

PLEASE NOTE THAT THE FOLLOWING INFORMATION, ALTHOUGH CORRECT AT THE TIME OF ISSUE, MAY NOT REPRESENT THE CURRENT POSITION OF THE CRA.

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Date/of/Decision: March 15, 1978 (HQ)

Subject: **Automotive Air Conditioners, Kits: Automotive Air Conditioners**

An amendment to the Act on February 24, 1977, imposed an excise tax on automotive air conditioners, effective May 26, 1976, under section 9.1, Schedule I of the Excise Tax Act.

The related Sections read as follows:

"9.1 Air conditioners designed for use in automobiles, station wagons, vans or trucks whether

(a) separate, or

(b) included as permanently installed equipment in an automobile, station wagon, van or truck at the time of sale or importation of such vehicle by the manufacturer or importer thereof, as the case may be, \$100. and for purposes of this Section and Section 9.2 an evaporator unit designed for use with or as part of an automotive type air conditioning system shall be deemed to be an air conditioner described herein except where such evaporator unit is used for repair or replacement purposes."

"9.2 Section 9.1 does not apply in the case of any air conditioner described therein

(a) that is purchased or imported for permanent installation in an ambulance or hearse or is included as permanently installed equipment in such a vehicle.

(b) that is sold under conditions for which relief from the consumption or sales tax is provided by virtue of any provision of this Act other than subsection 27(2), or

(c) that is included as permanently installed equipment in an automobile, station wagon, van or truck, which vehicle is sold under conditions for which relief from the consumption or sales tax

is provided by virtue of any provision of this Act other than subsection 27(2)."

Policy:

Air conditioners designed for use in automobiles, station wagons, vans or trucks whether separate or included as permanently installed equipment in an automobile, station wagon, van or truck at the time of sale or importation of such vehicle by the manufacturer or importer thereof, as the case may be, are subject to \$100.00 excise tax regardless of whether the air conditioner contains one or two evaporator units.

Evaporator units, as separate units, designed for use with or as part of an automotive type air conditioning system shall be subject to the rate of \$100.00 except where evaporator units are used for repair or replacement purposes or where an evaporator unit is used in conjunction with another evaporator unit which already forms part of an automotive type air conditioning system.

Where the \$100.00 excise tax has been paid on an evaporator unit used for repair or replacement purposes, or on an evaporator unit used in conjunction with another evaporator unit which already forms part of an automotive type air conditioning system, a refund of the excise tax is to be made to the person who actually performed the physical installation and upon presentation of evidence of installation.

An unlicensed dealer or a licensed manufacturer not having an excise tax licence, who sells or installs a complete air conditioner under exempt conditions, may claim a refund of the excise tax paid in the usual manner.

Scope of Tax- Design Criteria

The only exempt situations, in addition to evaporator units used for repair or replacement purposes, are those specified in Section 9.

2. This provision continues the trend towards exemptions based on design and principal use characteristics rather than the actual end use of each unit.

It is only air conditioners designed for automobiles, station wagons, vans, or trucks that are subject to the excise tax. Only those air conditioners powered by the engines or power trains of the vehicles mentioned are considered to fall into this category. Air conditioners which are powered by separate motors, propane or electricity are exempt of this tax.

Air conditioners specifically designed for motor homes, regardless of how they are powered are not excisable. However, air conditioners of a design normally used in automobiles, station wagons, vans or trucks even though installed in motor homes or chassis for motor homes would be subject to the excise tax.

- Kits

Air conditioners imported or sold in complete kits designed for installation in the subject vehicles are excisable. Where only partial kits or individual components are imported or sold, excise tax does not apply unless an evaporator unit is included. Some further technical data and definitions is provided in the Appendix.-Effective Date Qualification

A postponement of the effective date from May 26 to September 1, 1976 applied to sales by licensed wholesalers who exercised the option to have their licence extended to include excise tax effective September 1st rather than as of the Budget date. Such wholesalers were required to purchase automotive air conditioners during the period May 26 to August 31 on an excise tax paid basis.

- Licensing

All manufacturers of air conditioners, including air conditioner kits with an evaporator unit, designed for use in automobiles, station wagons, vans or trucks are required to operate under an excise tax licence. It is not our intention to hold automotive retailers who sell and install air conditioners to be manufacturers or producers where they bring together the various components and install them in an automobile.

- Diversion

An automotive air conditioner is considered to be a machine for operation by a motor vehicle and accordingly is subject to the provisions of Section 27(4) of the Excise Tax Act.

However, this section only applies to air conditioners when included as permanently installed equipment. The excise tax liability on an air conditioner installed in a motor vehicle on diversion is to be based on the lowest specific rate in effect either at the time of original exempt sale or when diversion occurred as per Section 27(4)(c) and (d) of the Act.

This policy directive replaces Et-M 67-1 dated December 31, 1976. Appendix

Automotive Air Conditioners and Kits

Air conditioners may be imported or purchased domestically as a complete package or in several separate sub- assemblies. Each air conditioner is made up of at least the following sub-assemblies; compressor, condenser and evaporator.

In addition and depending upon the manufacturer, there may be a receiver/drier, expansion valve, engine drive kit, Bezel kits. Each sub-assembly comes in several models. It is through a combination of the different sub- assemblies that an air conditioner for a particular automobile is obtained.

The sub-assemblies are not generally used for repair purposes. All evidence to date indicates that virtually all air conditioners and air conditioner sub-assembly kits are imported.

Definitions

Compressor - a small pump that runs off the engine's water pump or crankshaft and circulates refrigerant through the system.

Condenser - a series of tubes (called a coil) located in front of the car's radiator. Air passing over it removes heat from the refrigerant vapour inside the coil, changing the vapour into a liquid.

Evaporator - a series of tubes (called a coil) over which the air inside the car is circulated by the evaporator blower (fan). The refrigerant changes from liquid to vapour inside the evaporator coil. As a result, heat is absorbed from the air passing over the coil.

Receiver/Drier - a small container that stores liquid refrigerant from the condenser to ensure a steady flow to the expansion valve. It also absorbs any moisture in the system.

Expansion Valve - a controlling device that regulates the flow of refrigerant into the evaporator.

Refrigerant - (trade name Freon) - special liquid that alternately changes from gas to liquid (when it gives off heat) and liquid to gas (when it absorbs heat).

Contents of a Typical Sub-Assembly Sold by a Car Manufacturer Evaporator Kit - evaporator case assembly, coil assembly, blower motor, blower wheels, insulation tape, drain hose and all necessary hardware.

Compressor/Clutch Kit - compressor, valve assemblies, compressor drive clutch and refrigeration charge tag. Condenser Kit - condenser and dehydrator assembly, hose assemblies, mounting brackets and all necessary hardware.

Bezel Kit - bezel assembly, fuse kit, mounting brackets, all necessary hardware and a consumer warranty card. Engine Drive Kit - compressor mounting parts, drive and idler pulleys, drive belt, hoses and all necessary hardware. May include heavy duty fan.