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Bundled Sales and Leases

Provincial Sales Tax Act

Latest Revision: *The revision bar (|) identifies changes to the previous version of this bulletin dated March 2018. For a summary of the changes, see Latest Revision at the end of this document.*

This bulletin explains how PST applies to bundled sales and leases. Bundled sales and leases occur when taxable and non-taxable goods, software, services or property are sold or leased together for a single price.

This bulletin does not explain how PST and the municipal and regional district tax (MRDT) apply to accommodation provided with meals, or meals and services, for a single price (see [Bulletin PST 120, Accommodation](#)).

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Overview and Definitions

Overview

Bundled Sales

If you sell taxable and non-taxable goods, software, services or property together for a single price, you are making a bundled sale. The general rule for charging PST on a bundled sale is that you charge PST only on the fair market value of the taxable portion of the sale. However, some exceptions apply (see Bundled Sales Rules below).

Note: You are not selling goods, software or telecommunication services if the goods, software or telecommunication services are merely incidental to a contract for the provision of non-taxable services. In this case, the bundled sales rules do not apply. For more information, see Incidental Sales below.

Bundled Leases

If you lease taxable and non-taxable goods or real property together for a single price, you are making a bundled lease. The rule for charging PST on a bundled lease is that you charge PST only on the fair market value of the taxable portion of the lease. No exceptions apply.

Note: You are not leasing goods if the right to use the goods is merely incidental to an agreement for the right to use real property or to an agreement for the provision of non-taxable services. In this case, the bundled lease rules do not apply. For more information, see [Bulletin PST 315](#), *Rentals and Leases of Goods*.

Definitions

In this bulletin:

- The **fair market value** is generally the retail price that a good, software or a service would normally sell for in the open market or, for leases, the price you would normally charge to lease the goods on their own (i.e. without any other goods) for that timeframe.

If you never sell or lease the good, software or service on its own, the fair market value is the amount that the item would normally be sold or leased for in the open market.

- **Non-taxable portion** means the non-taxable (including exempt) goods, software, services or property that form part of a bundled sale.
- **Taxable portion** means the taxable goods, software or services that form part of a bundled sale.

Bundled Sales Rules

General Rule

The general rule for charging PST on a bundled sale is that you charge PST only on the fair market value of the taxable portion of the sale.

Example:

A wicker gift basket (taxable) contains a teddy bear (taxable) and chocolates (non-taxable) for a single price of \$20. The wicker basket and teddy bear have a fair market value of \$15 and the chocolates have a fair market value of \$10. PST applies to the fair market value of the basket and teddy bear (i.e. \$15).

However, there are two exceptions to the general rule.

1. PST on the Entire Single Price

You charge your customer PST on the entire single price for a bundled sale if:

- the fair market value of the taxable portion is greater than 90% of the single price and the single price is less than \$500, or
- the non-taxable portion is not ordinarily available for sale separately from the taxable portion or is not ordinarily provided separately from the taxable portion for a price. This does **not** apply if the non-taxable portion is ordinarily available for sale, or ordinarily provided, separately from the taxable portion **in the open market** (even if **you** do not sell or provide the non-taxable portion separately).

Example:

A wicker gift basket (taxable) contains roses (taxable) and chocolates (non-taxable) for a single price of \$100. The basket and roses have a fair market value of \$92 (92% of the single price). Because the selling price is less than \$500 and the fair market value of the taxable portion is more than 90% of the single price, tax applies on the entire single price of \$100.

2. Bundled Sales Exemption

Your customer is exempt from PST on a bundled sale if all of the following criteria are met:

- The taxable portion is sold for a single price with the non-taxable portion (see the examples above)
- The fair market value of the taxable portion is:
 - \$50 or less, and
 - 10% or less of the total fair market value of all the items and services sold for the single price
- The taxable portion is pre-packaged with the non-taxable portion or you do not ordinarily sell the taxable portion separately from the non-taxable portion
- The taxable portion is not being provided by way of promotional distribution (see [Bulletin PST 311](#), *Promotional Materials and Special Offers*)
- The taxable portion does **not** include liquor, telecommunication services or legal services

Example:

A wicker gift basket (taxable) contains food (non-taxable) and a candle (taxable) for a single price of \$100. The fair market value of the candle is \$2 and the fair market value of the basket is \$3. Because the taxable portion (the basket and the candle: \$5) is less than \$50 and less than 10% of the single price (\$100), the entire single price is exempt from PST.

Summary of the Bundled Sales Rules

General Rule	
You charge PST on the fair market value of the taxable portion of the bundled sale.	
Exceptions	
<ul style="list-style-type: none">The taxable portion is more than 90% of the single price and the single price is less than \$500, orThe non-taxable portion is not ordinarily available for sale separate from the taxable portion or is not ordinarily provided separate from the taxable portion for a price.	You charge PST on the entire single price.
<ul style="list-style-type: none">Taxable portion is \$50 or less and is 10% or less of the total fair market value.	The entire single price is exempt, provided all the criteria of the bundled sales exemption are met.

Delivery Charges

Generally, if both taxable and non-taxable goods (bundled sale) are included in the same delivery, you charge PST on the portion of the delivery charge that can reasonably be attributed to the taxable goods. PST applies to the delivery charges even if they are separately stated on the sales invoice.

However, you do not charge PST on the delivery charge for a bundled sale if:

- the bundled sale is exempt (see Bundled Sales Exemption above), or
- your customer takes title to the goods **before** the delivery charges are incurred.

Effective April 1, 2018, PST does not apply to the portion of delivery charges related to the delivery of aggregate in certain circumstances. For more information on delivery charges, see [Bulletin PST 302, Delivery Charges](#).

Bonus Items

You may provide goods as bonus items with the purchase of other goods. For example, you may give your customer a bonus item when they purchase at least \$40 worth of cosmetics. For the purposes of the PST, these transactions are sales of both items.

If all of the items (i.e. purchased and provided as a bonus) are taxable goods (e.g. a hair brush provided with a purchase of a bottle of shampoo), you charge PST on the purchase price paid. You can purchase the bonus items exempt from PST as goods for resale.

If the transaction is for both taxable and non-taxable goods for a single price (e.g. a taxable stuffed animal and non-taxable chocolates), you are making a bundled sale and the bundled sales rules apply (see above).

Class Materials and Equipment

You may provide taxable materials or equipment as part of an educational, training or instructional program for a single class fee. As outlined below, PST applies differently depending on whether your students purchase the materials or equipment.

Materials and Equipment Sold to Class Participants

If your class participants are purchasing the materials and equipment (i.e. they may keep the taxable materials or equipment after the end of the class or series of classes), you are making a bundled sale. In this case, unless the items are merely incidental to a contract for the provision of non-taxable services (see Incidental Sales below), you:

- charge PST on the fair market value of the materials and equipment you sell to the class participants, and
- do not pay PST when you obtain these materials and equipment, provided they are obtained solely for resale (e.g. to class participants).

Note: If you list the charges for the class fee separately from the materials and equipment used in the class on your invoice to the class participants, you are not making a bundled sale and must charge PST on any taxable materials and equipment you sell or lease to class participants.

In either case, you do not pay PST when you purchase the materials and equipment provided they are solely for resale or for leasing to other persons. To purchase these items without paying PST, give the supplier your PST number.

Materials and Equipment Not Sold to Class Participants

If the class participants are not permitted to keep the taxable materials and equipment after the end of the class (or series of classes), you are not making a bundled sale. In this case, you:

- do not charge PST on the materials and equipment you provide to class participants, and
- must pay PST when you obtain the materials and equipment, as you are the user of these goods when you provide the class.

Liquor

If liquor is sold as part of a bundled sale, PST applies at a rate of 10% on the fair market value of the liquor and, generally, at a rate of 7% on the other taxable goods or services that are part of the bundle.

Example:

You sell a meal package that includes a glass of wine. You charge 10% PST on the fair market value of the glass of wine.

If the taxable portion of the sale (including liquor) is more than 90% of the single price and the single price is less than \$500, the entire single price is subject to PST.

Note: The bundled sales exemption does not apply when liquor is sold as part of a bundled sale.

Kegs Leased With the Sale of Liquor

When you lease a keg with the sale of liquor for a single price, the general rule is that you charge 10% PST on the fair market value of the liquor and 7% PST on the fair market value for the lease of the keg. If there is a bundle discount, the single price must be reasonably attributed between the rental and the liquor to determine the amounts on which the applicable PST rates apply.

Example:

You lease a keg to your customer when they purchase 50 litres of liquor. The single price for the leased keg and the sale of the beer is \$180. The fair market value of the beer, when sold in 50 litre quantities, is \$175, and the fair market value of the lease of the keg is \$20.

PST applies as follows:

- Sale of beer $\$180 \times (\$175 \div \$195) = \$161.54 \times 10\% \text{ PST} = \16.15 in PST
- Lease of keg $\$180 \times (\$20 \div \$195) = \$18.46 \times 7\% \text{ PST} = \1.29 in PST
- Total PST = \$17.44

However, if you only charge a refundable deposit for the use of the keg, you charge PST only on the price for the liquor.

Example:

You provide a keg to your customer when they purchase 50 litres of liquor. The price for the beer is \$175, and you charge a \$160 refundable deposit for the keg and hand pump. You charge 10% PST on the \$175 purchase price for the beer and do not charge PST on the refundable deposit.

Software and Telecommunication Services

Software Provided as Part of an Educational, Training or Instructional Program

You do not charge your customer PST on the entire single price for a bundled sale that includes software if the software is:

- provided to the purchaser as part of their participation in:
 - an educational program provided by a qualifying school (as defined in [Bulletin PST 202, School Supplies](#)) or other educational institution, or
 - a training or instructional program designed to develop or improve the knowledge, skills or abilities needed by individuals for a particular trade, occupation or profession,
- only provided to participants of the program by the school or educational institution offering that program, and
- the software is the only taxable portion of the bundled sale.

In this case, you charge your customer PST only on the fair market value of the software, unless the bundled sales exemption applies.

For more examples of how the bundled sales rules apply to bundled sales that include software or telecommunication services, see [Bulletin PST 105](#), *Software* and [Bulletin PST 107](#), *Telecommunication Services*.

Incidental Sales

General Rule

You are not selling goods if you provide goods, software or telecommunication services that are merely incidental to a contract for the provision of non-taxable services. In this case, the bundled sales rules do not apply.

For goods, software or telecommunication services to be merely incidental to a contract for the provision of non-taxable services, **all** of the following criteria must be met:

- the main purpose of the contract is for your service and not for the goods, software or telecommunication services,
- there is no separate charge for the goods, software or telecommunication services, and
- the total price for the service, including the goods is the same as or only marginally different from the price you would charge if the goods were not provided.

Example:

You are a home designer and provide new home and renovation design services (non-taxable) for an all-inclusive price. As part of your service, you provide your customer with draft plans that they may keep and use to review and suggest additional revisions. In this case, the plans are incidental to the provision of your non-taxable design services.

You do not charge PST because the goods are not being sold and are only incidental to the service you are providing. However, you must pay PST when you acquire the goods.

Additional Incidental Rules for Specific Items

For information on additional incidental rules that apply to the following items, see the following bulletins:

- An original design of advertising material – [Bulletin PST 125](#), *Advertising Agencies*
- An original blueprint by an engineer or architect – [Bulletin PST 205](#), *Books, Magazines, Newspapers and Other Periodicals*
- Master recordings – [Bulletin PST 131](#), *Film, Television and Music Production*
- An original graphic design – [Bulletin PST 123](#), *Graphic Designers*
- Scale models by an engineer or architect – [Bulletin PST 124](#), *Design Consultants*

Bundled Leases

Taxable and Exempt Goods

If you lease taxable and exempt goods together for a single price, you must charge PST on the fair market value of the lease for the taxable goods.

Example:

You lease a taxable electric scooter together with an exempt helmet. You must charge PST on the fair market value of the lease for the electric scooter.

Taxable Goods and Real Property

If you lease taxable goods and real property together for a single price, generally, you must charge PST on the fair market value of the lease for the taxable goods.

Example 1:

You lease taxable restaurant equipment together with a non-taxable commercial lease of real property. You must charge PST on the fair market value of the lease for the taxable restaurant equipment.

Example 2:

You lease taxable office furnishings together with a non-taxable lease of office space (real property). You must charge PST on the fair market of the lease for the taxable office furnishings.

Note: You are not leasing goods if the right to use the goods is merely incidental to an agreement for the right to use real property. For more information, see [Bulletin PST 315, Rentals and Leases of Goods](#).

Documenting the Fair Market Value

In some cases, it may be difficult to determine the fair market value of the taxable portion of a bundled sale or bundled lease. When this happens, you can estimate the fair market value of the taxable portion and charge PST on that value. Keep a record of how you determined the fair market value (e.g. on the invoice) because during an audit, we may request information to support the estimated fair market value. If you are unable to support the fair market value you used, you may be subject to an assessment.



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Latest Revision

July 2018

- Effective April 1, 2018, delivery charges on aggregate are exempt from PST when delivery by the seller is optional, including when the aggregate delivery forms part of a bundled sale
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References: *Provincial Sales Tax Act*, sections 1 “fair market value”, “lease”, “liquor”, “non-taxable component”, “purchase price”, “software”, “taxable component”, “telecommunication service”, 9, 10, 26, 137; *Provincial Sales Tax Exemption and Refund Regulation*, section 1 “qualifying school”, 60.3; *Provincial Sales Tax Regulation*, section 10.1.