



# Understanding PST

## PST Facts

The Provincial Sales Tax (PST), also known as Ontario retail sales tax (RST), is calculated at 8% of the sale price for most real property (ie. goods) unless exempt.

The Government of Ontario defines "tangible property" as "anything that can be seen, weighed, measured, felt, or touched; that is, anything that we can perceive with our senses." Significant exemptions include food, children's clothing, and energy, as well as exemptions to production and research and development machinery and equipment.

Businesses will not pay PST on merchandise for resale or input materials used in the manufacture of goods and services.



## Accounting Procedures

An additional 8% will be charged on sales of most goods.

At the time of the sale a **PST Payable** account will be credited - indicating that the business now owes the provincial government the tax that has been collected.

When a business purchases goods for resale, or as an input to manufacturing, they will simply not pay the PST. (The business will first submit a *Purchase Exemption Certificate* to their supplier.)

When a business purchases goods for their own use, they **WILL** pay the PST. (As they are the final consumer.) In this case the PST is *added to the cost of the asset or the expense*. (Laid down cost principle.)

ONTARIO RETAIL SALES TAX  
PURCHASE EXEMPTION CERTIFICATE

Issued

Business Name \_\_\_\_\_  
Business Address \_\_\_\_\_  
Vendor Permit Number (if applicable) \_\_\_\_\_  
Nature of business: Manufacture and sale of goods, interest goods.  
Reason for Claiming Exemption: \_\_\_\_\_  
I claim exemption from Ontario retail sales tax under the provisions of the Retail Sales Tax Act on the following goods or taxable services, contracts of insurance or benefits plan: \_\_\_\_\_  
Signature of Authorized Person \_\_\_\_\_ Date \_\_\_\_\_  
(Print Name of Authorized Person) \_\_\_\_\_

**IMPORTANT**  
The person buying the goods or taxable service, or entering into a contract of insurance or benefits plan for which an exemption is claimed must complete this certificate and give it to the supplier.  
The supplier is to keep this form as stated in the regulations. This certificate is valid for four years if:  
(a) the tax beside the word "Issued" at the top of the form is checked and  
(b) the purchase order refers to this Purchase Exemption Certificate.  
Every person who makes a false statement on a Purchase Exemption Certificate or makes the certificate a false one, if convicted, is liable to a fine of not more than \$1,000 and an amount of not more than double the amount of the tax that should have been paid, or that was evaded, into imprisonment for a term of not more than two years, or on both.

## When Can a Purchase Exemption Certificate be used?

**Religious institutions:** Equipment, as defined under the Retail Sales Tax Act (Act), that is to be used by a religious institution exclusively in that part of its premises where religious worship or sabbath school is regularly conducted (See RST Guide 806 - Religious, Charitable and Benevolent Organizations).

**Farm Equipment:** Farm tools, and farm machinery, as defined under the Act, that are to be used by a person engaged in the business of farming as well as building supplies and materials used to build, repair or modernize structures used exclusively for farm purposes (See RST Guide 807 - Farmers).

**Hospital Equipment:** Equipment used exclusively by The Ontario Cancer Treatment and Research Foundation, or by a hospital that is approved as a public hospital under the Public Hospitals Act, or by a hospital that is established under the Community Psychiatric Hospitals Act, or a facility approved or established as a psychiatric facility under the Mental Health Act (See RST Guide 805 - Hospitals).

**Manufacturers:** Machinery and equipment used by a qualifying manufacturer in the production of tangible personal property (See RST Guide 400 - Manufacturers).

**Resellers:** Taxable goods and certain taxable services purchased by vendors or wholesalers for resale to others.

## Sales Discounts & Refunds

A **sales refund** will result in a debit to the PST Payable account in the amount of the tax on the refunded goods.

### Analyzing PST Sales Transactions

When items are sold, PST must be calculated and collected on behalf of the government. A PST Payable account is set up to record all PST owed to the government.

*Example: Acme Corp. sells \$100.00 of goods for cash.*

Journal

Cash	108.00		
PST Payable		8.00	
Sales			100.00

Ledger

Cash		PST Payable		Sales	
108.00			8.00		100.00

### Analyzing PST Purchase Transactions

When non-exempt items are purchased, PST must be calculated and paid on the item. In these cases the PST will be included in the cost of the item.

*Example: Acme Corp. buys a \$100.00 fax machine.*

Journal

Office Equipment	108.00		
Cash			108.00

Ledger

Office Equip.		Cash	
108.00			108.00

### Analyzing PST Purchase Transactions

When items are purchased using a PST Exemption Certificate, PST is not calculated or paid on the item. In such cases, the purchaser must file a PST Exemption Certificate with the seller of the goods.

*Example: Acme Corp. buys manufacturing equipment for \$100.00*

Journal

Manufacturing Equipment	100.00		
Cash			100.00

Ledger

Manu. Equip.		Cash	
100.00			100.00

### Drawings and PST

Items originally purchased with a PST exemption certificate can be withdrawn from the business. However, the owner would have to pay PST on the fair market value of the items at that point in time.

*Example: Acme Corp.'s owner withdraws manufacturing equipment having a fair market value of \$100.00*

Journal

Drawings	108.00		
Manufacturing Equipment		100.00	
PST Payable			8.00

Ledger

Drawings		Manu. Equip.		PST Payable	
108.00			100.00		8.00

### Accounting Drill

*Transaction: Acme Corp. sells \$200.00 of goods for cash.*

Journal


Ledger

Cash	216.00		
PST Payable		16.00	
Sales			200.00

### Accounting Drill

*Transaction: Acme Corp. buys a \$300.00 fax machine.*

Journal


Ledger

Office Equipment	324.00		
Cash			324.00

## Accounting Drill

Transaction: Acme Corp. buys manufacturing equipment from Lucky Supply Inc., on account, for \$100.00


**Journal**

Manufacturing Equipment	100.00	
A/P – Lucky Supply Inc.		100.00

## Accounting Drill

Transactions: Acme Corp.'s owner withdraws manufacturing equipment having a fair market value of \$100.00


**Journal**

Drawings	108.00	
Manufacturing Equipment		100.00
PST Payable		8.00

## Coupons and PST

Different coupons will have different effects on PST.  
 The key to understanding a coupon's effect on PST is to first identify the coupon's effect on the sale price.

*Remember, the government wants their tax on the sale amount, no ifs, ands or buts!*

## Coupons and PST

**Retail Store / Restaurant Coupons:** As it is the actual seller that is issuing the coupon for a specific product within their store / restaurant, these coupons actually have the effect of lowering the sale price of the good. (They essentially put the item on sale for whoever had the coupon.)  
 Thus, PST will be charged on the lowered price.

Big Mac: \$3.00		
Coupon: 1.00		
<b>Final Sale Amount: 2.00</b>		
Tax: 0.16		

**\$3.99\***  
 Big Mac or "Quarter Pounder" with Cheese or 6pc McNugget EVM

\* Plus tax. Offer good only at Park Avenue & 28th Street, and 9th Avenue & 10th Street in Manhattan. Limit one coupon per person per visit. Not good in conjunction with any other offer. © 2009 McDonald's.

## Coupons and PST

**Manufacturers Coupons:** As it is not the actual seller that is issuing the coupon, these coupons do not lower the official sale price of the good. Rather, they are used to help pay for the good! Thus, PST will be charged on the original price.

Valvoline at Walmart: \$3.00		
Coupon: 1.00		
<b>Final Sale Amount: 3.00</b>		
Tax: 0.24		

**\$5 OFF**  
 Full-Service Oil Change

Just print this page and take it with you on your next visit to Valvoline Instant Oil Change. Offer not valid with any other same service offers or discounts. Offer valid only at participating locations. Excludes: 10/10/10, 10/10/10, 10/10/10.

CARS. WE KNOW 'EM. WE LOVE 'EM.

## Coupons and PST

**Money Coupons:** Although it is not the actual seller that is issuing these coupons, these coupons still do not lower the official sale price of the good. Rather, they are also used to help pay for goods and services within a particular store! Thus, PST will still be charged on the original price.

Batteries at Can. Tire: \$3.00		
Money Coupon: 1.00		
<b>Final Sale Amount: 3.00</b>		
Tax: 0.24		

THIS COUPON WITH US IN EACH OF OUR STORES IS WORTH \$1.00 IN CASH. TO USE: PRESENT AN UNEXPENDED COUPON ON A PURCHASE OF \$3.00 OR MORE. \* Plus tax. Offer good only at participating locations. Limit one coupon per person per visit. Not good in conjunction with any other offer. © 2009 McDonald's.