

THE RETAIL SALES TAX ACT

ENGINEERING DESIGN SERVICES

This bulletin explains the 2004 budget changes affecting engineering design services. **Effective July 1, 2004** retail sales tax (RST) applies to engineering design services that relate to Manitoba at the rate of 7%. Questions and answers attached to this bulletin provide additional information on applying the retail sales tax to engineering design services.

Section 1: APPLICATION OF TAX ON SERVICES

Engineering Design Services

- Engineering design services are design services provided by an engineer, within the scope of “the practice of professional engineering” or “the practice of professional geoscience” as defined in *The Engineering and Geoscientific Professions Act* of Manitoba.

Services Relating to Manitoba

- Engineering design services relate to Manitoba if the design services are for a facility or project located in Manitoba. Services relating to Manitoba include design services provided by a non-resident engineer for a facility or project in Manitoba, and design services provided to a non-resident client for a facility or project in Manitoba.

Application of Tax on Sales

- Engineers and geoscientists who provide taxable design services must collect the RST from their client.
- Sub-consultants (e.g. structural, mechanical and electrical engineers or architects) providing design services to a prime consulting engineer are **not** required to collect RST on the sale of these design services. The prime consulting engineer must provide their RST number to the sub-consultant to purchase the design services exempt from RST. The prime consulting engineer collects RST on their total bill, which includes design services provided by the sub-consultant and prime consulting engineer, as calculated below.

Taxable Engineering Design Services

- Taxable engineering design services are deemed to be 30% of the following services provided by an engineer:
 1. services under Category III: Design, in the Association of Professional Engineers and Geoscientists of the Province of Manitoba (APEGM) Categories of Services; plus
 2. disbursements related to Category III

Note: The formula using 30% of the total services (and disbursements) provided under Category III of a project, establishes a representative portion of the taxable design services provided by an engineer that are included in their total engineering fees.

- Category III includes the following basic and additional designs and services:

- detailed design
- working drawings
- specifications and tender documents
- statement of probable cost
- preparation of tender call documents
- reviewing and advising on tenders submitted
- detailed cost estimate
- reinforcing bar schedules
- fabrication drawings
- pre-qualifications of contractors
- coordinating other Consulting Engineer's documents
- fast-track construction or sequential tendering
- bills, materials, detailed cost estimates
- tender advertisement
- alternative conceptual proposals

Calculation of Tax

- RST on engineering design services is applied to 30% of the total billings under Category III as follows:

Total services under Category III (including disbursements)	<u>\$100,000</u>
Taxable engineering design services (30%)	<u>\$ 30,000</u>
RST @ 7%	<u>\$ 2,100</u>

- This calculation applies whether engineering services are billed on an hourly rate, as a percentage of contract cost, or as a fixed-fee contract.

Exempt Services

- The following services provided by engineers are not subject to tax:
 - design services related to facilities or projects located outside Manitoba
 - design services not within the scope of the practice of professional engineering or the practice of professional geoscience under *The Engineering and Geoscientific Professions Act* of Manitoba
 - feasibility studies, environmental studies, general consulting or advisory services
 - design services provided to the federal government, if an RST number is provided (engineering design services provided to federal Crown corporations and provincial government departments, agencies and Crown corporations are taxable)
 - design services provided to a Status Indian or Indian Band, if the services relate to facilities or projects located on a reserve (engineering design services provided for corporations owned by a Status Indian or Indian Band are taxable)
 - services provided by an engineer to their employer in their course of employment

Note: Where exempt and taxable services are provided, the exempt services must be separately itemized or the entire charge is taxable.

Section 2: APPLICATION OF TAX ON PURCHASES

Purchases for Your Own Use

- Engineers and engineering firms are required to pay RST on purchases of equipment, services and supplies used in their business. If purchased from an unregistered supplier (e.g. located outside Manitoba), RST must be self-assessed

and remitted with the next tax return on the laid-down cost of the taxable goods or services (includes exchange, transportation, customs and duties, but not the GST).

Section 3: REGISTRATION REQUIREMENTS

- Registration**
- Engineering businesses must register for RST purposes to collect and remit RST on their taxable engineering design services. Businesses can apply for registration online at Manitoba.ca/TAXcess. Applications for registration are also available on our Web Site or by contacting the Taxation Division Offices listed at the end of this bulletin.
- General Information for Vendors**
- See Bulletin 004 – Information for Vendors – explaining a vendor's obligations to collect and remit the Retail Sales Tax. This Bulletin is available on our Web Site.
- Transitional Tax Application**
- Services completed before July 1, 2004 are exempt, even if billed after this date, while services provided after June 30, 2004 are subject to RST.
 - When services are provided under a contract in effect on July 1, 2004, the customer's invoice should be segregated into two parts, with the services provided before July 1, 2004 being exempt and the services provided after June 30, 2004 being subject to RST.
 - On a fixed fee contract in effect on July 1, 2004, the fixed fee must be prorated based on the actual time spent on the contract.

FURTHER INFORMATION

This bulletin is intended as a guideline and is not all-inclusive. For the specific wording of the law, please refer to *The Retail Sales Tax Act and Regulations*. Further information may be obtained from:

Winnipeg Office

Manitoba Finance
Taxation Division
101 - 401 York Avenue
Winnipeg, Manitoba R3C 0P8
Telephone (204) 945-5603
Manitoba Toll-Free 1-800-782-0318
Fax (204) 948-2087

Westman Regional Office

Manitoba Finance
Taxation Division
314, 340 - 9th Street
Brandon, Manitoba R7A 6C2
Telephone (204) 726-6153
Manitoba Toll-Free 1-800-275-9290
Fax (204) 726-6763

E-mail: MBTax@gov.mb.ca

ONLINE SERVICES

Our Web site at manitoba.ca/finance/taxation provides tax forms and publications about taxes administered by Taxation Division, and a link to Manitoba's laws and regulations. Forms and publications can also be obtained by contacting the Taxation Division.

Our online service at Manitoba.ca/TAXcess provides a simple, secure way to apply for, and to file, pay and view your Taxation Division tax accounts.

ENGINEERING DESIGN SERVICES

This notice is an appendix to Bulletin No. 058 and provides answers to questions regarding the 2004 budget changes affecting engineering design services. **Effective July 1, 2004** retail sales tax (RST) applies at a rate of 7% on engineering design services related to Manitoba.

Section 1: APPLICATION OF TAX ON SERVICES

Transitional Tax Application

I invoice my client for engineering design services provided between June 16th and July 15th, 2004. How does RST apply on my invoice?

The fee must be split between services provided before July 1st and those provided after June 30th. If 60% of the hours are spent providing engineering design services after June 30th then 60% of the fee is subject to RST.

How does RST apply where a retainer is received before July 1st but the engineering design services are not provided until after June 30th?

Engineering design services provided after June 30th are subject to RST, regardless of the invoice date or when payment is received.

I contract to perform engineering design services for a fixed \$10,000 fee. My actual time (WIP) at the end of the contract is \$14,000 (based on my charge-out rate for time spent on the contract). 60% of the time on the contract was before July 1st. How much RST is to be charged?

On fixed fee engineering design service contracts in effect prior to July 1, 2004, where the actual time charged to the contract exceeds the fixed fee, the fixed fee must be prorated based on the actual time spent on the contract. In this case 40% of the time spent providing engineering design services under the contract occurred after June 30th, therefore 40% of the \$10,000 fee is subject to RST.

Taxable and Exempt Services

Does RST apply to disbursements?

Disbursements included in Category III: Design are included in the calculation of taxable engineering design services and are taxed accordingly as part of the 30% formula.

Does RST apply if a contract is put on hold or cancelled?

If services have been performed and billed under Category III: Design, then RST must be applied on these services.

Does RST apply to services to design goods being manufactured for sale?

RST would not apply. The purchaser of the design services would provide their RST number to the engineering firm who would record the RST number on their sales invoice to allow the exemption.

Section 2: APPLICATION OF TAX ON PURCHASES

Can an engineer or an engineering firm use their RST number to purchase taxable goods or services exempt from RST?

Engineers and engineering firms are required to pay RST on purchases of equipment, services, and supplies used in their business. If they are purchased from an unregistered supplier (e.g. located outside Manitoba), RST must be self-assessed and remitted with the next tax return on the laid-down cost of the taxable goods or services (includes exchange, transportation, customs and duties, but not GST).

Engineering firms may purchase sub-contract design services exempt from RST because the design services are being purchased for resale. Their bill must calculate RST on the total engineering design services, including design services purchased from another engineer. The engineering firm must provide their Manitoba RST number to the sub-contract engineer to purchase the services exempt from RST.

Section 3: ADMINISTRATION

How often will I be required to file a sales tax return?

All engineers or engineering firms will be registered to file quarterly sales tax returns. You may choose to file monthly sales tax returns by contacting the Taxation Division.

When does the RST have to be remitted to the Taxation Division?

Quarterly sales tax returns are due on the 20th of the month, in the month subsequent to the end of the quarter. For example, sales tax invoiced during the quarterly period October 1st to December 31st must be reported on that period's sales tax return, which must be filed and paid by January 20th. The Taxation Division mails RST returns so that businesses will receive their tax return approximately 10 days before the due date for the period.

What if I don't receive payment from the client until 60 or 120 days after billing?

All vendors must report and remit the RST in the quarterly period in which the sale was made (period the customer was invoiced), even if the tax has not been collected by the return due date.

How does RST apply when I discount my billing or reduce it in anticipation of a bad debt?

RST is charged on the discounted or reduced amount.

How do I recover RST that I have remitted if I write-off a bad debt?

Vendors may claim a credit for the RST portion of receivables written off as a bad debt, similar to the recovery of GST on the write off of bad debts.