

Tax News

First quarter 2003

In Brief

New for you!

Further to legislative changes made by the Québec government each year, the Ministère du Revenu is responsible for drafting and updating the laws it administers. Until recently, the "Codification administrative des lois fiscales" (available in French only) was printed on loose-leaf paper. The loose-leaf version

has now been replaced by two bound volumes, covering income tax and consumption taxes. New editions will be published twice annually, under the title *Codification administrative des lois et des règlements fiscaux ainsi que des lois et des règlements connexes*.

In the volume pertaining to **income tax**, you will find the *Loi sur les impôts*, the *Règlement sur les impôts*, the *Loi sur le ministère du Revenu*, the *Loi favorisant le développement de la formation de la main-d'oeuvre*, the *Loi sur la fiscalité municipale*, the *Loi sur le régime de rentes du Québec* and the *Loi sur la Régie de l'assurance maladie du Québec*. The volume pertaining to **consumption taxes** includes the *Loi sur la taxe de vente du Québec*, the *Loi concernant la taxe sur les carburants*, the *Loi concernant l'impôt sur le tabac* and the *Loi sur le ministère du Revenu*. It should be noted that the *Loi sur la taxe d'accise*, which pertains to the GST and is under federal jurisdiction, is not included in this volume.

In the issue of *Tax News* for the third quarter of 2002, we announced that the *Codification administrative des lois et des règlements fiscaux ainsi que des lois et des règlements connexes* was available. In this issue, we wish to inform readers that the **second edition** (current as of October 1, 2002) has been published. You may purchase these volumes at bookstores, or from Les Publications du Québec at www.publicationsduquebec.gouv.qc.ca.

Gifts to certain charities

Effective January 1, 2003, amounts paid to a charity whose purpose is to promote Canadian unity (such as the Council for Canadian Unity) no longer give entitlement to a tax credit for donations made to a registered charity in the calculation of Québec income tax.

Clarification regarding legal aid services

Professional legal aid services are exempt from GST and QST when supplied by a corporation responsible for administering legal aid as part of a legal aid program authorized by the Québec government. The services of legal aid centres are therefore exempt.

Lawyers who are **not** employed by legal aid centres but who fulfil mandates for these centres provide taxable services and must therefore register for GST and QST purposes (unless they are small suppliers). However, they must **not collect taxes** for services rendered for the legal aid centres, since these are Québec government organizations, which are not subject to taxation. It is worth noting that registered lawyers can claim input tax credits under the GST system, and input tax refunds under the QST system, with respect to goods and services acquired for the practice of their profession.



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Reduction of the Tax on Capital

The rate of the tax on capital was reduced on January 1, 2003. Since that date, corporations have also been entitled to claim a deduction in the calculation of their paid-up capital. Moreover, the minimum amounts of tax on capital payable by corporations other than financial institutions have been eliminated.

Rate of the tax on capital

Since January 1, 2003, the rate of the tax on capital has been 0.6% for corporations other than financial institutions and 1.2% for corporations that are financial institutions. These rates will be further reduced on January 1 of each year from 2004 to 2007.

Financial institutions include banks, savings and credit unions, loan corporations, trust corporations and corporations dealing in securities.

Rate	2002	2003	2004	2005	2006	2007
Corporation*	0.640	0.600	0.525	0.450	0.375	0.300
Financial institution	1.280	1.200	1.050	0.900	0.750	0.600

* Other than a financial institution

Where a corporation's taxation year does not coincide with the calendar year, the rate is weighted to reflect the number of days in the taxation year included in each of the two calendar years.

Calculation of paid-up capital

The maximum deduction in the calculation of paid-up capital is \$250,000 for 2003. The amount of this deduction will be increased on January 1 of each year from 2004 to 2006.

Amount	2003	2004	2005	2006
Maximum deduction	\$250,000	\$500,000	\$750,000	\$1,000,000

Where a corporation's taxation year does not coincide with the calendar year, the maximum deduction is weighted to reflect the number of days in the taxation year included in each of the two calendar years.

In the case of a group of associated corporations, the deduction must be apportioned among the members of the group.

The deduction that may be claimed in the calculation of paid-up capital applies in addition to a corporation's other deductions. Moreover, the deduction is granted before the reduction for investments, where applicable.

It should also be noted that the deduction in the calculation of paid-up capital is designed primarily to benefit small corporations. For 2003 through 2005, the deduction will therefore be reduced on the basis of paid-up capital (the higher the corporation's paid-up capital, the greater the reduction). The reduction is determined as a percentage, and corresponds to the ratio between

- the amount by which the corporation's paid-up capital for the preceding taxation year exceeds the maximum deduction the corporation could otherwise claim for the taxation year in question; and
- three times the maximum deduction the corporation could otherwise claim for the taxation year in question.

No reduction will apply for taxation years that begin after December 31, 2005.

Minimum amount of tax on capital

The minimum amounts (\$250 and \$125) of tax on capital payable by corporations will be eliminated for corporations other than financial institutions.

These changes have been included in the new version of the *Corporation Income Tax Return* (CO-17-V, version 2002-12).



Benefits Related to the Use of Automobiles: Deduction Limits and Prescribed Rates for 2003

For the purposes of the capital cost allowance, the ceiling on the capital cost of passenger vehicles is \$30,000 (plus GST and QST) for purchases made after 2002.

The limit on deductible leasing costs is \$800 per month (plus GST and QST) for leases entered into after 2002. Under a separate restriction, deductible leasing costs are prorated where the value of the passenger vehicle exceeds the capital cost.

The limit on tax-exempt allowances paid by employers to employees is \$0.42 per kilometre for the first 5,000 kilometres and \$0.36 for each additional kilometre.

The maximum allowable interest deduction respecting amounts borrowed to purchase a passenger vehicle is \$300 per month with respect to loans for vehicles purchased after 2002.

The prescribed rate used to determine the value of the taxable benefit related to the personal portion of automobile operating expenses paid by employers is \$0.17 per kilometre. For individuals whose principal occupation is selling or leasing automobiles, the prescribed rate is \$0.14 per kilometre.

Information About the Tax Credit for an On-the-Job Training Period

Corporations that operate a business in Québec and have an establishment there can generally claim the refundable tax credit for an on-the-job training period for certain expenditures incurred in respect of an eligible trainee who serves a training period in their establishment.

The basic rate of the tax credit is 40% of the amount of qualified expenditures. Moreover, the training period must have begun before January 1, 2006, and continue for a maximum of 32 weeks.

The following corporations are not entitled to claim the tax credit for an on-the-job training period:

- a corporation that is exempt from tax, other than an insurer exempt only with respect to a portion of its income;
- a corporation that operates a designated investment business or a personal services business;
- a corporation governed, during the year, by the *Act to establish the Fonds de solidarité des travailleurs du Québec (FTQ)* or the *Act to establish Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi*.

The total amount of the expenditures incurred for certain persons within the framework of a training period qualifies, provided the amount is reasonable in the circumstances. These expenditures must be made in respect of a business operated by the corporation in Québec.

The following expenditures also qualify for the tax credit:

- travel expenses, to a maximum of 50% of the expenditures incurred for food and beverages;
- transportation expenses paid in the form of an allowance to an employee or a member of the partnership who is not a trainee, where the amount is deductible from the corporation's or partnership's income and is paid for an automobile to be used for the training period.

However, the employer's establishment and the place where the training period is served must not be located in the same municipality or metropolitan area and must be at least 40 kilometres apart.

Trainees must be paid a minimum wage not exceeding \$15 per hour, in accordance with the *Act respecting labour standards*. The maximum qualified expenditures per week for each trainee vary between \$500 and \$625, depending on the conditions. The maximum number of hours of supervision varies between 10 and 20 per week for a trainee or group of trainees.

A trainee enrolled as a full-time student in a college-level or university-level program (undergraduate, graduate or postgraduate) must be paid at least the minimum wage in order to qualify. This applies even if the training period is being carried out in a farming business.

Since March 29, 2001, the obligation to resume studies has been replaced by the obligation, on the part of the person in charge of the training program at the recognized educational institution, to carry out a formal evaluation of the training period.

Consult the form *Tax Credit for an On-the-Job Training Period* (CO-1029.8.33.6-V) for more details on the qualified expenditures.

How to claim the tax credit

To claim the tax credit, a corporation must obtain, within six months after the end of the training period,

- a **certificate** from the Ministère de l'Emploi et de la Solidarité sociale in the case of a trainee who is considered to be an apprentice. The certificate must be issued no later than six months after the end of the training period and attest that the training is eligible under the qualification scheme. The corporation must enclose the certificate with its tax return; or



- the *Certificate of Participation in a Qualified Training Period* (form CO-1029.8.33.10-V), issued by the recognized educational institution offering the prescribed program under which the training period is served. The trainee must be enrolled as a full-time student in a secondary-level, college-level or university-level program offered by the institution.

To claim this tax credit, the corporation must complete form CO-1029.8.33.6-V and enclose it with its income tax return. However, if the corporation is claiming this tax credit in respect of expenditures incurred for a trainee of the partnership of which it is a member, it must enter on form CO-1029.8.33.6-V its share of the partnership's qualified expenditures. This share is calculated in Part III of form CO-1029.8.33.6-V.

More offices to serve you better

Hull

Direction régionale de l'Outaouais
170, rue de l'Hôtel-de-Ville, 6^e étage
Hull (Québec) J8X 4C2

Personal income tax or social programs

(819) 770-1768 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(819) 770-8504 or 1 800 567-4692

Jonquière

Direction régionale du Saguenay–Lac-Saint-Jean
2154, rue Deschênes
Jonquière (Québec) G7S 2A9

Personal income tax or social programs

(418) 548-4322 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(418) 548-6392 or 1 800 567-4692

Laval

Direction régionale de Laval, des Laurentides
et de Lanaudière
4, Place-Laval, bureau RC-150
Laval (Québec) H7N 5Y3

Personal income tax or social programs

(450) 972-3320 or 1 866 540-2500

Corporations, employers (source deductions), consumption taxes

(450) 972-3320 or 1 866 540-2500

Longueuil

Direction régionale de la Montérégie
Place-Longueuil
825, rue Saint-Laurent Ouest
Longueuil (Québec) J4K 5K5

Personal income tax or social programs

(450) 928-8820 or 1 866 490-2500

Corporations, employers (source deductions), consumption taxes

(450) 928-8820 or 1 866 490-2500

Montréal

- Direction régionale de Montréal-Centre
Complexe Desjardins
C. P. 3000, succursale Desjardins
Montréal (Québec) H5B 1A4

Personal income tax or social programs

(514) 873-2600 or 1 866 440-2500

Corporations, employers (source deductions), consumption taxes

(514) 873-2600 or 1 866 440-2500

- Direction régionale de Montréal-Est
Village Olympique, pyramide Est
5199, rue Sherbrooke Est, bureau 4000
Montréal (Québec) H1T 4C2

Personal income tax or social programs

(514) 873-2610 or 1 866 460-2500

Corporations, employers (source deductions), consumption taxes

(514) 873-2610 or 1 866 460-2500

- Direction régionale de Montréal-Ouest
Les Galeries Saint-Laurent
2215, boulevard Marcel-Laurin
Saint-Laurent (Québec) H4R 1K4

Personal income tax or social programs

(514) 873-6120 or 1 866 570-2500

Corporations, employers (source deductions), consumption taxes

(514) 873-6120 or 1 866 570-2500

Québec

Local office
200, rue Dorchester
Québec (Québec) G1K 5Z1

Personal income tax or social programs

(418) 659-6299 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(418) 659-4692 or 1 800 567-4692



Rimouski

Direction régionale du Bas-Saint-Laurent
et de la Gaspésie-Îles-de-la-Madeleine
212, avenue Belzile, bureau 250
Rimouski (Québec) G5L 3C5

Personal income tax or social programs

(418) 727-3572 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(418) 727-3702 or 1 800 567-4692

Rouyn-Noranda

Direction régionale de l'Abitibi-Témiscamingue
et du Nord-du-Québec
19, rue Perreault Ouest, RC
Rouyn-Noranda (Québec) J9X 6N5

Personal income tax or social programs

(819) 764-6761 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(819) 764-6765 or 1 800 567-4692

Saint-Jean-sur-Richelieu

Local office for the Montérégie region
855, boulevard Industriel
Saint-Jean-sur-Richelieu (Québec) J3B 7Y7

Personal income tax or social programs

(450) 349-1120 or 1 866 470-2500

Corporations, employers (source deductions), consumption taxes

(450) 349-1120 or 1 866 470-2500

Sainte-Foy

Direction régionale de Québec
et de la Chaudière-Appalaches
3800, rue de Marly
Sainte-Foy (Québec) G1X 4A5

Personal income tax or social programs

(418) 659-6299 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(418) 659-4692 or 1 800 567-4692

Sept-Îles

Direction régionale de la Côte-Nord
391, avenue Brochu, bureau 1.04
Sept-Îles (Québec) G4R 4S7

Personal income tax or social programs

(418) 968-0203 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(418) 968-2211 or 1 800 567-4692

Sherbrooke

Direction régionale de l'Estrie
2665, rue King Ouest, 4^e étage
Sherbrooke (Québec) J1L 2H5

Personal income tax or social programs

(819) 563-3034 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(819) 563-3776 or 1 800 567-4692

Sorel-Tracy

Local office for the Montérégie region
101, rue du Roi
Sorel-Tracy (Québec) J5P 4N1

Personal income tax or social programs

(450) 928-8820 or 1 866 490-2500

Corporations, employers (source deductions), consumption taxes

(450) 928-8820 or 1 866 490-2500

Trois-Rivières

Direction régionale de la Mauricie
et du Centre-du-Québec
225, rue des Forges, bureau 400
Trois-Rivières (Québec) G9A 2G7

Personal income tax or social programs

(819) 379-5360 or 1 800 267-6299

Corporations, employers (source deductions), consumption taxes

(819) 379-5392 or 1 800 567-4692





Rights and Obligations of Corporations and Trusts

Bill 14, *An Act to amend the Act respecting the Ministère du Revenu and other legislative provisions as regards the protection of confidential information*, was assented to in May 2002. Under this legislation, the Ministère du Revenu is required to annually inform persons with respect to whom it collects information of the purposes for which the information will be used, and of their rights and obligations with regard to the Ministère. The rights and obligations of corporations and trusts are explained below.

When completing their returns, corporations must provide all the information necessary with regard to their income, paid-up capital, deductions and credits, in order to determine the amount of income tax and consumption taxes they are required to pay. Trusts, for their part, must provide all the information necessary to determine their income tax payable. In this way, corporations and trusts contribute to fiscal equity and participate, according to their situation, in the funding of services provided to the public (such as education, health care and social services). Penalties may be imposed on corporations and trusts

that fail to provide the above-mentioned information or that provide inaccurate or incomplete information. Penal provisions also apply.

A corporation or trust that fails to report income is liable to a penalty equal to 10% of the unreported amount if, in one of the three previous taxation years, it failed to report income of the same type. If the corporation or trust has already filed its income tax return, it may avoid a penalty by filing an amended return.

Pursuant to the *Act respecting Access to documents held by public bodies and the Protection of personal information* and the *Act respecting the Ministère du Revenu*, and subject to the exceptions provided for in these laws, corporations and trusts have the right to obtain information relating to them and to consult any document containing such information.

Protection of confidential information

Any information collected by the Ministère du Revenu, further to receiving an income tax return or otherwise, is treated confidentially. For the purposes of applying a fiscal law, the

Ministère may compare, match or link information files in order to ensure that corporations and trusts comply with their obligations under the *Act respecting the Ministère du Revenu*.

The Ministère du Revenu may also use the information it collects for the purposes of administering the socio-fiscal programs for which it is responsible, applying and enforcing fiscal laws, carrying out studies or research, tabulating statistics, and administering or conducting surveys.

Employees of the Ministère who are responsible for applying laws or administering sociofiscal programs have access to information only if they require the information in the performance of their duties.

Subject to the restrictions set forth in the *Act respecting the Ministère du Revenu*, the Ministère may communicate certain information to other government departments or agencies or to other persons, for the specific purposes provided for in that Act.



Can a Member of a Partnership Register for the GST and the QST?

A partnership member that is not an individual can register for the GST and the QST, provided the partnership carries on commercial activities and is itself registered. This rule holds even if the member does not carry on commercial activities in its own name.

Such a member may be a corporation, an association, a group or another partnership.

Partnership members that are registered can claim input tax credits (ITCs) and input tax refunds (ITRs) for the expenses they incur in the course of the partnership's activities. They must also collect GST and QST on taxable sales (other than zero-rated sales) made in their own name.



GST and QST Assessments

Audits by the Ministère can lead to changes in your GST and QST returns. For example, an assessment may be issued in respect of taxes that have not been collected or paid. Likewise, a refund may be granted for an input tax credit (ITC) or input tax refund (ITR) that has not been claimed. Conversely, an ITC or ITR that you claimed may be denied.


The Ministère has four years in which to issue an assessment in respect of the GST or QST, as of the day you are required to file your return or the day you actually file it, whichever is later. However, an assessment may be issued at any time in a case involving fraud or misrepresentation of the facts, due to either negligence or deliberate omission.





Tax FAQs

Each day, employees of the taxpayer service of the Ministère du Revenu are called upon to answer numerous questions. At our request, they have provided us with the most frequently asked questions so that we can publish the answers for your benefit. In this issue, we will discuss specific points about GST and QST.

 **Do GST and QST apply to books?**

 Only the GST applies to books. As concerns the QST, printed books which are sold, rented or re-edited and which are **identified by an International Standard Book Number (ISBN)** are zero-rated. This is likewise the case for talking books and their accessories produced for the visually impaired.


 Some of our restaurant customers show us a card from the International Humanity House that supposedly exempts them from paying GST and QST. Is this card, or any other card of this type, valid for this purpose?


 There are no cards of this kind which exempt the bearer from paying taxes, with one notable exception: the




Certificate of Indian Status, which applies to goods and services bought on or delivered to a reserve. For more information, see the articles on this topic in our issues for the second and fourth quarters of 2002.

 **What is the meaning of fair market value?**

 Fair market value represents the highest price that can be obtained for a good or service on a free, unrestricted market, expressed in terms of money. It is agreed upon by a willing, well-informed seller and buyer who are dealing at arm's length. Fair market value does not include GST or QST for GST purposes, nor does it include QST for QST purposes.

 **When are renovations to my residential rental property considered to be substantial?**

 Renovations to a residential rental property are considered to be substantial when all or almost all (90%) of the building that existed before the work has been removed or replaced, with the exception of the foundations, the outer walls, the inner load-bearing walls, the floors, the roof and the stairs.



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, 2002, to March 31, 2003, are listed below.

Period	Annualized interest rate*	Penalty rate
	%	%
2002		
Apr. 1 – June 30	2.4066	6
July 1 – Sept. 30	2.3804	6
Oct. 1 – Dec. 31	2.3804	6
2003		
Jan. 1 – Mar. 31	2.4533	6

* To calculate interest for the purposes of the GST, find the daily rate by dividing the annualized rate by 365.

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, 2002, to March 31, 2003.

		Interest rate
		%
2002		
Apr. 1 – June 30	Refunds	3.35
	Debts	7
July 1 – Sept. 30	Refunds	1.35
	Debts	7
Oct. 1 – Dec. 31	Refunds	1.35
	Debts	7
2003		
Jan. 1 – Mar. 31	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, consult our Web site at www.revenu.gouv.qc.ca.



Interpretation Bulletins

In December 2002 and January 2003, the Ministère du Revenu du Québec published 11 interpretation bulletins, of which six deal with income tax and five with consumption taxes. The numbers and subjects of the bulletins are listed here (the letter R in a number indicates that the bulletin has been revised). Interpretation bulletins can be purchased from Les Publications du Québec, either individually (price varies according to the number of pages) or by subscription. For information about subscriptions or the availability of bulletins, call (418) 643-5150 or 1 800 463-2100.

Income tax

LMR.28-1/R57 Interest rates

SPECIAL 170 Extension of the \$500 000 capital gains exemption to the fisheries sector

SPECIAL 171 Freeze and reduction in space available for carrying out activities in certain designated sites

SPECIAL 172 Clarifications concerning gifts made to political education organizations whose mission is to promote the sovereignty of Québec, designation of a new biotechnology site in Saint-Hyacinthe and other fiscal measures

SPECIAL 173 Limits and rates governing the use of an automobile for the year 2003 and QST permanent exemption for speech-language pathology services

SPECIAL 174 Various regulations to amend regulations of a fiscal nature

Consumption taxes

LMR.28-1/R57 Interest rates

SPECIAL 135 Limits and rates governing the use of an automobile for the year 2003 and QST permanent exemption for speech-language pathology services

SPECIAL 136 Various regulations to amend regulations of a fiscal nature

TVQ. 61-3 Expenses relating to the preparation of a factum on appeal incurred by an attorney in fulfilling a legal aid mandate

TVQ. 415-2/R2 Retroactive registration

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 Customs and Revenue Agency (CCRA). 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.

Subscription inquiries should be faxed to the number given above. Your fax should include all pertinent information, as well as a copy of the last page of *Tax News* (on which your address is printed).

If you are a QST or GST registrant, you receive *Tax News* at the address to which all correspondence concerning the administration of the taxes is sent. To make a change to your **address**, contact the office of the Ministère in your area.

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