

# Information Bulletin

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PST-77

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## **THE PROVINCIAL SALES TAX ACT**

### **BUYING AND SELLING A BUSINESS**

This bulletin has been prepared to assist you in understanding how tax applies to the purchase and sale of a business. It is a general guide and not a substitute for the legislation.

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#### **A. INTRODUCTION**

This bulletin outlines the seller's and buyer's responsibilities when business assets are sold.

Businesses are required to pay Provincial Sales Tax (PST) on the purchase of new and used assets. The purchaser must self-assess and remit the PST on the purchase of assets when the tax was not collected by the supplier, such as when acquired outside Saskatchewan or from a business ceasing operations. In the case of a bulk sale, the purchaser and seller have additional responsibilities to report the transaction and account for tax.

**Before finalizing the purchase of a business, the purchaser should obtain a copy of the Clearance Certificate issued by the Revenue Division from the seller. A Clearance Certificate confirms that all taxes collected, payable, or for which the seller has become liable to account, have been paid to Finance in full. Failure to obtain a copy of this certificate could result in the purchaser or seller being held liable for any outstanding taxes unpaid by the seller. This includes all tax types which are covered under [The Revenue and Financial Services Act](#), not just PST.**

## **B. BULK SALE DEFINITION**

A **bulk sale** is the sale, barter, exchange or transfer of substantially all business assets in connection with the seller ceasing to carry on business or part of the business in which the assets were used. This includes:

- (a) Inventory or class of inventory outside the normal course of business of the seller; or,
- (b) Business assets reasonably required by the seller to carry on business, if it is sold, bartered, exchanged or transferred in connection with the seller ceasing to carry on the business or part of the business in which the property was used.

Ceasing to carry on business in the context of a bulk sale generally means:

- Closing a business entirely and selling substantially all of the business assets required to carry on business.
- Ending operations for a portion of the business and selling substantially all of the related assets.
- Selling substantially all of the business assets and continuing to operate the business in a new capacity.
- Closing a business location in Saskatchewan and selling substantially all of the business assets required to carry on the business of the closed location, while continuing to operate at other locations.

**Note:** The sale of assets from a business location is not typically a bulk sale if the seller continues to operate the business at the same location (e.g., when old assets are sold and replaced with new assets). In this case the business is required to collect the PST on the sale of the used assets, as applicable. For further information please see Information Bulletin [PST-58, Used Goods](#).

Business assets commonly sold in a bulk sale include land, buildings, machinery, equipment, furniture, fixtures, leasehold improvements, inventory, goodwill, and accounts receivable.

The purchase of shares of an existing corporation is not subject to tax, however a tax liability may arise if the corporation has either not paid the tax on its assets or it has not met the conditions for an exempt transfer of assets. For further information please see Information Bulletin [PST-60, Transfers of Business Assets between Closely Related Parties](#).

## **C. SELLING A BUSINESS**

When selling your business as a bulk sale of assets, please ensure that you complete the following steps:

- File a final tax return along with full payment of the balance due within 15 days of your last day of business for all taxes collected, payable or for which the business has become liable to account, and return your vendor's licence for cancellation.
- When making a bulk sale of assets, please complete a [Bulk Sale Clearance Certificate Application Form](#). Information that will need to be provided with the application form includes the name of the new owner, effective date of the sale and a signed copy of the purchase agreement. The seller is not required to collect tax on assets sold in a bulk sale; the purchaser is responsible to remit tax due within 30 days of the effective date of the sale.

- Provide a copy of your Clearance Certificate to the purchaser of your business. This certificate is issued by the Revenue Division and will confirm that all taxes owed by the seller have been paid. The issuance of the Clearance Certificate does not absolve the purchaser of their obligation to account for tax due on assets acquired in a bulk sale.

**Note:** A Clearance Certificate is only required when you are making a bulk sale of assets. The sale of shares in a corporation does not require a Clearance Certificate.

#### **D. BUYING A BUSINESS**

When purchasing an existing business in a bulk sale, please ensure that you complete the following steps:

- Obtain a copy of the Clearance Certificate issued by the Revenue Division from the seller. This certificate will confirm that all taxes owed by the seller have been paid. **If you fail to obtain this certificate, you can be held liable under Section 51 of [The Revenue and Financial Services Act](#) for the seller's provincial tax debts.**
- Apply for a PST number online using SETS, by completing the [New Business Registration Form](#). For more information on the application process, please see Information Bulletin [PST-5, Registration and Reporting Requirements](#).
- Report and remit PST to Finance on the purchase of any new and used assets acquired using a [Business Assets Declaration Form](#). Obtaining a Clearance Certificate from the seller does not absolve the purchaser of their obligation to account for tax due on assets acquired in a bulk sale. Please include a copy of the Clearance Certificate when submitting this form. The purchaser must report and remit the tax within 30 days from the effective date of sale.

#### **Purchase Price**

On the bulk purchase of business assets, the allocation of purchase price to the individual asset categories is often listed in, or as an attachment to, the purchase agreement. In cases where the individual asset categories are not itemized or valued, you may determine an allocation of the amounts, provided they are reasonable and consistent with the amounts reported in your accounting and income tax records.

For assets purchased out of province, please note that PST applies to the total laid down cost to bring goods into Saskatchewan. Laid down cost includes currency exchange, transportation charges, customs and excise duties, and importation charges, but not the Goods and Services Tax (GST).

#### **Taxable Assets**

PST applies to purchases of tangible personal property. Tangible personal property refers to property, other than land or buildings, that is movable or not attached to land or buildings in a permanent manner. Examples include furniture, appliances, computer and office equipment, software, tools, vehicles and mobile equipment. These items retain their identity and do not become part of real property.

Businesses are required to pay tax on purchases of new and used goods acquired for business use, such as:

**Furniture, Machinery & Equipment**

- Furniture, machinery and equipment that are not attached to real property in a permanent fashion are considered to be tangible personal property. Examples include:
  - Office desks, chairs, cabinets, etc.
  - Free-standing shelving and display cases
  - Tools and mobile equipment
  - Manufacturing equipment

**Computer Hardware, Software, Licensing & Support**

- Computer hardware, software, licensing and support are subject to PST. For further information, please see Information Bulletin [PST-7, Computer Hardware, Software and Computer Services](#).

**Vehicles**

- All classes of new and used vehicles are subject to PST. PST applies on the total selling price after deducting cash discounts and trade-in allowances.
- For ease of administration and to facilitate the registration of vehicles in a timely manner, it is recommended that the PST be paid to the motor licence issuer on the purchase price of vehicles at the time of registration. Tax should not be reported on the Business Assets Declaration form if it has been paid to the motor licence issuer. Please attach copies of these receipts for verification purposes.
- For further information regarding the application of PST to new and used vehicles, please see Information Bulletin [PST-18, Motor Dealers and Leasing Companies](#).

**Other Goods for Own Use**

- Other taxable goods which do not fit under the previous categories include items such as uniforms, linens, artwork, kitchenware, etc.

**Non-Taxable Assets**

PST does not apply to purchases of goods for resale, intangible assets or real property; however, the values must still be reported individually when forming part of a bulk sale. Property that is sunk into, bolted onto, cemented to, or otherwise “permanently” affixed to land or building is normally considered real property, and generally includes leasehold improvements. Examples of items that become real property when installed in a building or attached to land include furnaces, water heaters, central air conditioners, walk-in coolers, underground sprinklers and fences.

When purchasing a business PST does not apply to the following:

- Land**
  - Land is real property; therefore, PST does not apply on the portion of the purchase price that is allocated to this category.
  
- Buildings & Leasehold Improvements**
  - Buildings and leasehold improvements form part of real property; therefore, PST does not apply to the amounts allocated to this category.  
**Note:** Contract services for construction or alterations to real property are taxable. See Information Bulletin [PST-12, Services to Real Property](#) for further details.
  
- Inventory**
  - Retail inventory and raw materials used in a manufacturing process may be acquired exempt from PST. You will be required to quote your vendor's licence number to your suppliers on future purchases of these goods.
  
- Intangible Assets**
  - Amounts that are allocated to intangible assets such as goodwill, client lists and franchise fees are not subject to PST, provided they are reasonable and consistent with your accounting and income tax records.

#### **E. NEW FRANCHISE BUSINESS LOCATIONS**

It is common practice for franchisors to provide turnkey business opportunities to franchisees. When the franchisor is the builder of new commercial premises for resale, they are required to collect PST on the retail selling price of the premises, excluding the fair market value of the land. Tax also applies to the sale of tangible personal property, such as those listed as taxable assets under [Section C](#). Exempt items included in the sale of a new business must be listed as separate line items on the invoice.

When all the following criteria is met, the franchisee is the user or consumer of the premises and the franchisor is required to collect the applicable PST at the time of sale.

- (a) The premises are sold to the franchisee at fair market value;
- (b) The franchisor includes in the sale to the franchisee all materials and services to real property acquired and provided by the franchisor that form part of the value of the premises sold to the franchisee; and,
- (c) Prior to the sale, the premises remained in the franchisor's salable inventory and use of the premises did not change. (i.e. the premises remained for sale by the franchisor and was not used, rented, or otherwise occupied).

When the franchisor retains ownership of a new commercial premises, they are considered to be the consumer or user of the building. In this case, the franchisor is required to pay tax on subcontracted real property services and all contract materials consumed in the build.

Examples include the construction of franchise restaurants, hotels and other commercial properties.

## F. RENTING OR LEASING A BUSINESS

When the rental or lease of a business includes both real property and tangible personal property, tax applies to the charge related to the rental or lease of the tangible personal property. If the agreement does not segregate taxable from exempt items, then tax applies to the total invoice amount.

Rental and leasing companies are required to collect tax on the rental or lease charges for tangible personal property, such as the taxable assets listed in [Section C](#). Rental and leasing companies may purchase their rental inventory exempt from PST by quoting their vendor's licence number to the supplier. Repairs to rental equipment inventory may also be purchased exempt from tax. If the customer is billed for the repair, PST must be collected on the charge.

**Note:** If the owner of a business which has ceased operations rents or leases their business to a new operator, tax applies to rental or lease charges of tangible personal property as outlined above. The business is **not** able to claim a refund for tax paid on assets previously acquired for own use.

The rental or lease of real property is not subject to tax. PST applies to the cost of repairs and improvements made to the property. Please see Information Bulletin [PST-72-Rental Businesses](#) for further information on how tax applies to rented and leased goods.

**Note:** If you are unsure how PST applies to your agreement, please submit a copy of the full agreement to Finance for review at [sasktaxinfo@gov.sk.ca](mailto:sasktaxinfo@gov.sk.ca).

## G. WINDING UP OF A BUSINESS

When winding up, ceasing operations, dissolving or liquidating a business you are required to notify Finance. All businesses are required to file a final tax return along with full payment of the balance due within 15 days of your last day of business for all taxes collected, payable or for which the business has become liable to account, and return your vendor's licence for cancellation. This includes tax due on retail inventory which was originally acquired exempt of tax for resale purposes.

Tax-paid assets reclaimed by a business owner during the closing of a sole proprietorship are not considered to be a sale or beneficial change in ownership. The business owner is not required to pay tax on the value of the assets at the time of ceasing operations when tax has already been paid in full by the owner at the time of acquisition.

Please see [PST-60, Transfers of Business Assets Between Closely Related Parties](#), for detailed information on how tax applies when winding up a corporation or general partnership.

## H. TAX TIPS LINE

When a business or individual does not comply with provincial tax legislation, businesses face unfair competition, and a burden is placed on all taxpayers who do comply. It causes significant loss in the revenue available to fund services such as health, education and other important government programs.

Tax Tips Line provides an anonymous, fully confidential way for the public to report businesses or individuals who are participating in tax fraud. If you suspect that a business or individual is being dishonest with their provincial taxes or is misrepresenting their activities to reduce their taxes, you can report them using Tax Tips Line.

Please visit our website at [saskatchewan.ca/business/taxes-licensing-and-reporting/provincial-taxes-policies-and-bulletins/tax-tips-line](https://saskatchewan.ca/business/taxes-licensing-and-reporting/provincial-taxes-policies-and-bulletins/tax-tips-line) to find out more regarding types of tax fraud and the information to report, if possible.

Tax Tips Line is specifically and solely for information related to provincial tax compliance. Any unrelated inquiries or information will not be addressed by the Tax Tips Line, and should be directed to the appropriate organization.

How to Report:

- 1) Toll-free 1-833-334-8477
- 2) Write: Ministry of Finance  
Revenue Division  
PO Box 200  
REGINA, SK S4P 2Z6
- 3) [Online Form Submission](#)

#### **I. SASKATCHEWAN eTAX SERVICES (SETS)**

Finance has made it possible to report and remit tax electronically through a secure, fast, easy and convenient online self-service portal. Several services are currently available to businesses through SETS ([sets.saskatchewan.ca](https://sets.saskatchewan.ca)):

- Register for secure, self-managed access to all your tax accounts.
- Apply for a new tax account.
- File and pay returns and amend previously filed returns.
- Make payments on account, including post-dated payments.
- View account balance and statement information.
- Authorize employees or accountants to file on your behalf.
- Receive notifications by email when a tax return should be filed. This replaces the paper forms usually sent in the mail.
- Submit a service request to update the mailing address or add a new business location.
- Submit a service request to receive tax information, interpretations or rulings related to your specific business activities.
- View and download up-to-date tax information promptly.
- Subscribe to receive email notifications when new and revised tax publications are available.

**FOR FURTHER INFORMATION**

Write: Ministry of Finance  
Revenue Division  
PO Box 200  
REGINA, SK S4P 2Z6

Telephone: Toll Free 1-800-667-6102  
Regina 306-787-6645

Email: [sasktaxinfo@gov.sk.ca](mailto:sasktaxinfo@gov.sk.ca)

Internet: Tax bulletins, forms and information are available at [saskatchewan.ca/business-taxes](http://saskatchewan.ca/business-taxes).

To receive automatic email notifications when this or any other bulletin is revised, go to [sets.saskatchewan.ca/subscribe](http://sets.saskatchewan.ca/subscribe).

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Government website: [Saskatchewan.ca](http://Saskatchewan.ca)