

April 9, 2010

Re: Geothermal Heating & Cooling – Ground Loop Systems

As a result of consultation with contractors that supply and install geothermal ground loop systems, an optional method which simplifies the application of retail sales tax (RST) is being provided.

Supply and Installation Contracts – Mechanical & Electrical Systems

As with other mechanical and electrical systems, contracts to supply and install geothermal heating and cooling systems are subject to retail sales tax (RST) on the total contract price except for installation charges relating to earthwork (site preparation, drilling, trenching, excavating, coring, backfilling and surface restoration). Earthwork is exempt if separately itemized on the sales invoice. Contractors that supply and install these systems purchase all materials installed under the contract RST exempt and collect RST on the total contract price, except for earthwork. RST applies in the same manner on any subsequent repair services to these systems.

Optional Method – Geothermal Ground Loop Systems

To simplify the application of RST, contractors that supply and install the ground loop system component of a geothermal system can choose to treat this type of contract in the same manner as a real property installation. That is, the contractor will pay RST on all materials (polyethylene pipes, headers, fittings, etc.) installed as part of the ground loop system and include RST in their total contract price. No RST will apply to the labour and markup. Contractors that pay RST on all materials at source will not have to be registered and will not collect RST on billings to their customers for the supply and installation of the ground loop system component. However, their invoices/contracts must indicate that RST has been included in the contract price. RST applies in the same manner on any subsequent repair services to these systems.

Installation of the heat pump furnace unit, building distribution system and any other parts or components within the building structure will remain taxable on the total contract price (including materials, labour and markup). Contractors that supply the full geothermal system (ground loop, heat pump furnace unit, distribution system) can apply the optional method to the ground loop system component only. They must clearly segregate the cost components and collect RST on all components other than the ground loops.

This option is provided to simplify the application of RST for contractors, as the labour cost to install/connect the underground pipes and headers in a ground loop system is generally immaterial in relation to the total contract price.