

Tax News

Second quarter 2004

This issue of *Tax News* summarizes the measures concerning consumption taxes and the fiscal measures affecting businesses and individuals that were contained in the Budget Speech delivered by Yves Séguin, Minister of Finance, on March 30, 2004.

2004 - 2005¹
Budget Speech

Measures concerning consumption taxes

QST

Zero-rating of children's diapers and items used to breast-feed or bottle-feed infants



The supply of diapers and training pants designed specially for children and the supply of plastic pants designed specially to be worn over washable diapers have been zero-rated since March 31, 2004. The same is true of the supply of absorbent linings and biodegradable paper products intended specifically as accessories for these diapers.

The supply of items used for breast-feeding or bottle-feeding has also been zero-rated since March 31, 2004. The expression "items used for breast-feeding" refers to breast pumps and their components, as well as nursing pads, nipple shields and other similar items designed specially to facilitate breast-feeding. This expression also refers to nursing bras, but not to other clothing designed for breast-feeding. The expression "items used for bottle-feeding" refers to the bottles themselves and their components, including the disposable liners required for certain types of bottles.

Exemption of 9-1-1 emergency call services supplied to a government or a government body

9-1-1 emergency call services supplied as of March 31, 2004, are exempt if they are supplied to a government or to a commission or other body established by a government. Prior to that date, the QST system provided for the exemption of such services only if the recipient was a municipality, or a commission or other body established by the municipality.

Clarification concerning the exemption of municipal transit services

The supply of municipal transit services is exempt from QST in cases where it is made to a government or government body which is exempted from paying this tax. This change applies in respect of a supply for which the total consideration becomes due after April 23, 1996, or is paid after that date without becoming due.

1. This is a summary of the document entitled *Additional Information on the Budgetary Measures*, which is available on the Web site of the Ministère des Finances at www.finances.gouv.qc.ca.

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Tax on insurance premiums

Simplification of the taxation of insurance premiums

For registrants who pay a relatively small amount of tax on insurance premiums in the course of a year, the tax legislation will be amended to allow them to elect, as of June 1, 2004, to report this tax on an annual or a quarterly basis, depending on the amount of tax on insurance premiums they pay during the 12-month period preceding the month in which they make their election.

In addition, travel agents will no longer be obliged to remit to the Ministère du Revenu the tax collected on the premiums they receive. This means that their sole responsibility in respect of the tax on insurance premiums will be to collect it at the same time as the premiums to which it applies, and to remit it to the insurers along with these premiums. This change will apply in respect of tax on insurance premiums collected or to be collected by travel agents after May 31, 2004.

The tax system governing insurance premiums will be changed to eliminate the presumption whereby the individual insurance of persons which is incidental in a combined insurance contract (an insurance contract encompassing personal insurance and damage insurance) is deemed to be damage insurance. This change will apply in respect of combined insurance contracts entered into after May 31, 2004.

Finally, effective March 31, 2004, persons having collected an excess amount of tax on insurance premiums may refund it to the person who paid it, even if the premium is not refunded.

Tobacco tax

Implementation of monitoring measures in respect of raw tobacco

In certain circumstances, the tobacco tax system requires importers, stors and carriers of tobacco products to hold permits in order to carry on their activities in Québec. A similar permit will also be required for persons who bring into Québec, or cause to be brought into Québec, raw tobacco for the purposes of sale or delivery, as well as for persons who store or transport raw tobacco in Québec. All the terms and conditions relating to the permits currently required will also apply to the new permits required in respect of raw tobacco.



Storers and carriers of raw tobacco will have, in terms of bookkeeping and the filing of returns, obligations similar to those already set out for persons who are required to hold permits in order to store or transport tobacco products.

Persons who transport raw tobacco in Québec will be required to draw up or cause to be drawn up, in respect of each load, a manifest or waybill for the raw tobacco transported. The document is to be kept in the vehicle used to transport the tobacco. The sale or delivery of raw tobacco in Québec to a purchaser who does not hold a Québec permit will be prohibited.

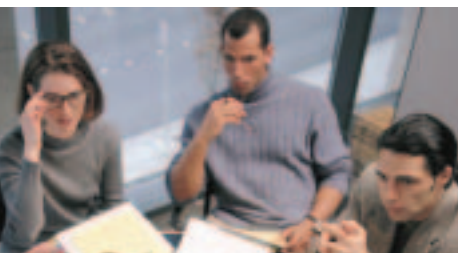
All these measures will come into force as of the date on which the relevant legislation is assented to.

Measures concerning income tax

Businesses

Deduction in the calculation of paid-up capital raised to \$1 million

Small and medium-sized businesses will benefit from a reduction in the tax on capital. The deduction of \$600,000 in the calculation of paid-up capital will be raised to \$1 million for 2005 and subsequent calendar years, subject to certain terms and conditions. However, as is presently the case, the deduction will be reduced on the basis of the size of the business. Accordingly, a partial reduction of the maximum deduction will apply with regard to 2005 and subsequent calendar years where the paid-up capital is between \$1 million and \$4 million. The other terms and conditions of application of this fiscal measure will not be changed by the increase in the maximum deduction.



Measures concerning the regions

Enhancement of and broader access to various refundable tax credits granted in certain regions

Refundable tax credit for processing activities in resource regions

The eligibility period respecting the tax credit has been extended three years. Accordingly, to claim the refundable tax credit for processing activities in resource regions, a qualified corporation must begin carrying on a recognized business in an eligible region no later than during the 2007 calendar year. However, this extension will not have the effect of increasing the period of five calendar years during which a given corporation may claim this refundable tax credit.

The notion of recognized business has been changed so that the manufacture of finished goods now includes both specialized and non-specialized equipment, regardless of the sector or the application for which such equipment is intended, provided the equipment constitutes finished or semi-finished goods made from any of the materials covered by this notion (such as metals and non-metallic minerals). In addition, the manufacture of specialized equipment intended for the

production of wind power, the manufacture of specialized equipment for mariculture and the manufacture of specialized equipment intended for aluminum production or processing businesses may constitute activities of a recognized business where such equipment is made, in particular, from metals. However, the other activities currently covered by the refundable tax credit for the aluminum industry in the Saguenay—Lac-Saint-Jean region and by the refundable tax credit for the Gaspésie region and certain maritime regions of Québec may not be recognized as activities of a recognized business for the purposes of the refundable tax credit for processing activities in resource regions.

A clarification was made to stipulate that a corporation may, following a major unforeseen event, benefit from the adjustment relating to the eligibility certificate, even if it did not begin to carry on a recognized business before the end of the 2007 calendar year. However, in this case, the corporation must resume its activities no later than the end of the second calendar year following the year in which it was forced to cease such activities.

Refundable tax credit for the Gaspésie region and certain maritime regions of Québec

The regions in question include the administrative regions of Gaspésie—Îles-de-la-Madeleine, Côte-Nord and Bas-Saint-Laurent,¹ as well as the regional county municipality (RCM) of Matane. The rate of the refundable tax credit has been raised to 40% as of the 2004 calendar year. The eligibility period respecting the tax credit has been extended to December 31, 2007, and the clarification concerning the adjustment relating to major unforeseen events applies, according to the same rules outlined in the previous section.

In addition, adjustment measures have been implemented with regard to a corporation carrying on a recognized business in the sectors of marine biotechnology and mariculture. Such a corporation may now ask to have the qualification certificate that was issued to it for the 2000 to 2003 calendar years cancelled so that it can apply for a new certificate in a subsequent calendar year and thus be entitled to the refundable tax credit for five consecutive calendar years beginning as of that subsequent calendar year. Furthermore, a business carried on in one of these sectors of activity now constitutes a separate business for the purposes of determining the tax credit. As well, the total salaries and wages paid with respect to the reference calendar year are deemed to be equal to zero, with the result that the credit is now granted on the basis of the qualified total payroll.

Refundable tax credit for the aluminum industry in the Saguenay—Lac-Saint-Jean region

The eligibility period respecting the tax credit has been extended and the clarification concerning the adjustment relating to major unforeseen events applies in this case as well. The notion of recognized business has been broadened so that the manufacture of finished goods now includes both specialized and non-specialized equipment, provided such equipment is manufactured from aluminum that has undergone primary processing. These changes apply as of the 2004 calendar year.

1. The Bas-Saint-Laurent region qualifies only with respect to activities carried out in the marine biotechnology sector.

Enhancement of the tax credit for an on-the-job training period

Qualified training periods and eligible trainees covered by the enhancement of the tax credit for an on-the-job training period are those covered for the purposes of the tax credit itself, provided the training periods are completed by the trainees in an eligible region. Eligible regions include the following administrative regions and RCMs: Bas-Saint-Laurent (region 01), Saguenay—Lac-Saint-Jean (region 02), the RCM of Haut-Saint-Maurice, the RCM of Mékinac, Abitibi-Témiscamingue (region 08), Côte-Nord (region 09), Nord-du-Québec (region 10), Gaspésie—Îles-de-la-Madeleine (region 11), the RCM of Antoine-Labelle, the RCM of Vallée-de-la-Gatineau, and the RCM of Pontiac.

The tax legislation will be amended to raise the maximum amount of qualified expenditures applicable regarding an eligible trainee of an eligible employer who serves a qualified training period at a given time in a taxation year or a fiscal period, as the case may be, in an establishment of an eligible employer located in an eligible region. Accordingly, the maximum amount of qualified expenditures per week will be raised to \$1,250 and \$1,000, respectively, that is, to twice the current amounts. The tax legislation will also be amended to raise, from \$15 to \$25, the maximum hourly rate of salaries and wages that an eligible employer may consider for the purposes of serving the tax credit regarding an eligible trainee who serves a qualified training period at a given time in a taxation year or a fiscal period, as the case may be, in an establishment of an eligible employer located in an eligible region.

These changes apply regarding a qualified expenditure incurred after March 30, 2004, in relation to a qualified training period beginning after that day. They also apply regarding qualified training periods that began after March 11, 2003, but before June 13, 2003, with respect to expenditures incurred after March 11, 2003.

Reform of the Co-operative Investment Plan (CIP)

The rules of the CIP have been changed in a number of ways and, with the exception of the provisions of a fiscal nature, are to be grouped together in a separate law to form a new Co-operative Investment Plan intended for the capitalization of Québec co-operatives and federations of co-operatives. The new plan features the following major changes:

- Criteria regarding the territoriality of activities carried out by co-operatives and federations of co-operatives, the *situs* of their assets and, in some cases, their capitalization rate have been introduced to direct capitalization assistance towards entities that need it and that have a substantial presence in Québec.
- A new category of qualified investors has been recognized to enable certain individuals who are shareholders of a corporation that is a member of an agricultural co-operative or a federation of agricultural co-operatives to directly acquire securities giving entitlement to a tax benefit.
- The minimum period for holding securities has been increased to five years to increase the impact on the capitalization of co-operatives and federations of co-operatives.

- The deduction that qualified investors can claim in calculating their taxable income is now determined by applying a single rate of 125% to the cost of the qualified security.
- Measures to ensure the integrity of the plan have been introduced. In particular, a penalty is to be applied to co-operatives and federations of co-operatives that make a considerable cash outflow in favour of their members during a specific period comprising the issue of securities giving entitlement to a tax benefit.

This new plan is applicable as of March 31, 2004, subject to transitional rules. A co-operative or federation of co-operatives wishing to benefit from the new plan must send, after March 30, 2004, an application to the Minister of Economic and Regional Development and Research for authorization to issue securities that are qualified under the new plan.

Concordant change in the deduction for eligible patronage dividends

In order to standardize the notion of eligible co-operatives for the purposes of the support measures for co-operatives, a concordant change has been made to the notion of eligible co-operative for the purposes of the deduction for eligible patronage dividends. These changes apply regarding an application for certification of eligibility relating to a taxation year of a co-operative ending after March 30, 2004.

Enhancement of tax benefits relating to natural resources

Fiscal measures pertaining to the flow-through share system made permanent

The basic flow-through share system has been made permanent once again. In addition, the fiscal measures that enable individuals to claim additional deductions regarding mining, oil and gas exploration expenses incurred in Québec have become permanent measures. Lastly, the additional deductions of 25% a corporation can claim, under the *Taxation Act* and the *Mining Duties Act*, with regard to certain exploration expenses incurred in Québec's Near North and Far North have also been made permanent once again. Accordingly, the expenses giving entitlement to this additional deduction may continue to be waived, beyond the 2004 calendar year, in favour of the investor where the investor is a corporation and the exploration expenses are financed by flow-through shares.

Lifting of moratorium on two measures specific to Québec's flow-through share system

The deduction in respect of certain issue expenses and the additional capital gains exemption in respect of certain resource property have become permanent measures. These changes apply regarding flow-through shares acquired after March 30, 2004.

Rate of additional deductions increased

The deductions an individual may claim regarding mining, oil and gas exploration expenses incurred in Québec by businesses that have not realized any resource development profits have been raised substantially, and are now equal to 125% or to 150%. The new rates of the additional deductions apply to flow-through shares acquired after March 30, 2004.

Tax credit for resources enhanced

The rates pertaining to the non-refundable portion of the tax credit for resources have been reduced in order to take into account the increase in the rates applicable to the refundable portion of the tax credit. As a result, the rate for the refundable portion and the non-refundable portion combined is capped at 45%. Moreover, as of March 30, 2004, the non-refundable portion of this tax credit can be carried forward ten years, rather than seven.

Enhancement and simplification of tax assistance relating to activities carried out in a biotechnology development centre (BDC)

First, the notion of innovative project has been eliminated concerning the carrying out of activities in a BDC. Second, the provision allowing corporations that carry out specified activities in a BDC to claim tax assistance has been reinstated. Lastly, all corporations that carry out specified activities in the biotechnology field in a BDC can claim the same fiscal measures.

The elimination of the notion of innovative project means that it is no longer desirable to require that a new corporation carry out the activities, as was the case regarding the carrying out of an innovative project. Consequently, this requirement has also been eliminated. Accordingly, in most cases, activities giving entitlement to tax assistance will not be the only activities carried out by the corporation. In this context, the application of the tax holiday may be problematic; it has therefore been eliminated. However, any corporation that carries out specified activities in the biotechnology field in a BDC is entitled to three refundable tax credits: the tax credit for salaries and wages, the tax credit for the acquisition or rental of property (eligible specialized equipment) and the tax credit for the short-term rental of eligible specialized facilities. The rate of each of these credits is 30%. Other particulars apply with respect to eligible specialized equipment, eligible specialized facilities, the tax holiday for foreign specialists, and the application date.

A third type of facility has been designated with regard to the Centre de développement des biotechnologies de Laval (CDBL) so that a specialized facility of the Centre québécois d'innovation en biotechnologie (CQIB) located in the CDBL may be recognized as an eligible specialized facility. Provided that the other applicable criteria are met (specifically, the issuance of qualification certificates by Investissement Québec), corporations may claim the refundable tax credit regarding rental expenses incurred after March 30, 2004, in relation to the short-term rental of eligible specialized facilities of the CQIB.

Enhancement of the refundable tax credit for technological adaptation services

The criterion pertaining to the amount of a corporation's assets has been withdrawn as of March 30, 2004. Consequently, corporations, regardless of their size, may claim the refundable tax credit for technological adaptation services regarding expenditures incurred after March 30, 2004. In addition, the rate of the refundable tax credit has been raised to 50%. This rate applies to qualified expenditures incurred by a qualified corporation after March 30, 2004.

Subscription fees for liaison and transfer products or services no longer constitute qualified expenditures. Consequently, such expenditures incurred by a qualified corporation after March 30, 2004, with an eligible liaison and transfer centre or an eligible college centre for the transfer of technology, as the case may be, as part of a contract entered into after that day, no longer give entitlement to the tax credit. In the case of a contract entered into no later than March 30, 2004, such expenditures may give entitlement to the tax credit if they are incurred in relation to products or services offered before April 1, 2005. However, in such a case, the rate of the tax credit is 30%.

The tax legislation will be amended to indicate that a research centre affiliated with a college centre for the transfer of technology may be recognized as an eligible college centre for the transfer of technology for the purposes of the refundable tax credit for technological adaptation services. This recognition applies with respect to qualified expenditures incurred by a qualified corporation after August 25, 2002, in relation to products or services offered after that date by such college centres for the transfer of technology.

The component of the refundable tax credit for technological adaptation services concerning competitive intelligence has been eliminated. Consequently, qualified expenditures incurred by a qualified corporation after March 30, 2004, with an eligible competitive intelligence centre, as part of a contract concluded after that day, no longer give entitlement to the tax credit. In addition, in the case of a contract concluded no later than March 30, 2004, only the qualified expenditures incurred in relation to products or services offered prior to April 1, 2005, give entitlement to this tax credit, the rate of which is 30%.

Five-year tax holidays granted to certain foreign employees

The amount of assistance granted by way of such tax holidays has been changed: the amount now declines over the five-year exemption period. These changes apply in relation to an employment contract entered into after March 30, 2004. They do not apply regarding a job covered by a contract that an individual entered into no later than March 30, 2004. Accordingly, neither the five-year exemption period nor the level of tax assistance applicable to such a contract is affected by these changes.

Cap on the share issues of labour-sponsored funds and of Capital régional et coopératif Desjardins

The amount of paid-up capital regarding shares or fractions of shares giving entitlement to a tax benefit that may, with the government's support, be raised by labour-sponsored funds during their fiscal year beginning June 1, 2004, and ending May 31, 2005, will be limited, in the case of Fondaction, to \$100 million and, in the case of the Fonds de solidarité des travailleurs du Québec, to \$700 million.

In the event that, at the end of the 2004-2005 fiscal year of a given labour-sponsored fund, the amount of paid-up capital thus raised exceeds the maximum amount determined for it under this Budget Speech, the labour-sponsored fund will be required to pay the Minister of Revenue a special tax of an amount equal to 15% of the excess amount no later than the 90th day following the end of the fiscal year.

The moratorium regarding issues of Capital régional et coopératif Desjardins shares was lifted as of midnight EST on March 30, 2004. Accordingly, on March 31, 2004, Capital régional et coopératif Desjardins was able to start a new capitalization period ending on February 28, 2005. However, during this period, its authorized capital may increase by \$100 million only, bringing its authorized capital to \$475 million by the end of the period.

Should the paid-up capital of the issued and outstanding shares of Capital régional et coopératif Desjardins exceed \$475 million at the end of its capitalization period ending on February 28, 2005, Capital régional et coopératif Desjardins will be required to pay, no later than May 31, 2005, a special tax of an amount equal to 50% of the excess amount, from which must be deducted all the amounts of special tax paid for a previous capitalization period.

For a capitalization period ending after 2005, the paid-up capital of the issued and outstanding shares of Capital régional et coopératif Desjardins may again increase by \$150 million per capitalization period, reaching a maximum amount of \$1,375 million on February 28, 2011.

Continuation of the moratoriums concerning the Québec stock savings plan and Québec business investment companies for an undetermined period

Continuation of the moratorium concerning the tax holiday regarding major investment projects

Replacement of the tax on gas distribution, telecommunications and electric power systems

As of the 2005 calendar year, the tax calculated on the income from the operation of a system will be eliminated and replaced by the public utilities tax (PUT), which will be calculated on the net value of the assets that make up a system.

Where an entity (a person, partnership or trust) operates a telecommunications system, a gas distribution system or an electric power production, transmission or distribution system during a calendar year and certain immovables that make up the system are not entered on the property assessment roll, that entity will have to pay the PUT, for that calendar year, as property tax on such immovables (assets that make up a system).

The PUT payable by the operator of a system, for a calendar year, will be calculated on the basis of the net value of the assets that make up the exterior portion of the system and are located in Québec, with the result that the net value will be determined at the end of the operator's last fiscal period ending in the preceding calendar year, and will be shown in the operator's financial statements for such fiscal period (net value of assets).

The PUT rate applicable regarding an operator of a system, for a calendar year, will depend on the industry sector and the amount of the net value of the assets that make up the system, as determined at the end of the operator's last fiscal period ending in the preceding calendar year. Moreover, regarding the electric power sector, the PUT rate will also depend on whether the PUT applies regarding assets that make up an electric power production, transmission or distribution system.

The PUT for a calendar year must be paid to the Ministère du Revenu no later than March 1 of that year.

Measures concerning culture

Refundable tax credit for a Québec film or television production



Eligibility of certain television productions

Certain criteria administered by the Société de développement des entreprises culturelles (SODEC) have been amended.

Restriction respecting the qualified labour expenditure with regard to a docu-soap

The amount of remuneration paid to the main characters of a docu-soap is excluded from the amount of the qualified labour expenditure incurred after March 30, 2004.

Replacement of the name of an assistance fund

An amount of assistance paid by the Fonds de développement économique de la région de la Capitale-Nationale is now an excluded amount of assistance for the purposes of the tax credit for a Québec film or television production. This change applies regarding an amount received or receivable from the Fonds on or after January 29, 2002.

Refundable tax credit for the production of sound recordings

Another criterion administered by SODEC has been added to the other eligibility criteria.

Relief regarding the 1% ceiling applicable to the deduction for entertainment expenses

The ceiling on entertainment expenses is now based on annual sales and is calculated according to the following parameters.

Sales ¹	Ceiling
\$32,500 or less	2%
Between \$32,500 and \$52,000	\$650
\$52,000 or more	1.25%

1. In the case of a taxation year (or a fiscal period, as the case may be) that is shorter than 365 days, the ceiling applicable for the purposes of calculating the deduction for entertainment expenses is determined on the basis of sales calculated proportionally as if the taxation year (or fiscal period) were 365 days long.

These changes apply regarding a taxation year of a taxpayer (or a fiscal period of a partnership, as the case may be) ending after March 30, 2004. However, for a taxation year (or a fiscal period) that began before June 12, 2003, these changes apply to entertainment expenses and to sales calculated in proportion to the number of days in the taxation year (or the fiscal period) after June 12, 2003.

These relief measures also apply under the Québec sales tax system for the purposes of calculating the input tax refunds that can be claimed by a registrant that is a small or medium-sized business regarding these same entertainment expenses.

Measures concerning the financial sector

Adjustments concerning international financial centres (IFCs)

The following adjustments will be made to the measures affecting the IFC program:

- The program will target financial corporations and their subsidiaries.
- A formula will be introduced to facilitate and standardize the determination of the portion of business activities pertaining to an IFC carried on by an operator that engages in commercial activities in addition to the operation of an IFC.
- The exemption from the compensation tax payable by financial institutions that may be claimed by some corporations operating an IFC will be eliminated.

Moreover, adjustments will also be made to cap and direct the tax assistance granted to IFC employees toward employees who participate directly in carrying out qualified international financial transactions.

Elimination of the deduction for market makers

The deduction for market makers has been eliminated as of March 30, 2004. Furthermore, a market maker who, on March 30, 2004, had a reserve account for contingent losses is now deemed to have ceased acting as a market maker on that same day.

Elimination of the five-year tax holiday for new corporations

The five-year tax holiday for new corporations has been eliminated as of March 30, 2004. Consequently, only corporations whose first taxation year began prior to that day may benefit from the tax holiday, in accordance with previously stipulated terms and conditions.

Elimination of the refundable tax credit for railway businesses

The refundable tax credit for railway businesses has been eliminated regarding the eligible property taxes of a taxpayer for a particular taxation year (or of a partnership for a particular fiscal period, as the case may be) ending after March 30, 2004. However, for a taxation year (or a fiscal period) that includes that day, this change applies regarding the eligible property taxes calculated in proportion to the number of days in the taxation year (or the fiscal period) following that day.

Limit on the deductibility of investment expenses

The investment expenses considered in calculating the limit on the deductibility of investment expenses are all the expenditures incurred to earn income from property, other than rental income, and specifically include the following investment expenses that would otherwise be considered in calculating the cumulative net investment loss, were it not for this limitation:

- investment management or administration fees;
- amounts paid for the safekeeping of shares or securities;
- fees paid to investment counsellors;
- interest paid on borrowings contracted to acquire bonds, shares or units in a mutual fund trust;
- the share of the loss of a partnership of which the individual is a specified member.

However, losses sustained on the rental of property are not considered to be investment expenses for the purposes of this measure.

The investment income considered in calculating the limit on the deductibility of investment expenses is all the income earned from property and specifically includes the following investment income that would otherwise be considered in calculating the cumulative net investment loss:

- taxable dividends from taxable Canadian corporations;
- interest from Canadian sources;
- the share of the income of a partnership of which the individual is a specified member;
- gross foreign investment income;
- taxable capital gains that do not give entitlement to the taxable capital gains exemption;
- benefits received as a shareholder of a corporation;
- royalties from Canadian sources;
- income accrued under a life insurance policy;

- income from a trust;
- income from property allocated to shareholders.

However, income from the rental of property is not considered to be investment income for the purposes of this measure. Investment expenses incurred to earn investment income during a given taxation year are deductible up to the amount of investment income earned for that taxation year.

Investment expenses that cannot be deducted in a given taxation year may be carried over and claimed against investment income earned in one of the three preceding taxation years or in any subsequent taxation year, provided the investment income earned in any of those years exceeds the expenses deducted at that time. The tax treatment of investment expenses is thus similar to that applied regarding a capital loss.

These changes, and other terms and conditions, apply as of March 30, 2004. For the 2004 taxation year, the limit will be calculated in proportion to the number of days that follow March 30, 2004, in relation to the number of days in the taxation year.

Other changes

Recognition of new eligible public research centres

The *Regulation respecting the Taxation Act* will be amended to recognize the Centre de photonique du Québec inc. and the Centre de technologie physique et de photonique de Montréal as eligible public research centres for the purposes of the refundable tax credits for R&D. These two centres will be recognized with regard to R&D carried out after August 25, 2002, under an eligible research contract entered into after that date. In addition, the notion of eligible public research centre has been changed as of March 30, 2004, to remove the reference to a college centre for the transfer of technology.

Technical changes relating to tax benefits specific to the accelerated capital cost allowance respecting certain property

The tax rules will be changed so that the acquisition of property in certain circumstances does not give rise to the loss of the tax benefits corresponding to the acquisition of certain property. Accordingly, a property acquired before June 12, 2003, may be included in the same separate class as that same property that was leased and was deemed to have been disposed of. The application of these changes will be declaratory.

Reduction for investments regarding trade accounts receivable

The *Taxation Act* will be amended to stipulate that the amount of trade accounts receivable that enables a corporation to claim a reduction for investments must be reduced by the provisions for doubtful debts deducted from such trade accounts receivable in calculating income under Part I. The application of this amendment will be declaratory.

Competence of Investissement Québec regarding refundable tax credits for the production of multimedia titles

Responsibility for determining what constitutes eligible production work in relation to a multimedia title now rests with Investissement Québec. "Eligible production work" in relation to a multimedia title now means the production work that Investissement Québec indicates as such on the certificate issued regarding the title or the corporation claiming the tax credit, as the case may be. In addition, Investissement Québec must also set, pursuant to these new responsibilities, an application date that refers to the stage of development of the production work. This change applies to certificates issued to corporations by Investissement Québec after March 30, 2004.

To adequately fulfil these newly assigned responsibilities, Investissement Québec must necessarily identify the date of completion of the final version of a multimedia title, for the purposes of both the general component and the tax credit for specialized corporations. This change applies to certificates issued to corporations by Investissement Québec after March 30, 2004.

Transfer to Investissement Québec of responsibility for issuing eligibility certificates concerning the Montréal International Trade Zone at Mirabel (MITZM)

All the administrative responsibilities previously assumed by the Minister of Finance concerning the tax benefits relating to the MITZM have been transferred to Investissement Québec. Accordingly, as of March 31, 2004, Investissement Québec is responsible for issuing the eligibility certificates needed to receive these tax benefits. In addition, Investissement Québec is to complete the analysis of the recommendations that the Société de développement is to submit to the Minister of Finance no later than March 30, 2004.

Clarification concerning a corporation's eligibility for the five-year tax holiday for new corporations

A clarification will be made to the notion of qualified corporation to indicate that, for the purposes of the five-year tax holiday for new corporations, the restriction relating to a corporation that is the beneficiary of a trust does not apply to a corporation that is the beneficiary of a mutual fund trust. The application of this clarification will be declaratory.

Related clarification to the tax holiday granted to an exempt corporation that carries out an innovative project in a designated site

A clarification will be made to the notion of exempt corporation, for the purposes of the tax holiday, to indicate that the restriction relating to a corporation that is the beneficiary of a trust does not apply to a corporation that is the beneficiary of a mutual fund trust. The application of this clarification will be declaratory.

Status as a public corporation

The *Regulation respecting the Taxation Act* will be amended to include in the notion of public corporation the federal presumption relating to the status of a corporation formed as the result of an amalgamation involving at least one public corporation. The application of this amendment will be declaratory.

Measures concerning income tax

Individuals

Reform of government assistance for families

A child assistance payment and a work premium will be implemented as of January 1, 2005. These measures replace family benefits, the non-refundable tax credits respecting dependent children, the tax reduction for families, and the parental wage assistance (PWA) program.

The child assistance payment will be made to Québec families beginning in January 2005. This payment, in the form of a refundable tax credit, will be non-taxable and will be partially reduced on the basis of family income. To take into account the fact that the child assistance payment will cover the recognized essential needs of dependants under 18 years of age, the tax credits respecting dependants will be adjusted. The following amounts will be affected: the amount for post-secondary studies; the amount for an adult child who is a student; the amount respecting other dependants; and the amount granted with respect to an infirmity.

This reform of government assistance for families will entail various amendments to the current tax legislation. The following amounts will be affected: the amount for a person living alone; the refundable tax credit for child-care expenses; the Québec sales tax credit; the amount for medical expenses and the amount for the expenses incurred to obtain medical services not available in the area of residence; the amount transferred by a dependant, respecting a severe and prolonged mental or physical impairment; the tax credit respecting home-support services for seniors; the credit for individuals living in northern villages; the property tax refund; and the premium under the Québec prescription drug insurance plan.

Work premium

Beginning in 2005, a work premium will be introduced to replace the parental wage assistance (PWA) program. This premium, targeting low- and middle-income workers, will take the form of a refundable tax credit that individuals may claim when filing their income tax returns for a given year, provided they meet certain conditions. The amount that may be claimed varies depending on each person's family situation and income, as well as the income of the person's spouse and, where applicable, a portion of the income of a child designated for the purposes of this tax credit. In contrast to the PWA program, eligibility for the work premium is established without considering the value of individuals' property or liquid assets and regardless of whether they have dependent children.

Individuals may, on certain conditions, receive advance payment during the year of a portion of the work premium to which they estimate they are entitled, provided they apply to the Ministère du Revenu using the prescribed form. The portion of the premium so paid during the year must be added to the income tax payable by the individual for the year. The fact that an individual is eligible for advance payment of a portion of the premium does not necessarily mean that he or she is entitled to the premium for the year.

Advance payment of the refundable tax credit for child-care expenses

A new mechanism will be introduced as of 2005 to provide for advance payment of the refundable tax credit for child-care expenses. This will replace the current procedure under which employees request that the employer consider, in calculating their source deductions, the tax credit for child-care expenses to which they estimate they are entitled. In addition, self-employed workers who take advantage of this new mechanism will no longer be allowed to use their estimated tax credit for child-care expenses for a given year to reduce their income tax instalments payable for that year.

Simplification of the personal income tax system

The simplified tax system will be eliminated as of the 2005 taxation year. However, to maintain the advantages provided to low- or middle-income taxpayers by the flat amount under the simplified system, a supplementary amount at least equal to the flat amount will be added to the amount of recognized essential needs. The sum of these two amounts will constitute the basic amount granted for the purposes of calculating the basic personal tax credit.

New indexing formula

Starting January 1, 2005, a new indexing factor will be used to automatically index the main parameters of the personal income tax system. This new indexing factor is constituted in such a way that it does not reflect variations in taxes on alcoholic beverages and tobacco products.

Introduction of a refundable tax credit for new graduates working in a remote resource region

Tax assistance in the form of a refundable tax credit of up to \$8,000 is now available to encourage new graduates to settle in remote resource regions. The following regions are eligible: Bas-Saint-Laurent (region 01); Saguenay—Lac-Saint-Jean (region 02); the regional county municipality (RCM) of Haut-Saint-Maurice; the RCM of Mékinac; Abitibi-Témiscamingue (region 08); Côte-Nord (region 09); Nord-du-Québec (region 10); Gaspésie—Îles-de-la-Madeleine (region 11); the RCM of Antoine-Labelle; the RCM of Vallée-de-la-Gatineau; and the RCM of Pontiac. This tax credit applies to the 2004 taxation year and subsequent years in respect of individuals who take up an eligible job after March 30, 2004.

Eligibility of performers for the deduction respecting copyright income

Changes have been made to the deduction respecting copyright income to reflect certain amendments made to the *Copyright Act* since this deduction was introduced. First, performers' copyrights regarding their performance are now recognized as giving entitlement to the deduction respecting copyright income; second, performers are recognized as having a right to fair remuneration; third, authors and performers are recognized as being entitled to remuneration for private copying. These measures apply to the 2004 taxation year and subsequent years.

Averaging of income from artistic activities

Where a recognized artist acquires an eligible income-averaging annuity, the artist is now allowed to average, over a period of up to seven years, the tax applicable to the portion of his or her income for the year that is derived from artistic activities and exceeds the sum of \$50,000 and the amount of the deduction for copyright income to which the artist is entitled for the year. This measure applies to the 2004 taxation year and subsequent years.

Measures relating to donations and gifts

The list of organizations authorized to issue receipts for donations and gifts in respect of Québec income tax has been extended to include organizations registered with the Minister of Revenue as Québec amateur athletic associations. This measure applies to donations and gifts made after March 30, 2004, to a Québec amateur athletic association.

The tax legislation will also provide that the Agence de la Francophonie and its subsidiary bodies constitute qualified donees for the purposes of the tax measures relating to donations and gifts. These entities will thus be able to issue receipts for donations and gifts in respect of Québec income tax. This measure applies to donations and gifts made after March 30, 2004.

Furthermore, the tax legislation will be amended in respect of donations of capital property that has increased in value. This amendment will eliminate the requirement that the donated property must be related to the donee's mission in order for the 25% increase in the limit established on the basis of the donor's income to apply. This measure applies to all taxation years beginning after December 31, 2003.

Change in the tax treatment of certain reimbursements of salaries and wages or of wage loss insurance benefits

The tax legislation will be amended so that the deduction for reimbursement of salaries and wages also applies to the reimbursement, under a reimbursement agreement, of an amount that was included in the calculation of income from an office or employment for a previous taxation year.

The tax legislation will be further amended so that the Minister of Revenue may, where an individual so requests and subject to certain conditions, authorize the amount of a non-capital loss attributable to the reimbursement to be carried back beyond the three-year carry-back period to a previous year for which the amount reimbursed was included in calculating the individual's income from an office or employment.

These measures apply to reimbursements made after December 31, 2003, under a reimbursement agreement. However, individuals may elect to have the changes apply to the reimbursement of an amount under such an agreement after December 31, 1997, and before January 1, 2004, provided they make this election no later than the filing deadline for their tax return for the 2004 taxation year.

Reducing the unfair tax burden related to certain income replacement indemnities

An individual who is resident in Québec at the end of the 2004 taxation year and who received during that year certain income replacement indemnities (such as worker's compensation paid by the Commission de la santé et de la sécurité du travail) must include, in calculating the amount of income tax to be paid for the year, an amount equal to the lesser of the amounts obtained using certain formulas. As of the 2005 taxation year, an individual who is resident in Québec at the end of a given taxation year and who received such indemnities during the year will be required to make an adjustment to the basic amount granted for the purpose of calculating the basic personal tax credit for the year.

Further reduction of the amount of the deduction for security options

The amount of the deduction for security options has been further reduced by 33 1/3%, thereby reducing the deduction from three-eighths to one-quarter of the value of the benefit deemed to have been received. This additional reduction applies in regard to any event, operation or circumstance relating to an option to purchase securities that takes place after March 30, 2004, and as a result of which an individual must include, in calculating the income from an office or employment for a given taxation year, the value of a benefit he or she is deemed to have received in the year.

In addition, the legislation will be amended so that the late-filing penalty applicable to taxpayers that fail to file their returns by the extended deadline granted by the Ministère du Revenu will be calculated based on the normally applicable deadline. This amendment will apply to deadline extensions granted after March 30, 2004.

Increase in the rate of certain penalties

The *Act respecting the Ministère du Revenu* will be amended to raise to 50% the rate of the penalty provided for in cases where a false statement or an omission is made in a document issued or filed for the purposes of a tax law or a regulation made under a tax law. In addition, the penalty rate will be raised to 50% in cases where a document issued by a government department or body is revoked due to false statements or serious omissions. These amendments will come into force on the date on which the relevant legislation is assented to.

Introduction of a fee policy by Investissement Québec

Investissement Québec will introduce a fee policy which, when fully implemented, will provide for self-financing of operating costs. Costs related to the administration of tax measures will therefore be charged to corporations that receive services and benefit from such measures.

Logbook for an automobile made available to an employee

To ensure that employers are able to fulfil their obligations and that the duties payable are collected, the tax legislation will require employees to provide their employer with a copy of the logbook for an automobile made available to them by the employer.

Consequently, for the 2005 taxation year and subsequent years, where an employer (or a person related to the employer) makes an automobile available to an employee (or a person related to the employee) in a given year, the employee must provide the employer with a copy of the logbook he or she keeps for the automobile. The logbook must be remitted to the employer no later than the tenth day after

- the end of the year, if the automobile is available to the employee (or a person related to the employee) at the end of the year; or
- the end of the period during which the automobile is made available to the employee (or a person related to the employee), if the period ends before the end of the year.

The employee must record in the logbook the number of days during the year that the automobile was made available to him or her (or to a person related to him or her) and the number of kilometres travelled each day for the employee's personal use and in connection with or in the course of the employee's office or employment.

The tax legislation will also stipulate that if an employee does not, within the prescribed time limit, provide his or her employer with the logbook for an automobile made available to him or her (or to a person related to him or her) by the employer (or by a person related to the employer), the employee will be liable to a penalty of \$200.



Other measures

Liability for duties, interest and penalties mentioned in a notice of assessment

Taxpayers will be required to pay every amount of unpaid duties, interest and penalties indicated in a notice of assessment mailed by the Ministère du Revenu as soon as the notice is mailed, regardless of whether an objection, appeal or summary appeal is pending in respect of the unpaid amounts. Furthermore, the tax legislation will be amended so that no interest is charged on any portion of those amounts that is paid within the deadline indicated by the Ministère on the notice of assessment. These amendments will apply to notices of assessment sent by the Ministère after October 31, 2004. However, the rules concerning the suspension of recovery measures in respect of income tax owing remain unchanged.

Harmonization of administrative provisions (standardized accounting)

The fiscal legislation will be amended to harmonize the threshold below which a corporation is not required to pay instalments of income tax for a taxation year. Consequently, the current threshold of \$10,000 based on the taxable income of a corporation that grants dividends to its clients (a co-operative corporation) in a taxation year will be abolished. This amendment will apply to the taxation years of a co-operative corporation beginning after March 30, 2004.

Extension of the obligation to file an information return regarding certain contractual payments

The tax regulations will require that the government bodies and enterprises listed in Schedules 2 and 3 to the *Financial Administration Act* be subject to the same rules as departments and budget-funded bodies regarding the obligation to file an information return in prescribed form concerning amounts paid, directly or indirectly, to a person or partnership during a calendar year in satisfaction of a price stipulated in contracts covered by this measure. This requirement will apply to contractual payments made to a person or partnership during a given calendar year subsequent to 2004.

Agents of the government subject to the payment of interest and penalties in the event of non-compliance with tax obligations

The tax legislation will require that agents of the government—including legal persons who enjoy the rights and privileges of an agent of the government pursuant to the statute under which they were established or a statute that governs them exclusively—may be required to pay interest and penalties when they fail to comply with their tax obligations in their capacity as an employer or agent for the collection of the various duties and taxes payable under Québec's tax legislation. This measure will apply to all cases of non-compliance occurring after December 31, 2004.

Limitation period for tax debts

The limitation period for Québec tax debts has been extended from five to ten years. This new limitation period applies to tax debts that become payable on or after March 30, 2004. However, the amount of time already elapsed from the date on which a tax debt became payable up to March 30, 2004, and that was taken into account in calculating the previously applicable five-year limitation period, will also be considered in calculating the new ten-year limitation period.

Introduction of an additional registration fee in respect of vehicles with large-displacement engines

An additional registration fee, payable on an annual basis, will be implemented for certain vehicles with an engine having a displacement of 4 litres or more. The fee will be \$50 for vehicles of the appropriate categories having an engine displacement of 4 litres, and will increase by \$10 for each decilitre of engine displacement over four litres, up to a maximum of \$150, which is the applicable fee for all such vehicles having an engine displacement of 5.2 litres or more.

The additional registration fee will apply to passenger vehicles, commercial vehicles with licence plates bearing the prefix "F" or "FZ," and motor homes, as defined by the *Regulation respecting road vehicle registration*.

The new duty will be payable in addition to the fees required to operate a vehicle after December 31, 2004, and the fees required to retain the right to operate a vehicle where the payment period for the fees begins after October 31, 2004.



New Business Hours at the Ministère's Customer Service Offices

Please note that the Ministère's customer service offices are now open from 10:00 a.m. to 4:30 p.m., Monday through Friday. However, business hours at our office in Complexe Desjardins are 8:30 a.m. to 4:30 p.m., Monday, Tuesday, Thursday and Friday, and 10:00 a.m. to 4:30 p.m. on Wednesday.



Corporate Instalments

Update of the calculation form

Corporations that make instalment payments must use the form entitled *Calcul des acomptes provisionnels des sociétés* (CO-1027) to correctly determine the amount of their instalments.

A corporation that is required to make instalment payments can use form CO-1027 to determine which of the two methods of calculating the instalments is better suited to its situation. It should be noted that this form was extensively updated in May 2004. Be sure to use the current version of the form, that is, CO-1027 (2004-05), available beginning in June 2004.

When must instalments be paid?

Corporations whose fiscal period ends on the last day of the month must make instalment payments at the end of the month. The instalment payments of those whose fiscal period ends on a day other than last day of the month are due on the day of the month that corresponds to the day on which their fiscal period ends.

Examples

Start of fiscal period	End of fiscal period	Dates of instalments
June 1, 2004	May 31, 2005	the last day of each month (February 28, and, for the other months, the 30th or 31st of each month, as applicable)
March 13, 2005	March 12, 2006	the 12th of each month
March 18, 2005	March 17, 2006	the 17th of each month
May 31, 2005	May 30, 2006	the 30th of each month

Interest is charged on the amount of any instalment or any portion thereof not paid by the prescribed date. Therefore, corporations should ensure that their instalments are paid on time.

Special cases

In the following cases, a corporation should consider making instalment payments or adjusting the calculation of its instalments:

- The corporation is entitled to the temporary exemption.
- The corporation is exempt from taxes because it carries on its activities in an information technology development centre (ITDC), a marketplace for the new economy (MNE) or a biotechnology development centre (BDC).
- The corporation was entitled to the temporary exemption for previous fiscal periods.
- The corporation was exempt from taxes for previous fiscal periods because it carried on its activities in an ITDC, an MNE or a BDC.
- The corporation has benefited from a tax holiday for carrying out a major investment project in Québec or for being a small or medium-sized manufacturing business in a remote resource region.
- The corporation's previous fiscal period covered fewer than 365 days or fewer than 183 days.
- The corporation is the result of an amalgamation.
- The corporation wound up a subsidiary.
- The corporation acquired all or substantially all of the property of a corporation with which it was not dealing at arm's length.

Further information concerning the determination of instalment payments is available on the Web site of the Ministère at www.revenu.gouv.qc.ca (click on the **Businesses** tab, then **Income tax**, then **Corporations**, then **Instalment payments**).



Flea Markets and Taxation Rules

Certain taxation rules apply if you rent space in a flea market to sell new or used merchandise or if you operate a flea market on a permanent or temporary basis. For information about these rules, refer to the folder *Flea Markets* (IN-255-V). You can obtain a copy from the office of the Ministère du Revenu in your area or by visiting the Web site of the Ministère.





Online Payment Gaining Popularity

Many businesses and individuals in business are now making their various payments to the Ministère du Revenu online. Online payments can be made through the Web sites of most financial institutions in Québec.

File returns and make payments using Clic Revenu

If you are registered for Clic Revenu electronic services, you can file a return (for source deductions and consumption taxes) online through the Web site of the Ministère du Revenu. An advantage of this method of filing is that you will receive online confirmation that the Ministère has received the return. Furthermore, if you have an account at a participating financial institution, you have a choice of electronic payment methods—online payment or preauthorized debit.

To pay using the preauthorized debit service, you must first register by completing the form *Request for Authorization to Use Preauthorized Debit (Businesses)*, and filing it with the Ministère, along with a blank cheque. Once you have registered for Clic Revenu, you will be able to access this form on the Web site of the Ministère. An amount is not debited automatically; it must be entered at the time of the online transaction.

If you use the preauthorized debit service, another person to whom you give power of attorney may make payments on your behalf, without necessarily having any information about your bank account or the ability to make any other type of payment.



Additional services

You may now file your returns respecting the specific duty on new tires online and make these payments online, if you are registered with Clic Revenu. Soon (in November 2004), it will also be possible to do the same types of transactions online with regard to the tax on lodging and the tax on insurance premiums.

If registered for Clic Revenu, businesses and individuals in business may benefit from many services, including the possibility of consulting their tax file online. For further information, visit the Web site of the Ministère du Revenu at www.revenu.gouv.qc.ca.

The Gouvernement du Québec has made online government one of its priorities. In this regard, the Ministère du Revenu continues to make every effort to develop electronic services for its business clientele. The Ministère hopes to work with all financial institutions in Québec to enable that clientele to make fiscal payments online, using Clic Revenu electronic services. Currently, such payments can be made online through Desjardins and the National Bank of Canada, and negotiations are underway with several other financial institutions. To find out when this service may be available through your bank, we suggest that you contact the bank directly, so that it will be aware of your needs and interest.



New Form: Power of Attorney, Authorization and Revocation

Form MR-69-V, *Power of Attorney, Authorization to Communicate Information, or Revocation*, has been available since the beginning of 2004. This new form is an updated version of the power of attorney form. It has the added advantage of allowing users to indicate whether they are granting a power of attorney or simply an authorization to communicate information.

You may therefore use form MR-69-V to authorize the Ministère du Revenu to communicate confidential information to a person you designate. You may also use the form to grant a power of attorney, that is, to appoint a person to represent you with the Ministère. Finally, you may use the form to revoke or modify an authorization or power of attorney previously submitted to the Ministère.

The authorization to communicate information or the power of attorney is now valid for a maximum of three years (rather than two years) as of the date of signature. After that time, you must renew the authorization or power of attorney. Please note that you may revoke or modify an authorization or power of attorney at any time.

Form MR-69-V is available on our Web site and at all our offices.

Income Tax Refunds Claimed by Individuals and Testamentary Trusts After December 31, 2004


On March 23, 2004, the Minister of Finance of Canada tabled in the House of Commons documents entitled *Tax Measures: Supplementary Information and Notice of Ways and Means Motion to Amend the Income Tax Act*. One amendment provided for in these documents would require that requests for tax adjustments made by individuals or testamentary trusts after December 31, 2004, be limited to a taxation year ended in one of the 10 calendar years preceding the calendar year of the request.


The Ministère du Revenu intends to apply the same restriction as the one announced by the Minister of Finance of Canada. Thus, applications for refunds made by individuals or testamentary trusts after December 31, 2004, will be considered by the Ministère du Revenu only if they concern a taxation year ended in one of the 10 calendar years preceding the calendar year of the application.


Consequently, if you wish to amend any income tax returns that you filed for the years 1985 to 1994, you must do so **on or before December 31, 2004**. The same restriction will apply with respect to the waiver or cancellation of interest, penalties or charges.


Tax FAQs

Each day, employees of the taxpayer service of the Ministère du Revenu are called upon to answer numerous important questions. At our request, they have provided us with the most frequently asked questions so that we can publish the answers for your benefit. This column is a regular feature in our bulletin. In this article, we will discuss specific points about the GST and the QST, and about personal income tax.

 Following municipal amalgamations and the implementation of new municipal funding policies that concern the billing of municipal taxes, some owners of commercial or residential property have been passing these taxes on to their tenants. Are these amounts still considered to be municipal taxes?


 No. These amounts are no longer municipal taxes; they now constitute a portion of what is given in exchange for rent. These amounts are therefore subject to GST and QST when they are included in taxable commercial rent.


 A printer in Québec is a GST and QST registrant. The printer acquires a press (corporeal movable property) from a person that is not resident in Canada and is not a registrant. The price paid for the press includes its installation in Québec. The supplier of the press contracts the installation out to a person in Québec who is a GST and QST registrant. What are the provisions concerning the taxes paid for the installation of the press?

 The supplier of the press can apply for a rebate of the taxes paid for its installation in Québec. During the year following the completion of the service, the supplier must submit an application for a rebate to the Ministère using

form FP-189-V, *General Rebate Application*, for the GST and form VD-403-V, *General Application for a Québec Sales Tax (QST) Rebate*, for the QST. The forms are available at an office of the Ministère or on our Web site at www.revenu.gouv.qc.ca.

The supplier may instead obtain the rebate from the person that installed the press. In this case, the installer can refund or credit the GST and QST paid by the supplier. The installer can then deduct the amount refunded or credited in the calculation of net tax for the reporting period during which the amount was refunded or credited.

 Summer is right around the corner. Various organizations such as private schools and municipalities will soon offer child-care services in conjunction with day camps. Are these organizations required to provide tax receipts?

 Yes. In Québec, any person who provides child care for remuneration in a given calendar year must provide an RL-24 slip to every taxpayer who paid for the services. However, an individual is not usually required to provide RL-24 slips, unless he or she holds a permit issued under the *Act respecting childcare centres and childcare services* or is a home child-care provider that is recognized by a holder of a child-care centre permit issued under the Act. Taxpayers who are claiming the refundable tax credit for child-care expenses must enclose the RL-24 slip with their income tax returns for the year in question. The issuance of RL-24 slips does not automatically mean that the expenses are considered to be child-care expenses; each case must be evaluated. The RL-24 slip simply constitutes proof of payment.



In an article that appeared in the last issue of *Tax News*, we discussed how the GST and QST apply when a gallery owner acts as the artist's agent (called a "mandatary" in the *Civil Code of Québec*). Although it may be difficult to determine the contractual relationship between two parties, as all the facts of the situation must be analyzed, it is clear that the rules concerning agents apply when an artist asks an art gallery to sell his or her works.

However, what are the rules when the gallery does not have a mandate to act as an intermediary or to sell the artist's works directly?

Example

An artist is looking for space to exhibit the wooden figurines and paintings he has produced during the winter. On March 31, 2004, he rents floor space and a wall from an art gallery that is registered for the GST and QST.

In this example, the gallery does not automatically become the artist's agent. Such a relationship is created only where the artist gives the gallery a mandate. Under the *Civil Code of Québec*, a mandate is a contract by which a person (the mandator) empowers another person (the mandatary) to act as his or her representative in the performance of a legal transaction with a third party.

Even if the facts show that the gallery is not the artist's agent when a work is sold to a third party, the rental of exhibition space is still a taxable supply. The taxes apply as follows:

Rental of wall and floor space for one year	\$2,000.00
GST (\$2,000 \$ x 7%)	\$140.00
QST ([\$2,000 + \$140] x 7.5%)	+ \$160.50
Total GST and QST	\$300.50 + \$300.50
Amount paid by the artist to the gallery	\$2,300.50
GST and QST, which the gallery bills and remits to the Ministère: \$300.50	

If the artist is a registrant, he may claim input tax credits (ITCs) and input tax refunds (ITRs) in order to recover the GST and QST paid on the rental of the exhibition space. If the artist is not a registrant, he will not be able to claim ITCs or ITRs.

If the facts show that the gallery acted as the artist's agent and charged a commission in this regard, the rules concerning agents will apply (see the previous issue of *Tax News*).

In Your Interest

GST

Prescribed interest rates are adjusted quarterly to reflect market trends. Penalties and interest related to the GST are compounded daily. Annualized interest rates and penalty rates for the quarterly periods from April 1, 2003, to March 31, 2004, are listed below.

Period	Annualized interest rate*	Penalty rate
	%	%
2003		
July 1 – Sept. 30	3.5707	6
Oct. 1 – Dec. 31	2.3804	6
2004		
Jan. 1 – Mar. 31	2.4132	6
Apr. 1 – June 30	2.4132	6

* To calculate interest for the purposes of the GST, find the daily rate by dividing the annualized rate by 366.

Act respecting the Québec sales tax, and other specific statutes

The following is a list of interest rates respecting refunds payable by and debts owed to the Ministère, for the quarterly periods from April 1, 2003, to March 31, 2004.

		Interest rate
		%
2003		
July 1 – Sept. 30	Refunds	2
	Debts	8
Oct. 1 – Dec. 31	Refunds	2
	Debts	8
2004		
Jan. 1 – Mar. 31	Refunds	2
	Debts	7
Apr. 1 – June 30	Refunds	2
	Debts	7

The penalty rates are

- **7%** of the amount to be paid or remitted further to the application of a fiscal law, where the amount is no more than seven days late;
- **11%** of the amount to be paid or remitted further to the application of a fiscal law, where the amount is no more than 14 days late; and
- **15%** in all other cases.

For further information concerning the calculation of interest rates, consult our Web site at www.revenu.gouv.qc.ca.



Tax News Goes Fully Electronic in 2004

Join us online!

As announced in our previous issue, the Ministère du Revenu is gradually transforming *Tax News* into a fully electronic publication over the course of this year, and will ultimately eliminate the paper version of the bulletin.

With the widespread use of the Internet, the development of state-of-the-art technology and the growth in the numbers of Web-wise businesses, we believe that it is time for *Tax News* to go one step further in the way of the Web. We are also responding to numerous readers who have expressed the wish to receive fewer paper documents.

Please note, therefore, that **this issue of *Tax News* is the last to be mailed to you in printed form.** Beginning with the third issue for 2004, *Tax News* will be available only on our Web site at www.revenu.gouv.qc.ca.



This change does not, however, affect the principal reason for publishing *Tax News*. You will therefore continue to receive information concerning the administration of the GST and the QST. There will be no change in publishing frequency, since a new issue will be released every quarter.

Online notification

Nothing could be simpler! The Ministère will notify you each quarter that a new issue of *Tax News* has been posted on its Web site, and will provide you with a direct link to the latest bulletin.

To have your name included on our *Tax News* online notification list, go to our Web site at www.revenu.gouv.qc.ca and click on the *Tax News* link (under **Online notification**). To sign up, you will be asked to provide your e-mail address. Before confirming your addition to the list, be sure to read the text concerning the protection of personal information held by the Ministère.

Tax News is published quarterly by the Direction des communications of the Ministère du Revenu du Québec. It is distributed to all GST and QST registrants, and is available to anyone else upon request. It contains articles on the application of the GST and the HST, and incorporates the contents of *GST/HST News*, a newsletter published by the Canada Revenue Agency (CRA). All articles dealing with federal taxes are identified by a maple leaf. *Tax News* also contains articles on the administration of the QST and other Québec consumption taxes, as well as on the administration of Québec income tax.

This publication is distributed for information purposes only. The articles it contains do not replace the laws, regulations or administrative texts to which they refer. Nor do they supersede proposed amendments to laws or regulations, or constitute a legal interpretation of the *Act respecting the Québec sales tax*, the *Excise Tax Act* or any other Québec or federal statute.

Articles may be reproduced as long as the source is given.

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Suggestions and **comments** should be faxed to (418) 646-0167.

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