



# ANSWERS TO WRITTEN QUESTIONS

## *1<sup>st</sup> Session, 65<sup>th</sup> General Assembly*

### *Legislative Assembly of PEI*

<b>Question number:</b> 18	<b>Question date:</b> Dec. 1, 2015
<b>Question asked by:</b> Sidney MacEwen	
<b>Question answered by:</b> Minister Allen Roach	<b>Answer date:</b> Dec. 3, 2015

#### **QUESTION:**

Currently, if an individual trades in a used vehicle on the purchase of a new vehicle from a dealer, they only pay the tax on the net amount of the transaction (new car less the old car). However, if they purchase a vehicle from a dealer and then sell the used vehicle in a private sale, they do not receive the same benefit. What is the rationale for this policy?

#### **ANSWER:**

The current tax treatment on the purchase of a vehicle from a dealer – where there is a trade-in of a vehicle as part of the purchase transaction – is not provincial policy. Harmonized Sales Tax (HST) is charged in accordance with provisions of the federal *Excise Tax Act*.

Under *Excise Tax Act* provisions, (GST/HST Technical Information Bulletin B-084):

- HST is due on the trade difference when a person purchases a vehicle from a dealer and (as part of the same transaction) trades-in a vehicle; and
- where there is no trade-in, HST is due on the full amount of the vehicle purchase.

Tax treatment on the purchase of a vehicle from a dealer - with or without a trade-in - did not change when the province transitioned from Revenue Tax (PST) to HST. Provisions in the provincial *Revenue Tax Act* were identical to *Excise Tax Act* provisions currently applied by Island car dealers upon the sale of a vehicle and have been in place for more than 40 years.

It would not be possible to provide the rationale of legislators who introduced these tax provisions, however, some considerations may have been:

- how best to generate the tax revenue required to support programs and services;
- the difference between the amount a person can sell a used vehicle for, compared to the amount the dealer might provide in a trade-in;
- the equal opportunity for purchasers to make an informed decision on whether or not dealer trade-in would be their preferred option (pay less tax on the new vehicle purchase or the potential of a greater return on a private sale);
- the ability of government to administer a program where two independent transactions (vehicle purchase from a dealer and private sale of a used vehicle) would result in a refund; or
- the potential of additional sales tax revenue from the dealer upon the sale of a trade-in asset.