

THE RETAIL SALES TAX ACT

ADVERTISING MATERIALS AND SERVICES

This bulletin has been prepared to help businesses understand the Retail Sales Tax (RST) application on sales of advertising materials and services. It also explains how the tax applies when advertising materials and services are provided by an advertising agent.

Section 1 – ADVERTISING MATERIALS

General information

- Advertising materials are generally subject to tax. When a business sells advertising materials to its client, the business must collect RST on the total selling price. It does not pay RST on any advertising materials it purchased for resale, nor on “direct agents” (as discussed in Section 3) and materials used to produce the advertising materials for sale.

Examples of taxable advertising materials

- Sales catalogues, sales pamphlets, brochures, flyers, posters, signs and other advertising materials are subject to tax.
- Promotional books, fashion books, magazines, price lists, time tables and other similar books are taxable. However, books that are for use by the general public, are published solely for educational, technical, cultural or literary purposes and contain no advertising are not subject to tax. See Bulletin No. 015 – Printing, Desktop Publishing and Related Services for information on the exemption for books.
- Advertising inserts purchased for insertion into a newspaper are taxable, whether they are printed by the newspaper company that inserts them into their newspaper or they are purchased from another supplier. However, the charge by a newspaper company to place an advertisement that is published as part of its newspaper is not taxable. The RST does not apply to the amount charged by newspaper companies for distributing advertising inserts.
- Give-aways and other promotional items are subject to tax. For additional information, see Bulletin No. 028 – Discounts, Coupons and Cash Rebates, and Bulletin No. 037 – Promotional Distributor.

Advertising materials produced for own use

- When a business produces advertising materials for its own use, it must pay the RST on the fair value (produced value) of the advertising materials. The fair value of printed advertising materials is the total of:

- a) The cost of materials, plus
- b) 220 per cent of the cost of materials.

For example: The cost of all materials to produce 1000 brochures is \$1,500. Therefore, the taxable fair value is $\$1,500 + (\$1,500 \times 220\% = \$3,300) = \$4,800$, and the RST payable is $\$4,800 \times 7\% = \336 .

Section 2 – ADVERTISING SERVICES

General information

- Advertising services are generally not subject to tax. Businesses that provide exempt advertising services are considered to be the consumers of the materials and supplies they use in creating or providing the service. Therefore they must pay RST on their cost of these items.
- For information on agents charging a client for taxable advertising materials separately from the tax exempt advertising services, see Section 3 of this bulletin.

Tax exempt advertising services

THE FOLLOWING ADVERTISING SERVICES ARE NOT SUBJECT TO TAX:

- **Media charges** - The provision of advertising space/time by newspaper, radio, television and other similar media companies
- **Billboards and posters** - The provision of advertising on billboards, poster signs, portable signs, etc. However, where a business rents a billboard, poster sign or portable sign to a purchaser without providing an advertising service, the charge for the rental is subject to tax.
- **Transit busboards and signs** - Advertising on exterior busboards and interior signs, bus shelters and street benches
- **Closed circuit television** - Advertising on closed circuit television, or on video units located in shopping malls, airports and other public areas
- **Media placement services** - The charge by advertising agents for placing advertisements with a media company, or any mark-up charged on the media charge
- **Web pages** – Services to set up a web site. For additional information, see Bulletin No. 032 – Web Site Services and Internet Services.

Other tax exempt services relating to advertising

- The following examples of other advertising related services are generally not subject to tax:
 - Media monitoring and analysis of media alternatives (i.e., for effectiveness of print, radio, television)
 - Consulting, planning strategies and procedures, presentation of an advertising campaign, which may include the use of rough sketches, copy writing and illustrations

- Market research, including field testing and reports
- Organizing meetings and sales conferences
- Public relations and development of company image
- Retainers for general services not related to production of advertising materials
- The provision of translation services

Please note: Where services such as consulting or translating relate directly to the production of advertising material, the amount charged for these services must be included in determining the taxable value of the advertising material even if the charge for the services is shown separately on the invoice.

RST on sale of billboards, poster signs, etc.

- Billboards and other advertising signs are regarded to be tangible personal property, even when attached to land or buildings. In this respect, the RST applies to the total charge to supply and/or install billboards and signs. However, the labour portion to install concrete or steel pilings into the ground and structural steel into a building to support the billboard/sign is not taxable if shown separately on the invoice.

Section 3 – ADVERTISING AGENTS

Advertising agent vs vendor

- An “advertising agent” is regarded to be one who handles the complete advertising package for the client, from creating and designing the advertisement or advertising material to placing it with the media. A “vendor” simply provides the advertising material to the client, or mails the material directly to prospective customers on the client’s orders, but does not usually place the advertisement with the media. The RST applies as follows:
 - A “vendor” that sells taxable advertising materials to his/her client, e.g., sketches, script, layouts, artwork, tape, film, videotape, printed material, etc., must collect RST on the total billing for these items. See “direct agents” and “broadcast productions” below for exceptions.
 - A company that acts as an “advertising agent” does not collect RST on its advertising charges but must pay RST on its purchases of advertising materials. If the agent manufactures the advertising materials, the agent is required to pay the RST to the Taxation Division on the fair value of the end-product, as described in Section 1 of this bulletin.
- In certain instances, advertising agents charge their clients for taxable advertising materials separately from the exempt advertising services they provided to them. The agents in these instances are “vendors” and must collect RST on the total charges applicable to the advertising materials.

Please note: Where an agent’s advertising services such as consulting, planning, etc., are directly related to the creation or production of advertising materials, they form part of the value of those advertising materials. Where the charge for these advertising services is not

included in the charge for taxable advertising materials, the agent must collect RST on the charges for the related advertising services as well as for the advertising materials.

Exemption for direct agents

- A “direct agent” is a material that is used directly and exclusively in manufacturing goods for sale or for own use. The materials must come in direct contact during the manufacturing process with the goods being produced, or must be incorporated into the product for sale. In the case of printed materials, the following are direct agents:
 - Materials impressed with or carrying or displaying an image for reproduction by printing or photographing, i.e., type, printing plate, cylinder, film, artwork, design, photographs, press blankets, and metal, rubber, plastic or paper material
 - Chemicals used for the development of an image to be reproduced
- Where direct agents are purchased and used directly to produce advertising materials for sale or for own use, they may be purchased tax exempt. In this respect, the RST is applied on the value of the end-product. That is, when advertising materials are sold, the RST is collectible on their selling price, and when advertising materials are produced for own use, the RST is payable on the fair value, as described in Section 1 of this bulletin.

Please note: RST does not apply to direct agents nor to the advertising materials produced, such as layouts, artwork, etc., that are placed with the media exclusively for incorporation into a newspaper or periodical.

- To purchase imaged articles and other qualifying direct agents tax exempt, advertising agents and other businesses must provide their RST number to the supplier.

Broadcast productions

- Film, video, or audio productions that are produced for exhibition or broadcast to the public are not subject to RST. This includes the sale, rental or production of commercials, feature films and other programming.
- “Exhibition or broadcast to the public” means:
 - Through a radio or television station or pay television system, or
 - In a theatre or cinema accessible to the general public where, in the normal course of business, motion picture films are exhibited or theatrical performances are staged, and an admission is usually charged.
- The exemption also applies to recording media, such as motion-picture film, videotape, audio tape and other media used directly to record the production (including spoilage). Similarly, production services incorporated into a film, video tape, etc., for exhibition or public broadcast are tax exempt.
- See Bulletin No. 039 - Film, Video and Audio Productions for additional information and examples of taxable film productions.

Machinery, equipment and supplies

- Machinery, equipment and supplies used in the production of advertising materials and advertising services, and the repairs thereof, are subject to RST. Where these items are purchased/leased without payment of tax, e.g., purchased from an out-of-province supplier, the purchaser must self-assess the tax at 7 per cent of the purchase price (excluding GST) and remit it to the Taxation Division. For items purchased outside Manitoba, the tax is payable on the laid-down cost, including freight, currency exchange, duty, brokerage, installation and other related charges.

Do advertising agents need to be registered ?

- Advertising agents are required to be registered for RST purposes if one or more of the following situations apply:
 - They sell advertising material and other taxable goods to their clients, or
 - They purchase taxable items for their own use without paying the tax (e.g., from out of province), or
 - They manufacture advertising material for their own use.

Companies that are registered will receive tax returns from the Taxation Division on which they must report and remit the RST collected or self-assessed.

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 Regulation. 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
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.