

2020-01 INTERPRETATION



SALES TAX CAP FOR INSTALLMENT PAYMENTS OF A PRODUCT

Issue:

Does the tax cap apply once to the total price of a product, even if the product is paid over multiple installments?

Recommendation:

The cap is applied to the total price of a product at the time of purchase/billing.

Example:

A customer buys a car from a remote dealer for \$25,000. The municipality the customer lives in has a tax rate of 6% and a tax cap of \$3,000 (only the first \$3,000 of the price can be taxed, so the customer pays maximum \$180 in sales tax). The customer and seller agree to monthly installments of \$416. The seller will include sales tax up to the cap on the original price of \$25,000 regardless of the number of payment installments. Sales tax collected: \$180 collected and filed in the month the sale was agreed to.

Rationale:

The selling price is established upfront and the sales tax is assessed once at the time of purchase, regardless of the payment method. This is similar to interest rates being set for home mortgage to allow for set monthly payments.