you are not just purchasing a licence) and you are in B.C. when you purchase the software, the relevant period is three years beginning on the date you purchase the software.
- If you purchase the entire rights to the software (i.e. you are not just purchasing a licence or a right under an optional software maintenance agreement to receive software updates) and you are not in B.C. when you purchase the software, but in the course of your business use the software in B.C., the relevant period is three years beginning on the date you first use the software or allow the software to be used on an electronic device ordinarily situated in B.C.
- If you are purchasing a software licence or a right under an optional software maintenance agreement to receive software updates, the relevant period is the shortest of the following:
  - the term of the right to use the software,
  - if you are in B.C. when you purchase the software, three years beginning on the date you purchase the software, and
  - if you are not in B.C. when you purchase the software, but in the course of your business use the software in B.C., three years beginning on the date you first use the software or allow the software to be used on an electronic device ordinarily situated in B.C.

For example, you purchase a two-year software licence in B.C. for use on your computers. The relevant period is therefore two years. Five of your computers are ordinarily situated in B.C. and 10 are ordinarily situated in Ontario, and you estimate that the number of computers using the licences will not change over the relevant period. The purchase price of the software licence is \$5,000. The PST you must self-assess is \$116.67 [ $0.07 \times 5,000 \times (5/15)$ ].

### **Self-Assessing the PST Due**

If you have a PST number, you must self-assess and pay the proportional amount of PST due on your next PST return.

If you do not have a PST number, you must self-assess and pay the proportional amount of PST due using a Casual Remittance Return ([FIN 405](#)) on or before the last day of the month following the month in which you:

- purchased the software in B.C., or
- used the software on an electronic device ordinarily situated in B.C. if you did not purchase the software in B.C.

## **Step 2. After the End of the Relevant Period, Recalculate the PST Due Based on Actual Usage**

At the end of the relevant period, you must reconcile your estimate with the actual usage over the relevant period. To do this, you use the same formula above but with actual usage levels for B.C. Usage and Total Usage.

### **Actual Usage Was Greater Than Estimated**

If your actual use of the software in B.C. was more than estimated, you must self-assess the additional PST due. For example, you originally estimated that 5 of your 10 employees were going to use the software in B.C. and you self-assessed 7% PST on 50% of the purchase price of the software. However, subsequently, 6 of your 10 employees used the software in B.C. Therefore, you must reconcile the difference by self-assessing 7% PST on 10% of the purchase price of the software.

If you have a PST number, you must self-assess and pay the additional PST due on your next PST return for the reporting period in which the relevant period ended. If you do not have a PST number, you must self-assess and pay the additional PST due using a Casual Remittance Return ([FIN 405](#)) on or before the last day of the month following the month in which the relevant period ended.

### **Actual Usage Was Less Than Estimated**

If your actual use of the software in B.C. was less than estimated, you may be eligible for a refund on the difference. To apply for a refund, complete an Application for Refund – General ([FIN 355](#)) and provide documentation that supports your claim.

## **Services to Software**

You do not pay PST on services to software, including services to test, install, configure, modify, repair or restore software. Also, services to software in a tangible format are generally exempt from PST.

However, services to hardware are subject to PST as related services, including services to repair computers and peripherals. For more information on related services, see [Bulletin PST 301](#), Related Services.

## **Bundled Services to Software and Hardware**

If you purchase services to both software and hardware and there are separate prices for each component, you only pay PST on the charge for the services to hardware.

If you purchase services to both software and hardware for a single price, you are making a bundled purchase. You are also making a bundled purchase if you purchase software (including upgrades and patches) and services to software (such as installation) for a single price.

If you are making a bundled purchase, the general rule is that you pay PST on the fair market value of the taxable component (e.g. the fair market value of the services to hardware, or the fair market value of the software that you purchased).

There are two exceptions to this general rule:

### **1. The Entire Single Price is Subject to PST**

PST applies to the total single price if:

- the fair market value of the taxable component is more than 90% of the single price and the single price is less than \$500, or
- the non-taxable component is not ordinarily available for sale in the open market separately from the taxable component, or is not ordinarily provided separately from the taxable component for a price.

### **2. The Entire Single Price is Exempt from PST**

The total single price is exempt from PST if:

- the fair market value of the taxable component is \$50 or less and 10% or less of the fair market value of all the taxable and non-taxable components sold for the single price,
- the taxable component is prepackaged with the non-taxable component or is not ordinarily sold by the seller separately from the non-taxable component,
- the taxable component is not being provided by way of promotional distribution, and
- none of the taxable components sold with the non-taxable components for a single price are liquor, telecommunication services or legal services.

For example, you purchase repairs for your computer for \$200. The service provider replaced the cooling fan (hardware) and reconfigured the operating system (services to software). The sale of the cooling fan and the service to install it are taxable components of the bundled purchase, and the reconfiguration of the software is the non-taxable component. Therefore, you pay PST on the fair market value of the cooling fan and the service to install it, unless one of the exceptions outlined above applies.

## **Software and Hardware Maintenance Agreements**

Whether a maintenance agreement is taxable depends on the type of agreement it is, as outlined below.

### **Hardware Maintenance Agreements**

#### **Mandatory Agreements – Taxable**

If you must purchase a hardware maintenance agreement as part of purchasing the hardware, you pay PST on the maintenance agreement. In this case, the maintenance agreement forms part of the purchase price of the taxable hardware.

#### **Optional Agreements With Scheduled Services or a Specific Number of Services – Taxable**

If you purchase a hardware maintenance agreement that is optional (i.e. you may choose whether to purchase the agreement) and the agreement has a scheduled or specific number of maintenance services, you are required to pay PST on the agreement. In this case, the maintenance agreement is taxable as a prepayment for related services to hardware.

#### **Optional Agreements With Services Provided Only As Needed – Non-Taxable**

You do not pay PST on an optional hardware maintenance agreement (i.e. you may choose whether to purchase the agreement) that only provides for services or repairs when the need arises, such as during equipment malfunction.

### **Software Maintenance Agreements**

Software maintenance agreements can involve software updates (or a right to receive updates if they become available), services or both. Generally, you pay PST on software updates because you are purchasing software. However, PST does not apply to services to software. Therefore, you may have to pay PST on all or part of

the purchase price of a software maintenance agreement depending on the type of agreement and the services provided under the agreement.

### **Mandatory Agreements – Taxable**

If you must purchase a software maintenance agreement as part of purchasing taxable software, you must pay PST on the maintenance agreement. In this case, the maintenance agreement forms part of the purchase price of the taxable software.

### **Optional Agreements Providing Software Updates – Taxable**

If you purchase a software maintenance agreement that is optional (i.e. you may choose whether to purchase the agreement) and the agreement provides for software updates, or a right to receive software updates if they become available, you must pay PST on the agreement.

### **Optional Agreements Providing Services to Software – Non-Taxable**

Because PST does not apply to services to software, you are not required to pay PST on an optional software maintenance agreement (i.e. you may choose whether to purchase the agreement) that only provides for services to software. This applies whether those services are scheduled or provided when the need arises.

### **Optional Software Maintenance Agreements That Provide Both Services and Software**

If an optional maintenance agreement provides both services to software and additional software (such as software updates or the right to receive software updates if they become available) and the charges for each are separately listed, you only pay PST on the charge for the software.

If, however, the optional maintenance agreement provides both services and software for a single charge, you are making a bundled purchase. The general rule is that you pay PST on the fair market value of the taxable component of the purchase (i.e. the software). However, if the software services are not ordinarily available for sale in the open market separate from the software, or are not ordinarily provided separate from the software, you must pay PST on the entire single charge.

If you sell software maintenance contracts and, at the outset of the contract, you do not know what proportion of the contract will be for services to software and what proportion will be for the sale of software (e.g. updates or the right to receive

updates), you may make a reasonable estimate of the proportion of the contract that will be for the sale of software. This estimate should reflect the fair market value of the taxable component within the bundle. You need to keep the information and/or documentation that supports your estimate. The general rule is you collect PST based on the estimated proportion of the contract that will be for the sale of software, unless one of the exceptions to the bundled sales rules applies. For more information, see the section above, Bundled Services to Software and Hardware.

## **Maintenance Agreements for Both Hardware and Software**

If you purchase a maintenance agreement that provides for software and services to both hardware and software, you may have to pay PST on all or part of the purchase price for the agreement, depending on the agreement.

### **Mandatory Agreements – Taxable**

If you must purchase a maintenance agreement as part of purchasing hardware or software (or both), you pay PST on the maintenance agreement. In this case, the maintenance agreement forms part of the purchase price of the taxable hardware and/or the taxable software.

### **Optional Agreements With Services Provided Only As Needed – Non-Taxable**

You do not pay PST when you purchase an optional maintenance agreement (i.e. it is not a mandatory condition of purchasing the software or hardware that you are also purchasing) that only provides services to software and hardware when the need arises.

### **Optional Maintenance Agreements With Taxable and Non-Taxable Components**

If you purchase an optional maintenance agreement for a single price that provides both taxable components (e.g. services to hardware on a scheduled basis, a set number of services to hardware, or the sale of software) and non-taxable components (e.g. services to software), you are making a bundled purchase. Generally, you pay PST only on the fair market value of the taxable components of the maintenance agreement. However, if the non-taxable components are not ordinarily available for sale in the open market separate from the software or are not ordinarily provided separate from the software, you must pay PST on the entire single price.

For example, you purchase an optional maintenance agreement for a single price that includes scheduled services to hardware, software (e.g. software updates or the right to receive software updates if they become available) and services to software. You pay PST on the fair market value of the services to hardware and the software. If, however, the services to software are not ordinarily available separate from the hardware services or the software, you pay PST on the entire single price for the maintenance agreement.

If you sell maintenance contracts and, at the outset of the contract, you do not know what proportion of the contract will be for services to hardware and what proportion will be for services to software, you may make a reasonable estimate of the proportion of the contract that will be for services to hardware. This estimate should reflect the fair market value of the taxable component within the bundle. The general rule is you collect PST based on the estimated proportion of the contract that will be for services to hardware, unless one of the exceptions to the bundled sales rules applies. For more information, see the section above, *Bundled Services to Software and Hardware*.

## **Software Sellers and Software Developers**

This section applies to you if you sell software and/or develop software.

If, in the ordinary course of your business, you sell or provide taxable software in B.C., you must register for PST. If you are a business located in Canada but outside B.C. and you sell taxable software to customers in B.C., you may also be required to register for PST. For more information, see [Bulletin PST 001](#), *Registering to Collect PST*.

If you are registered or are required to be registered and you sell taxable software as described in this bulletin, you must charge and collect PST on that sale.

If the purchaser claims they are purchasing software for business use both inside and outside B.C., you must charge and collect PST unless the purchaser provides you with a completed Certificate of Exemption – Self-Assessment on Software ([FIN 443](#)).

If you sell software to a person who claims the software is not for use on an electronic device ordinarily situated in B.C., you must keep evidence to show why you did not collect PST.

If you sell software to a person who claims that the software is being purchased for the sole purpose of resale, you must obtain the person's PST number or, if the

person does not have a PST number (e.g. because they are a wholesaler or they are in the process of registering), a completed Certificate of Exemption – General ([FIN 490](#)).

If you develop software, you may be eligible for the production machinery and equipment (PM&E) exemption as a software developer. If you qualify as a software developer, you may obtain certain PM&E you use to develop software exempt from PST (e.g. computers, related hardware and cables). For more information on the PM&E exemption for software developers, see [Bulletin PST 110](#), Production Machinery and Equipment Exemption.

## **Internet Services**

Software is often purchased over the internet, such as through website subscriptions and auction or shopping sites.

Generally, if a customer purchases access to a website that provides them with the ability to employ some degree of functionality on the website beyond merely viewing website content, the customer is purchasing a right to access software, which is subject to PST.

The following are indicators that a customer is purchasing software and not just access to a series of web page documents.

- The functionality of the website goes beyond merely viewing content.
- The customer can use the website to manipulate files or create new files.
- The website usage agreement specifically states that the customer is obtaining a licence to software.

### **Examples of website access that are considered the purchase of software include:**

- A subscription to a website that allows you to play an online video game
- Access to a photo or video editing website that allows you to create, modify, or edit image or video files
- Access to a website that allows you to complete your income tax return

Purchases that do not qualify as software may still be subject to PST as a telecommunication service. For more information on which internet services are taxable as software, taxable as telecommunication services or are non-taxable, see [Bulletin PST 107](#), Telecommunication Services.

## Prepaid Gift Cards and Gift Certificates

Purchases of prepaid gift cards or gift certificates are not subject to PST as they are a purchase of store credit a customer may redeem later at a store or online. When a customer redeems the credit, PST applies to the purchase as if the credit were cash. PST will apply if the item purchased is subject to PST.

Effective February 23, 2022, the above also applies to prepaid gift cards or gift certificates used to purchase software or telecommunication services.

If you pay PST on the purchase of a prepaid gift card or gift certificate on or after February 23, 2022, and then pay PST again at the time you redeem that prepaid card, you may be eligible for a refund of the PST paid on the purchase of the gift card or gift certificate. To apply for a refund, complete an Application for Refund – General ([FIN 355](#)) and provide documentation that supports your claim.

## Software or Web Consulting

Generally, PST does not apply to consulting services to advise people on their hardware and software needs. Therefore, if you purchase software consulting services, you do not pay PST if those services do not include the sale of taxable hardware or software, or services to hardware.

For example, a business contracts with a software consultant to assess the business's processes and recommend a software solution for their purchasing department. The consultant provides a report with their recommendation, but does not sell any software. In this situation, PST does not apply to the consultant fee because there is no sale of software or service to hardware.

If, however, the consultant also sells a taxable software solution to the business, they must collect PST as a sale of software. In some cases, PST will apply to the full purchase price and in other cases, PST will apply to the fair market value of the taxable components (i.e. software) as a bundled sale. The application of PST depends on the specifics of the transaction. For more information, see the section above, Bundled Services to Software and Hardware.

**Note:** Where the service involves the sale of software, the software may qualify as exempt custom software or custom modified software. For more information, see Custom Software and Custom Modified Software below.

## Access to an Online Database

If you purchase access to a database that is accessible through the internet, you may be required to pay PST on the access fee. Access to an online database

generally involves the purchase of the right to use software that allows the purchaser to analyze the data (e.g. a database management system). Because a database management system is application software, PST applies to the right to access such software even if the software is only accessed through a web browser.

## **Online Data Processing Services**

Generally, when a service provider has a software licence and they use that software to provide a data processing service for you, you are not required to pay PST on the service. However, if you purchase a right to use software, then you are required to pay PST.

The following are indicators that you are purchasing software and not merely an online data processing service.

- You can complete a particular task using the online software independent of any action or service by the service provider (or their employees).
- You can use functions of the online software to create data files and manipulate them.
- Your contract expressly states that you are acquiring a right to access software.

For example, you enter into an agreement with a service provider to manage your payroll processing. The service provider is responsible for the payroll processing, such as cheque issuance and bank verification, and uses a software application to automate these tasks. However, the agreement expressly provides you with the right to use the software application to compile and send information to the service provider for processing. You are able to complete particular tasks independent of the service provider such as entering payroll data and creating new employee files. In such cases, the agreement is the purchase of a right to use taxable software and the purchaser must pay PST.

## **Cloud Computing**

Cloud computing includes a range of products provided remotely over the internet. For PST purposes, the two main categories are Infrastructure as a Service and Software as a Service. Both are taxable as software if purchased for use, or used, on an electronic device ordinarily situated in B.C.

### **Infrastructure as a Service (IaaS)**

Infrastructure as a Service is a cloud computing product that allows a person to purchase remote computer resources on-demand. The cloud computing provider owns and manages the physical infrastructure (e.g. servers) while the purchaser has access to computational services such as processing capacity or electronic

storage. For PST purposes, Infrastructure as a Service also includes computational services that are not billed or invoiced on an on-demand basis, such as remote electronic storage billed in a pre-determined amount (e.g. per terabyte).

**Example 1:**

You enter into a contract with a cloud computing provider for electronic storage on the provider's servers. You do not know the servers' location or the number of servers your data will be stored on, and multiple people could have data on the servers (i.e. the physical server infrastructure is shared). You access the storage through a web interface on your office computers that are ordinarily situated in Invermere, B.C. You only pay for the storage you use (i.e. the storage is on-demand). You install your own application software on the servers and, when run, your software stores and backs up your data on the cloud computing provider's servers.

You are purchasing Infrastructure as a Service, the contract is for software and PST applies.

**Example 2:**

You enter into a contract with a cloud computing provider for electronic storage on the provider's servers. The provider's servers are located in Alberta. You access the storage through a web interface on your laptop that is ordinarily situated in Valemount, B.C. Each month you pay a fixed price for an agreed upon amount of data storage (e.g. \$1,500 per month for 50 terabytes of storage). The amount of data you actually store does not impact the amount you pay.

You are purchasing Infrastructure as a Service, the contract is for software and PST applies.

**Example 3:**

You are a company that sells access to your proprietary online social media management software. The software is intended for business use and provides your customers with tools to interact with their customers, as well as tools to help them manage communications across different social media websites (e.g. schedule posts or share content). The software also provides your customers with data on their social media content, marketing campaigns and visibility on social media.

To operate the software, you enter into a contract with a cloud computing provider for on-demand electronic storage and processing capacity. You access the cloud

computing services from your office computers that are ordinarily situated in Vancouver, B.C. You will store the social media management application software on the cloud computing provider's servers and their servers will complete the computations required to run the software for all your customers who will also access your software that resides on the cloud computing provider's servers. The cloud computing provider bills you on an on-demand basis.

You are purchasing two types of Infrastructure as a Service – electronic storage and processing capacity. The contract is for software and PST applies.

### **Software as a Service (SaaS)**

Software as a Service is a cloud computing product that allows purchasers to access software remotely. Generally, the software is managed and maintained by the cloud computing provider on physical equipment (e.g. servers) the cloud computing provider operates, manages and maintains. The purchaser does not download the software to their electronic device. Rather, the purchaser accesses the software remotely using their electronic device (generally through a web browser).

#### **Example 1:**

You enter into a contract for a monthly subscription to video editing software. The software is stored on servers located outside B.C. at a location unknown to you. The cloud computing provider maintains the servers the software is stored on. You access the software through a web interface on your laptop that is ordinarily situated in Prince George, B.C. and do not download the software to your laptop.

You are purchasing Software as a Service, the contract is for software and PST applies to the monthly fee.

#### **Example 2:**

You own a large film and television business in Vancouver, B.C. You enter into a contract with a software company for payroll software. The software allows staff and managers to enter and manage work schedules, leave requests, sick time, overtime and other pay-related information. The software is stored on servers maintained and managed by the software company. You do not know the location of the servers. You and your staff will access the software through a web browser from your office computers ordinarily situated in Vancouver. You will pay a yearly fee for access to the software for a set number of users (e.g. \$200 per user).

You are purchasing Software as a Service, the contract is for software and PST applies to the yearly fee.

## Web Hosting

Web hosting services generally enable individuals and organizations to make their website available over the internet. At its simplest, web hosting involves the storage of data on a server of the service provider. When a request is received from an electronic device (e.g. a computer) to view the client's website, the host server responds by sending a copy of the client's stored web page to the electronic device.

Web hosting is a type of electronic storage and therefore is considered Infrastructure as a Service. As a result, web hosting is taxable as software.

## Data Backup Services

Data backup services are a type of electronic storage and therefore are considered Infrastructure as a Service. As a result, data backup services are taxable as software.

## Application Programming Interface (API)

An API allows two or more pieces of software to communicate with each other by setting the rules for the interaction; including what types of interactions are allowed. An API may be used so that one piece of software can access the functionality of another piece of software. APIs are taxable as software.

For example, you are a business located in Surrey, B.C. and you own a web app you use on your computers located in B.C. You want to integrate the functionality of a popular video sharing website into your app. To do this, you purchase an API specific to the video sharing site that adds features of the site to your app. The API is not custom made for you and is available to any purchaser who wants to integrate the video sharing site's features. The API is software and PST applies to your purchase.

**Note:** If you are purchasing an API that is custom made for you, the API may qualify as exempt custom software or custom modified software. For more information, see Custom Software and Custom Modified Software below.

## **Exemptions**

If you are claiming an exemption on software, you may be required to provide information or documentation to support your claim. If you do not provide the required information or documentation at the time of purchase, the seller may refund or credit you the PST paid if you provide the required information or documentation within 180 days of the date the tax was charged. After 180 days, you may apply for a refund of the PST.

Unless specifically noted, the exemptions described below also apply to software on a tangible medium.

### **Software Purchased for Resale**

You are exempt from PST when you purchase software for the sole purpose of reselling the software (including the rights to that software) to other persons.

To purchase the software exempt from PST, give the supplier your PST number or, if you do not have a PST number, a completed Certificate of Exemption – General ([FIN 490](#)).

This exemption does not apply if you are a small seller. For more information on small sellers, see [Bulletin PST 003](#), Small Sellers.

### **Software Incorporated Into Goods, a Telecommunication Service or Other Software**

You are exempt from PST when you purchase software for the purpose of being processed, fabricated or manufactured into, attached to or incorporated into:

- other software for the purpose of retail sale,
- a telecommunication service for the purpose of retail sale, or
- goods for the purpose of retail sale or lease.

This exemption does not apply if:

- the purchaser of the software that is processed, fabricated or manufactured into, attached to or incorporated into other software for retail sale retains an interest in the software, telecommunication service or goods after the retail sale or lease (goods only), or
- you are a small seller.

You are exempt from PST when you purchase goods substantially for the purpose of incorporating any software or telecommunication service contained in those goods into:

- other goods for the purpose of retail sale or lease, or
- software or a telecommunication service for the purpose of retail sale.

To obtain these exemptions, give the supplier your PST number or, if you do not have a PST number, a completed Certificate of Exemption – General ([FIN 490](#)).

## Licensing and Copies of Software

You are exempt from PST when you purchase software if the software is purchased substantially for:

- incorporating copies of the software into other software, a telecommunication service or goods for retail sale, and/or
- re-licensing copies of the software for retail sale.

This exemption only applies if:

- under the terms of the licence governing the use of the software, the software must be used substantially for one or more of the purposes referred to above, or
- you have acquired all rights to the software, telecommunication service or goods.

To obtain these exemptions, give the supplier your PST number or, if you do not have a PST number, a completed Certificate of Exemption – General ([FIN 490](#)).

**Note:** This exemption does not apply to software on a tangible medium or if you are a small seller.

## Software Incorporated Into Prototypes

You are exempt from PST when you purchase software for the purpose of being incorporated into a prototype if the prototype is a result of research and development activities aimed at developing a new or improved product or process.

You are also exempt from PST when you purchase software for the purpose of being incorporated into copies of the prototype if the prototype is solely for the purpose of testing the prototype as part of research and development activities aimed at developing a new or improved product or process.

Software that is not specifically designed for the prototype does not qualify for this exemption.

To obtain these exemptions, give the supplier your PST number or, if you do not have a PST number, a completed Certificate of Exemption – General ([FIN 490](#)).

## **Qualifying Schools, School Boards, and Similar Authorities**

If you are a qualifying school, school board or similar authority, you may purchase software exempt from PST if the software is obtained for use substantially (i.e. over 90%) as a teaching aid for students.

For example, a school board may purchase spelling tutor software exempt from PST for use to teach students how to spell.

The exemption does not apply to software obtained for use by teachers to assess or evaluate students or to report on students' progress.

For information on what is a qualifying school and documentation requirements for this exemption, see [Bulletin PST 202](#), School Supplies.

## **New Residents**

If you are an individual who is a new B.C. resident and you use software on, through or with an electronic device ordinarily situated in B.C., you are exempt from PST on that software if you purchased the software:

- solely for a non-business purpose, and
- at least 30 days before you became a resident of B.C.

If you later use the software for a business use, you are generally required to pay PST on the software. However, the software will continue to be exempt from PST if all of the following apply:

- The use of the software for a business purpose does not begin within the first six months after you became a resident
- The software was owned and used by you for more than three years before you became a B.C. resident
- You previously paid one of the following taxes on the purchase of the software, and are not entitled to a refund, credit or rebate of that tax, including input tax credits:
  - PST (under the Provincial Sales Tax Act)
  - a provincial portion of the Harmonized Sales Tax (HST)
  - PST (under the Social Service Tax Act)

- sales tax of another province

## Commercial Fishers

If you are a qualifying commercial fisher, you may purchase software designed for use on electronic monitoring equipment exempt from PST. The electronic monitoring equipment must be designed for use for monitoring fishing activities and used solely for a commercial fishing purpose.

To support the exemption, give your supplier a completed Certificate of Exemption – Commercial Fisher ([FIN 455](#)).

For more information on exemptions for qualifying commercial fishers, see [Bulletin PST 102](#), Commercial Fishers.

## Software Transferred Due to Dissolution of Marriage

If software is transferred to you from your spouse, or your former spouse, because of the dissolution of marriage or marriage-like relationship, you do not pay PST on the software. The transfer must be done under a written separation agreement, a marriage agreement, a court order, or an agreement under Part 5 or 6 of the Family Law Act.

## Custom Software and Custom Modified Software

**Custom software** means:

- software that is **developed** solely to meet the requirements of a specific person, and
- modifications to that software if the modifications are performed for that specific person.

**Custom modified software** means software that is **modified** in a manner that involves changes to the source code solely to meet the requirements of a specific person if:

- the purchase price is for the software as modified, and
- that purchase price is greater than double what it would be for the software in its unmodified form.

If you are the person for whom the custom software or custom modified software was specifically developed or modified, you may purchase the software for your own use exempt from PST.

If you purchase custom software or custom modified software as part of a business sold as a going concern, you may purchase the software exempt from PST if the person who is selling the software retains no rights or interests in the software.

You may purchase additional licences or copies of the custom software or custom modified software exempt from PST if you are the person for whom the custom software or custom modified software was specifically developed. Also, if you purchase an upgrade to your custom software or custom modified software and the upgrade itself meets the above definition of either custom software or custom modified software, you are exempt from PST on the upgrade. However, if the upgrade is not custom software or custom modified software (e.g. pre-written standard software), PST applies to the upgrade.

**Note:** If you sell custom software or custom modified software, you are not required to obtain any documentation or certification from the purchaser to show why you did not collect PST on these sales. However, your records must clearly show the reason the software was sold exempt (e.g. you document on the bill, receipt or invoice that the software was custom software).

## **Software Used to Operate, Control or Monitor Production Machinery and Equipment**

If you are eligible for the production machinery and equipment (PM&E) exemption, you do not pay PST on software you obtain for use:

- primarily to operate, control or monitor exempt PM&E, or
- to operate PM&E used primarily to operate, control or monitor other exempt PM&E if the PM&E is for use substantially at the qualifying part of a manufacturing site, processing plant, refinery, well site or mine site.

**Note:** Software is not PM&E and does not qualify for the PM&E exemption unless it is obtained for use as described in this section. This includes word processing, spreadsheet, email, photo editing and anti-virus software.

To support the exemption, give the supplier a completed Certificate of Exemption – Production Machinery and Equipment ([FIN 492](#)).

For more information on the PM&E exemption, see [Bulletin PST 110](#), Production Machinery and Equipment Exemption.

## Other Software Exemptions

### Software Source Code in Non-Executable Form

You may purchase software exempt from PST if the software is software source code in non-executable form.

**Note:** If you sell software source code in non-executable form, you are not required to obtain any documentation or certification from the purchaser to show why you did not collect PST on these sales. However, your records must clearly show the reason the software was sold exempt (i.e. you document on the bill, receipt or invoice that the software was sold as source code in non-executable form).

### Software Purchased as Part of a Business Sold as a Going Concern

You may purchase software exempt from PST if all the following apply:

- You purchased the software as part of a business sold as a going concern by a person who retains no rights or interest in the software
- Before the purchase, the software was modified:
  - in a manner that involves changes to the source code, and
  - solely to meet the requirements of a specific person (i.e. the seller's specific requirements),
  - the purchase price of the modifications was separately stated on the bill, receipt or invoice, and
  - the purchase price of the modifications was greater than the purchase price of the software in its unmodified form.

### Software Purchased From a Small Seller

If you purchase software from a small seller, the software is exempt from PST. For more information on small sellers, see [Bulletin PST 003](#), Small Sellers.

### Related Party Asset Transfers

If a new corporation acquires software on or before the day the corporation starts to carry on business from a person (the transferor) that wholly owns and controls that corporation, the corporation may qualify for an exemption from PST on the software if certain conditions are met.

Alternatively, if a corporation transfers software to an existing related corporation, the corporation may qualify for an exemption from PST if certain conditions are met.

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

## **Diplomats, Consular Corps, First Nations, and the Government of Canada**

Software may also be exempt when purchased by the following persons if certain criteria are met:

- Members of the diplomatic or consular corps (for more information, see [Bulletin CTB 007](#), Exemption for Members of the Diplomatic and Consular Corps)
- First Nations individuals or bands (for more information, see [Bulletin PST 314](#), Exemptions for First Nations)
- The federal government (for more information, see [Bulletin CTB 002](#), Sales and Leases to Governments)

## **Change in Use**

If you qualified for a PST exemption when you purchased software and you later use the software for a taxable purpose (or you use the software, telecommunication service or goods the software was incorporated into for a taxable purpose), you need to self-assess PST. You self-assess PST based on the amount of PST you would have paid if you had not originally qualified for an exemption.

If you have a PST number, you must self-assess 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 used the:

- software for a taxable purpose, or
- software, telecommunication service or goods the software was incorporated into for a taxable purpose.



## Need more info?

Online: [gov.bc.ca/pst](http://gov.bc.ca/pst)

Toll free: 1-877-388-4440

Email: [CTBTaxQuestions@gov.bc.ca](mailto:CTBTaxQuestions@gov.bc.ca)

[Subscribe](#) to receive email notifications when B.C. tax information is updated.

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

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### Latest Revision

February 2024

- Updated to reflect Budget 2024 changes clarifying the definition of software and how PST applies to cloud computing products. The Budget changes are subject to legislative and regulatory approval.
  - Clarified how PST applies to access fees for online databases
  - Other minor revisions
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References: Provincial Sales Tax Act, sections 1 “BC resident”, “band” “electronic device”, “fair market value”, “First Nation individual”, “non-taxable component”, “prototype”, “related service”, “small seller”, “software”, “taxable component”, “telecommunication service”, 14, 15, 26, 28, 33, 104-114, 137, 141, 144, 145 and 192; Provincial Sales Tax Exemption and Refund Regulation, sections 1 “Part 3 software”, “Part 4 software”, 14, 41, 59, 64-70, 73, 77, 90, 93, 112, 114, 148 and 153-155; Provincial Sales Tax Regulation, sections 29, 30 and 56-61.