

Tax News Summary

GST and QST

Meaning of "sales figure"

Independent medical examinations and other independent assessments

Collection of taxes by charities

Limits and amounts governing the use of an automobile for 2007

Exchange agreement between two suppliers: how to determine the fair market value of the goods and services being exchanged

Clothing industry: reminder with respect to monthly filing of the subcontracting expenses information return

How the QST applies to demonstration and courtesy vehicles

Warning about so-called tax exemption cards

Acquisition by an Indian band of the right to attend a conference

Interest rates in effect for the GST

CRA Publications

Other news items

New measures concerning the QST rebate for prescribed new hybrid vehicles

An amendment to the *Act respecting prescription drug insurance* impacts Québec employers

Tax on lodging in the Manicouagan tourism region

Useful links

New publications

New forms

Debts

Refunds

Dates to remember

Coming into force of a new penalty for failure to file

Application for a reduction in source deductions of income tax

Submit your income tax return by Internet

Last year, over 2.3 million income tax returns were filed using NetFile Québec.

It is quick, reliable and secure.

What are you waiting for?

www.revenu.gouv.qc.ca



Meaning of "sales figure"

You may be wondering what amount should be entered as a sales figure in box 101 of your *GST/HST - QST Return* (FPZ-500-V). If this is the case, read the information below.

The amount to be entered is the total value, GST/HST and QST excluded, of the goods and services you supplied. Do not include goods and services you exported. This amount must correspond, as a rule, to the sales figure entered in your books of account.

Supplies made outside Canada do not have to be included in the amount. For example, a corporation that makes supplies through an establishment situated in the United States does not have to include the value of these supplies in box 101 of the return.

Independent medical examinations and other independent assessments

For consumption tax purposes, what are independent medical examinations and other independent assessments?

An "independent medical examination" means the service of providing an expert opinion contained in a report prepared by a medical practitioner acting in the course of his or her duties in the practice of medicine (a physician). This expert opinion may be supplied by a physician or the operator of a health care institution, such as a medical clinic.

An "independent assessment" refers to the service of providing an expert opinion contained in a report prepared by a practitioner acting in the course of his or her duties in the practice of one of the following professions: dentistry, optometry, chiropractic, physiotherapy, chiropody, podiatry, osteopathy, audiology, speech therapy, occupational therapy or psychology.



Such an expert opinion is supplied to a third party and pertains to the medical treatment or future care of an individual who is of interest to the third party. A third party is any person or organization other than the supplier or the individual, in particular, an insurance company, a lawyer, a tribunal or a government. In most cases, the expert opinion involves a meeting between the supplier and the individual, during which an interview or examination is conducted.

Under both the QST system and the GST system, independent medical examinations and independent assessments are exempt in the following cases:

- The supply is made by a physician or dentist, and the medical or dental service is rendered to an individual, provided that any surgical or dental service performed is for medical or reconstructive purposes, not cosmetic purposes.
- The supply is made by a practitioner acting in the course of his or her duties in the practice of one of the following professions: optometry, chiropractic, physiotherapy, chiropody, podiatry, osteopathy, audiology, speech therapy, occupational therapy or psychology.
- The supply is made by the operator of a health care institution, and the services are rendered to a patient in the health care institution by a medical practitioner remunerated for that purpose.

Collection of taxes by charities

Most supplies of property and services made by charities are tax-exempt. This means charities are not required to charge GST and QST on these supplies. In some cases, however, charities do make taxable sales.

Charities that are small suppliers are not required to register for the GST and the QST and do not collect GST or QST on taxable supplies (except for taxable sales of land or buildings). A charity is considered a small supplier if its annual gross revenue does not exceed \$250,000, or if its worldwide taxable sales (other than sales of capital property, such as a building or a computer) do not exceed \$50,000 per year.

However, certain charities may be entitled to a public service body rebate of 50% for the GST and QST they paid that do not give an entitlement to input tax credits (ITCs) or input tax refunds (ITRs). A charity does not have to be registered for the GST and the QST to claim this rebate.

Charities registered for the GST and the QST

Most charities that are registered for the GST and the QST must use a net tax calculation method for charities. Under this calculation method, charities remit 60% of the GST and the QST they collect on most taxable supplies and 100% of the taxes they collect on certain sales, such as sales of immovables ("real property" for GST purposes) and movable property ("personal property" for GST purposes). Charities cannot claim ITCs or ITRs for the taxes paid or payable on most purchases. They may, however, under certain conditions, claim ITCs and ITRs for the taxes paid or payable on certain purchases, such as purchases of immovables (real property) and movable property (personal property).

These rules do not apply to a charity that is a school authority, public college, university, hospital authority, or a local authority determined to be a municipality.

Designated charities

Certain charities provide employment-related services to individuals with disabilities. These charities may apply to the Minister of Revenue for designation. To be eligible to apply for designation, one of the main roles of a charity must be to offer employment, occupational training, employment placement services, or instruction in job-seeking skills, to individuals with disabilities. The charity must also supply, on a regular basis, services that are performed (in whole or in part) by individuals with disabilities.

Once a charity is designated, most of the (otherwise exempt) services it provides to GST-QST registrants become taxable.

Some supplies of services, such as child-care and educational services, remain exempt. Similarly, the services listed below, when they are provided by a designated charity to a public sector body or board, commission, or other body established by a government or a municipality, will remain exempt:

- care, employment, or training for employment of individuals with disabilities
- employment placement services for such individuals
- instruction to such individuals in job-seeking skills

Designated charities do not use the net tax calculation method for charities described above, but rather the regular method used by the other registrants. They may, however, elect to use the **special quick method of accounting for public service bodies** to calculate their net GST-QST remittances.



Limits and amounts governing the use of an automobile for 2007

The various limits and rates governing the deductibility of automobile expenses and the calculation of taxable benefits related to the use of an automobile for 2007 are listed below.

- For the purposes of capital cost allowance, the capital cost of passenger vehicles purchased after 2006 is \$30,000 (plus GST and QST).
- The limit on deductible leasing costs is \$800 per month (plus GST and QST) for leases entered into after 2006.
- The limit on tax-exempt allowances paid by employers to employees is \$0.50 per kilometre for the first 5,000 kilometres and \$0.44 for each additional kilometre.
- The limit on the interest paid on a loan to purchase a passenger vehicle after 2006 is \$300 per month.
- The prescribed amount used to determine the value of the taxable benefit received by an employee for the personal portion of automobile operating expenses paid by the employer is \$0.22 per kilometre. For individuals whose principal occupation is selling or leasing automobiles, the prescribed amount is \$0.19 per kilometre.



Exchange agreement between two suppliers: how to determine the fair market value of the goods and services being exchanged

Suppliers sometimes enter into exchange contracts with other suppliers under the terms of which the consideration for a supply consists of goods or services instead of money.

Since the value of the consideration for a supply is taxable, the purchaser must calculate the tax on the fair market value (FMV) of the consideration. Where the consideration is not expressed in terms of money, its value must correspond to the FMV of the consideration at the time the supply is made.

Under an agreement respecting the provision of goods or services between two suppliers, the FMV of the consideration must be determined at the time the agreement is entered into.

In either case, Revenu Québec may consider that the value of the supplies determined by the suppliers does not correspond to the FMV. The suppliers must then adjust their tax payments based on the FMV.

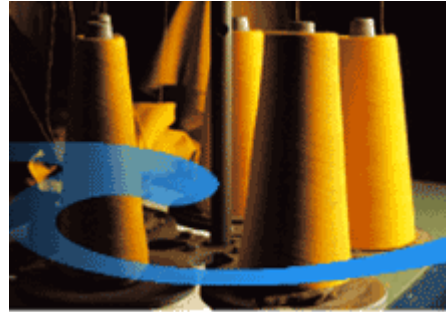
Example

A television broadcasting station and an automobile dealer, both of which are registered for the GST and QST, enter into an exchange agreement under which the television station agrees to broadcast commercials for the automobile dealer. In exchange the dealer leases a car to the station. Both the broadcasting of commercials and the leasing of the car are a consideration, and the value of both is determined to be equal to \$15,000.

Both suppliers are therefore required to collect tax on the value of their respective considerations (\$15,000).

Clothing industry: reminder with respect to monthly filing of the subcontracting expenses information return

Persons that manufacture clothing or have clothing manufactured (in whole or in part) and that must report information relating to their subcontractors on a monthly basis must file form **VDZ-350.49-V**, *Subcontracting Expenses Information Return: Clothing Industry*, along with their QST return. Please note that you must file this monthly return even if you did not use subcontracting services in a given month.



If you fail to file this return, you will not be able to claim input tax refunds for the clothing manufacturing services that you acquired, deduct the expenses related to these services from your business income, or take these expenses into account in the calculation of your cost of goods sold. You will also be liable to the following penalties:

- \$25 per day for each day late, to a maximum of \$2,500, if you do not file the return on time;
- \$100 for each required item of information that is erroneous or that was not provided in the information return.

How the QST applies to demonstration and courtesy vehicles

Where an automobile dealership is a large business, it must remit the GST and QST in accordance with the established terms and conditions on motor vehicles it purchases for resale but uses as demonstrators or courtesy vehicles in the course of a particular month. Such vehicles are provided free of charge or for nominal consideration by the dealership.

Revenu Québec considers that, for QST purposes, the dealership has sold the vehicle on the last day of the particular month, for an amount deemed paid on this day. The amount of the sale is 2.5% of the purchase price of the vehicle. The dealership must therefore calculate and remit the QST on this amount as if the amount had actually been collected. Any fraction of a month during which a vehicle is used for a purpose other than resale counts as a full month of use.

However, dealerships that make demonstration vehicles available for the use of their employees are not required to remit QST on the value of the taxable benefit.

Warning about so-called tax exemption cards

Cards supposedly giving entitlement to a tax exemption on goods or services purchased are being offered to some individuals.

Except for the *Certificate of Indian Status* card, there are no cards that entitle holders to a tax exemption. In spite of the efforts made to inform the public of this, individuals continue to purchase such cards.

When the holder of such a card presents it to a merchant in an attempt to avoid paying GST and QST on the goods and services purchased, the merchant must still collect the applicable taxes and remit them to Revenu Québec. Merchants should be aware that they are required to remit the GST and QST even if they have not collected them.



Acquisition by an Indian band of the right to attend a conference

An Indian band is not required to pay the GST or QST on corporeal movable property acquired on a reserve. Where the property is acquired outside a reserve, the Indian band is exempted from paying the taxes if both of the following conditions are met:

- A certificate is provided confirming that the property was acquired by an Indian band.
- The property is delivered to the reserve by the vendor or the vendor's agent.

Unlike corporeal movable property (such as a desk or a computer), incorporeal movable property is not a physical object. Incorporeal movable property includes such things as memberships, trademarks and intellectual property rights. By its very nature, incorporeal movable property that is situated outside a reserve cannot be delivered to a reserve. Consequently, Indian bands in most cases are not exempted from the taxes on incorporeal movable property situated outside a reserve.

However, where an Indian band registers an employee or other representative to attend an off-reserve conference for band-management activities, the right to attend the conference constitutes a supply of incorporeal movable property to the conference attendee, and the conference fee may be exempt from the taxes, provided the attendee provides a copy of his or her *Certificate of Indian Status* card to the conference organizer. Also, the Indian band must provide the conference organizer with a certificate confirming that the conference pertains to band management activities, and the conference organizer must keep this certificate on file.



Interest rates in effect for the GST

Prescribed interest rates are adjusted quarterly based on the market trends. Penalties and interest related to the GST are calculated daily.

The prescribed annualized interest rates and the penalty rates for the quarterly periods from April 1, 2006, to March 31, 2007, are listed below.

Period	Annualized interest rate (%)	Penalty rate (%)
April 1 to June 30, 2006	3.6099	6
July 1 to September 30, 2006	3.5707	6
October 1 to December 31, 2006	3.5707	6
January 1 to March 31, 2007	3.6500	6



CRA Publications

In recent months, the Canada Revenue Agency (CRA) has published or updated the following documents:

GST/HST memorandum

- *Stated Price Net of Rebate (19-3-1-1)*

GST/HST information

- *Operating a Bed and Breakfast in Your Home (GI-007R)*
- *Newspaper Carriers (GI-019)*
- *Bars (GI-020)*
- *Snack Foods (GI-021)*
- *Application of the GST/HST to Sales of Water (GI-022)*

- *Direct Sellers' Sales Aids (GI-023)*

GST/HST policy statements

- *The Application of the GST/HST to the Supply of an Independent Medical Examination (IME) and to Other Independent Assessments (P-248)*
- *Agreements and Novation (P-249)*

GST/HST guides

- *Tax Refund for Visitors to Canada (RC4031)*
- *GST/HST Information for the Travel and Convention Industry (RC4036)*
- *GST/HST Rebate for Partners (RC4091)*
- *GST/HST Information for Suppliers of Publications (RC4103)*
- *Basic GST/HST Information for Taxi and Limousine Operators (RC4125)*



Dates to remember

The following compilation of deadlines for fulfilling various fiscal obligations of businesses is provided to help you meet such obligations in a timely manner.



Consumption taxes

- **QST and GST/HST remittance schedules**
- **Remittance schedules for the tax on insurance premiums**
- **Remittance schedules for the specific tax on alcoholic beverages**
- **Remittance schedule for the tax on lodging**
- **Remittance schedules for the specific duty on new tires**
- **Tobacco tax remittance schedule**
- **Fuel tax remittance schedule**

Furthermore, keep in mind that you may use the **Quick Method of Accounting** to calculate the GST and QST to be remitted to Revenu Québec.

Source deductions and contributions

- **Remittance schedules for source deductions and employer contributions**
- Remittances to be made by the last day of February of the following year:
 - contribution to the financing of the Commission des normes du travail
 - contribution to the Fonds national de formation de la main d'œuvre
 - the balance of the contribution to the health services fund that results from the difference between the actual contribution rate and the estimated contribution rate
- Documents to be filed by the last day of February of the following year:
 - RL-1 slips (**RL-1**), RL-2 slips (**RL-2**) and RL-25 slips (**RL-25**)
 - the RI-1 summary (**RLZ-1.S-V**)
 - the RL-2 summary (**RL-2.S-V**), if you are required to file RL-2 slips
 - the RL-25 summary (**RL-25.S-V**), if you are required to file RL- 25 slips
- Balance due when you make your last remittance for the month of December of the particular year

Balance of the Québec income tax withheld at source, your QPP contributions, your QPIP premiums and your contribution to the health services fund, other than the portion of the latter contribution that results from the difference between the actual contribution rate and the estimated contribution rate

- Source deductions of support

If the amounts you pay to your employees are also subject to source deductions under the *Taxation Act* or the *Act respecting the Québec Pension Plan*, and these deductions must be remitted to Revenu Québec on a weekly or twice-monthly basis, remit the source deductions of support on the same basis. In all other cases, remit the source deductions of support no later than the 15th day of the month following the month during which the support was deducted.

Corporation income tax

- No later than the balance due date, that is, two months after the end-date of the corporation's fiscal period

Balance due of income tax, tax on capital (including the tax on capital of insurance corporations and life insurers) or compensation tax (in the case of financial institutions)

- On the day of the month that corresponds to the day on which the corporation's fiscal period ends:

Instalments



Coming into force of a new penalty for failure to file

The Québec tax system was amended on June 8, 2006, to introduce new measures concerning penalties.

Every person or mandatary who, wilfully or in circumstances equivalent to gross negligence, fails to file a return or report as and when prescribed by a fiscal law, a regulation made under such a law or a ministerial order, or who fails to pay, deduct, withhold, collect or remit an amount due in relation to the return or report now incurs a penalty equal to 50% of the amount the person so failed to pay, deduct, withhold, collect or remit.

However, the penalty is applicable only if the person or mandatary fails to file the return or report after receiving a formal demand from the Minister of Revenue requiring the person or mandatary to file the return or report.



Application for a reduction in source deductions of income tax

An individual may request that Revenu Québec authorize his or her employer to reduce the remuneration subject to source deductions of income tax to take into account deductions the individual may claim in the calculation of his or her income, such as the deduction for RRSP contributions.

To obtain an exemption, the individual must submit a duly completed copy of the form *Application for a Reduction in Source Deductions of Income Tax (TP-1016-V)*. The individual must then submit to his or her employer the letter of authorization received from Revenu Québec.

In certain circumstances, Revenu Québec will grant an employer a general exemption from source deductions. For example, an employer may apply for such an exemption for all employees who receive a lump-sum pay-equity settlement and undertake to deposit all or a portion of the amount received in an RRSP.

Employers wishing to apply for such an exemption must contact the Revenu Québec **office** in their area to confirm their eligibility and to find out what steps they must follow.

