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REVENUE TAX GUIDE

PRINCE EDWARD ISLAND

RTG: 108 **September 1989**

For Historical Reference Only

Effective April 1, 2013, the Province of Prince Edward Island adopted the harmonized sales tax (HST). HST replaces the former provincial revenue sales tax (PST). The information provided on the PST is presented for historical reference only. Please refer to the Canada Revenue Agency for assistance with the application of the HST.

EXTENDED WARRANTY INSURANCE

This circular deals with the proper application of revenue tax (PST) to warranty plans for those automobile dealers who offer extended warranty plans to purchasers of new or used automobiles.

For purposes of the *Revenue Tax Act* there are two main types of coverage - factory coverage and extended coverage.

FACTORY COVERAGE

When a new auto is purchased it comes with a “Factory Warranty” or what is commonly called a "New Car Warranty". Because the premium is incorporated into the price of the new car, the tax on the premium gets paid at the point of sale.

This "Factory Warranty" or "New Car Warranty" usually offers two option packages and each is administered differently.

(1) Twelve Month or 20,000 km

This is a full warranty in which repairs result in no charge to the customer, therefore, no revenue tax (PST) is applicable. Included under this warranty would be large repairs such as motor, transmission, rear end as well as smaller things such as muffler, shocks, electrical system, etc. Again there is no charge made to the customer during the first year or 20,000 km and, therefore, no revenue tax (PST) is applicable. However, in the case of a new car purchase there is what is called a “Drive Train Warranty” and this is treated differently.

(2) Drive Train Warranty

This warranty continues after the twelve months or 20,000 km are over (for example, some run for seven years or 115,000 km). Repairs covered under this warranty are motor, transmission, rear end, etc. Smaller repairs such as electrical, muffler, etc., are not included in the Drive Train Warranty.

This is where the deductible comes into play. The normal deductible is $100 per repair visit is taxable to the customer.

Further, the customer may purchase a Gold Plan which, among other things, reduces this deductible to $25 and covers some of the areas that the “Drive Train Warranty” does not cover. Thus when a “Drive Train Warranty” becomes effective, there is no charge to the customer for the repair other than the deductible, therefore, like the twelve month warranty above, no revenue tax (PST) is due except on the portion charged to the customer.

For example, assume the repair is $600, the factory warranty or Drive Train Warranty pays $500, the only taxable amount is the $100 deductible.

With a Gold Plan the customer may only pay $25 and the Gold Plan People pay $75. In this case the customer would still be fully taxable on the $100, regardless of who pays.

EXTENDED COVERAGE & INSURANCE ($250. DEDUCTIBLE)

Under the "Extended Coverage" the premium is paid to a firm other than the factory and the premium is not taxable. However, all repairs would be taxable. The full charge is taxable and it is between the customer and the car dealer to recover the customer's outlay for the repair. In some cases, the car dealer will not charge the customer, rather the dealer recovers the repair bill internally, but in all cases revenue tax (PST) is being charged on the repair bill (deductible comes into play after the tax is charged).

If further information is required, please contact:

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