

# Tax News

Second and third quarters 2003

This issue of *Tax News* summarizes the measures concerning consumption taxes and the fiscal measures affecting businesses that were contained in the Budget Speech delivered by Yves Séguin, Minister of Finance, on June 12, 2003. Details concerning the fiscal measures affecting individuals will appear in the issue for the fourth quarter of 2003, while details concerning other measures will appear in future issues of *Tax News*, if applicable.

## 2003-2004 BUDGET SPEECH<sup>1</sup>

### Measures concerning consumption taxes

The following measures were announced in the Budget Speech of March 11, 2003. The government's position on each of the measures and, where applicable, the terms and conditions governing the application of the measures, are given below.

#### Voluntary registration of Canadian freight carriers not resident in Québec

The announced changes to the Québec sales tax system, allowing Canadian freight carriers not resident in Québec to register voluntarily starting March 12, 2003, were incorporated into the tax legislation.

#### Fuel tax refund in respect of biodiesel fuel

The measure allowing a fuel tax refund in respect of biodiesel fuel starting March 12, 2003, was not incorporated into the fuel tax system. Accordingly, no refund of this tax will be allowed regarding biodiesel fuel acquired as of that date.

### Measures concerning income tax

#### BUSINESSES

##### Cité du multimédia New economy centres E-Commerce Place

The physical limits of the Cité du multimédia, new economy centres and E-Commerce Place were reduced. The available floor space should be sufficient to meet the needs of corporations that submitted, prior to June 12, 2003, a written application regarding the carrying out of activities in these designated sites. Consequently, the rental capacity of the designated buildings in the Cité du multimédia is approximately 80,000 square metres. The overall floor space of new economy centres and E-Commerce Place is 130,000 square metres and approximately 85,000 square metres, respectively.

##### Refundable tax credit for the Cité de l'optique

This tax credit was eliminated. However, qualified corporations for which a qualification certificate was obtained before June 12, 2003, along with corporations that applied for a qualification certificate before that date, may continue to claim the tax credit.

1. This is a summary of the document entitled *Additional Information on the Fiscal Measures*, which is available on the Web site of the Ministère des Finances at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca).

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## **Refundable tax credit for the Angus Technopole**

This tax credit was eliminated, according to terms and conditions similar to those indicated in the previous section.

## **Refundable tax credit for technological adaptation services**

The rate of this tax credit was reduced to 30%, for a 25% decrease in assistance. This change applies to qualified expenditures incurred by a qualified corporation after June 12, 2003, under a contract concluded after that date.

## **Refundable design tax credit**

The rate of this tax credit was reduced to 15%, for a 25% decrease in the tax credit rate. The rate may rise to 30% in the case of SMBs, depending on the amount of their assets. This change applies to qualified design activities carried out after June 12, 2003, under an outside consulting contract concluded after that date, and to wages incurred by a qualified corporation after that date regarding designers employed by the corporation.

## **Refundable tax credit for the production of multimedia titles (general component) and refundable tax credit for corporations specialized in the production of multimedia titles**

This tax assistance was reduced by 25%. As a result, new parameters apply on the basis of categories 1 (multimedia titles produced without having been ordered and intended to be commercialized) and 2 (other titles). The categories themselves are unchanged.

For the purposes of the general component of the credit, these changes apply to qualified labour expenditures incurred for multimedia titles on which the main production work begins after June 12, 2003. In the case of the tax credit for specialized corporations, the changes apply to qualified labour expenditures incurred after June 12, 2003.

When a corporation files an application for a qualification certificate, Investissement Québec is responsible for determining whether the corporation is the producer of the multimedia

title. The certificate is issued to the corporation only if it is the producer of the title. For the purposes of the general component, a qualified corporation is a corporation that holds a certificate issued by Investissement Québec regarding an eligible multimedia title. For the purposes of the tax credit for specialized corporations, a qualified corporation is a corporation that holds a certificate issued by Investissement Québec for the year. The definitions no longer refer to the requirement that the corporation carry on a business engaged in the production of multimedia titles. The other eligibility criteria remain under the jurisdiction of the Ministère du Revenu. The changes apply to a certificate issued to a corporation after June 12, 2003.

## **Refundable tax credit for the construction or conversion of vessels**

The rates of this tax credit and the limits based on the cost of construction or conversion were reduced by 25%. These changes apply to qualified construction or conversion expenditures incurred after June 12, 2003, unless the expenditures are attributable to an eligible vessel whose construction or conversion began no later than June 12, 2003.

## **Tax credit for resources**

The rates of this tax credit were reduced by 25%. In addition, the credit is now taxable under both the *Taxation Act* and the *Mining Duties Act*. These changes apply to eligible expenses incurred after June 12, 2003.

## **Five-year tax holiday for new corporations**

The tax assistance granted to new corporations was reduced by 25%. The income tax exemption now applies to 75% of income from an eligible business, and is calculated on the first \$200,000 of such income. The exemption from tax on capital now applies to 75% of paid-up capital, and is calculated on the first \$3 million of paid-up capital. These two changes apply to taxation years ending after June 12, 2003. Where a qualified corporation's taxation year includes June 12, 2003, the changes apply proportionately to the number of days in the year that follow that date.

The exemption from the employer contribution to the health services fund henceforth applies to 75% of the salaries and wages paid or deemed paid during a taxation year, and is calculated on the first \$700,000 paid in this regard. This change covers salaries and wages paid or deemed paid after June 12, 2003.

## **Ten-year tax holiday for small and medium-sized manufacturing businesses in remote resource regions**

The assistance granted to SMBs in remote resource regions was reduced by 25%. The deduction that may be claimed by a qualified corporation in the calculation of its taxable income is equal to 75% of the amount of its income from an eligible business. The deduction that may be claimed by a qualified corporation in the calculation of its paid-up capital is also equal to 75% of the paid-up capital. The tax holiday regarding the employer contribution to the health services fund that may be claimed by a qualified corporation also applies to 75% of the wages paid or deemed paid by a qualified corporation.

Where the paid-up capital of a qualified corporation is greater than \$20 million but less than \$30 million, the tax holiday respecting income, the tax on capital and the employer contribution to the health services fund must be reduced linearly. Where the paid-up capital calculated on a consolidated basis is equal to or greater than \$30 million, no deduction is allowed.

These changes apply to taxation years ending after June 12, 2003. However, where a qualified corporation's taxation year includes June 12, 2003, the changes apply proportionately to the number of days in the taxation year that follow that date. In the case of the tax holiday respecting the employer contribution to the health services fund, the change applies to the wages paid or deemed paid after June 12, 2003.

### **Deductions respecting a stock exchange business or a securities clearing-house business**

Eligible corporations may claim, in the calculation of their taxable income, a deduction equal to 75% of the amount representing their income for the year from eligible activities, for a 25% decrease in assistance. Other special rules apply.

### **Refundable tax credit respecting fund managers**

This credit was not renewed, and was terminated ahead of schedule, on June 12, 2003. However, the privileges associated with qualification certificates that have already been issued were maintained. The rate of the credit was cut from 40% to 30%, and the maximum annual amount of the credit is \$22,500. This change applies to qualified wages incurred by qualified corporations with regard to an eligible fund manager after June 12, 2003, for a period covered by the qualification certificate.

### **Refundable tax credit for communications between corporations and investors**

This measure ended on July 1, 2003, and was not renewed.

### **Measures concerning culture**

#### **Refundable tax credit for Québec film and television production**

The various rates of this tax credit were reduced by 12.5%. Moreover, the credit is now capped at \$2,187,500 for a film or series. These changes apply to film and television productions for which an application for an advance ruling or an application for a final certificate is filed with SODEC after August 31, 2003. They also apply to film and television productions for which the application for an advance ruling is filed with SODEC before September 1, 2003, where SODEC considers that the work on the productions was not sufficiently advanced on June 12, 2003. Special rules apply to series.

#### **Refundable tax credit for film dubbing**

The rate of this credit was reduced to 29.1667%. This change applies to productions on which dubbing is completed after August 31, 2003.

#### **Refundable tax credit for the production of sound recordings**

The rate of this tax credit was reduced to 29.1667%. Moreover, the credit is now capped at \$43,750. For information on the terms and conditions governing the application of this credit, see the section on the refundable tax credit for Québec film and television production.

#### **Refundable tax credit for the production of performances**

The rate of this tax credit was reduced to 29.1667%. Moreover, the credit is now capped at \$262,500. These changes apply to labour expenditures incurred after June 12, 2003. Special rules apply to labour expenditures incurred regarding a period extending from the preproduction of a show to the end of the first full year following the first performance of the show before an audience.

#### **Refundable tax credit for book publishing**

The rate of the refundable tax credit for book publishing applicable to preparation work was reduced to 35%. The rate applicable to printing costs was reduced to 26.25%. With regard to an eligible work or a work that is part of an eligible group of works, the credit is now capped at \$437,500. For information on the terms and conditions governing the application of this credit, see the section on the refundable tax credit for Québec film and television production.

#### **Maintenance of the level of assistance granted under the refundable tax credit for film production services**

The rate of the tax credit and the increase in respect of labour expenditures incurred to produce computer-aided special effects and animation as part of a production giving entitlement to this tax credit were maintained at 11% and 20%, respectively.

### **Notion of qualified corporation for the purposes of certain tax credits relating to the cultural field**

Only corporations controlled by a corporation that has a cultural mission and is exempt from income tax are excluded corporations for the purposes of the tax credit for film production services, the tax credit for the production of performances and the tax credit for the production of sound recordings. In the case of the tax credit for film production services, this change applies to the taxation year of corporations ending after February 12, 1998. In the case of the tax credit for the production of performances and the tax credit for the production of sound recordings, it applies to the taxation year of corporations ending after March 9, 1999.

### **Updating of the Regulation respecting the recognition of film as Québec film**

Changes were made to the list of classes of excluded productions so that certain productions are henceforth ineligible for recognition as Québec films. Documentaries must henceforth comprise a minimum of 30 minutes of programming, or of 30 minutes of programming per episode in the case of a series, in order to be recognized as an eligible production. In addition, only variety shows that satisfy certain criteria are considered eligible for recognition as a Québec film. In the case of a series, each episode must be part of the same class of eligible productions in order to be recognized as a Québec film.

These changes apply to film and television productions for which an application for an advance ruling or an application for a final certificate is filed with SODEC after August 31, 2003. They also apply to film and television productions for which the application for an advance ruling is filed with SODEC before September 1, 2003, where SODEC considers that the work on the productions was not sufficiently advanced on June 12, 2003. Special rules apply to series.



### **Measures concerning culture: regulatory concordance amendments**

The rules governing the tax credit for film production services and the tax credit for film dubbing were amended in order to incorporate the changes announced regarding the regulation governing the tax credit for Québec film and television production. In the case of the tax credit for film production services, these changes apply in the same way as those in the previous section. In the case of the tax credit for film dubbing, they apply to dubbed productions for which an application for a final certificate is filed with SODEC after August 31, 2003.

### **Elimination of the reduced taxation rate for savings and credit unions**

The reduced taxation rate is eliminated for taxation years ending on or after June 12, 2003. However, for taxation years that include June 12, 2003, the amount of the reduction will be calculated proportionately to the number of days in the taxation year that precede that date.

### **Exclusion of specialized equipment manufacturing activities from the application of various refundable tax credits granted in certain regions**

#### **Refundable tax credit for processing activities in the resource regions**

The notion of certified business was changed to exclude businesses that carry out certain activities, such as the manufacturing of specialized equipment for logging, mining or wood or metal processing. Related installation and commercialization activities are also excluded.

However, qualified corporations for which a qualification certificate was issued before June 12, 2003, in regard to these activities, may claim the tax credit for the 2003 calendar year. So may corporations carrying out activities covered by this change, for which an application for a qualification certificate was filed before June 12, 2003. Furthermore, where the application for a qualification certificate was filed on

or after June 12, 2003, but before January 1, 2004, Investissement Québec may nonetheless, in exceptional cases, issue a certificate to a corporation for activities covered by this change.

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

The notion of certified business was changed according to the same terms and conditions as those for the refundable tax credit for processing activities in the resource regions. Consequently, the notion now excludes businesses whose activities involve the manufacturing of specialized equipment for the production of wind power and the manufacturing of specialized equipment for mariculture. Related installation and commercialization activities are also excluded.

#### **Refundable tax credit for the Vallée de l'aluminium**

The notion of certified business was changed according to the same terms and conditions as those for the refundable tax credit for processing activities in the resource regions. Consequently, the notion now excludes businesses whose activities consist in manufacturing specialized equipment for aluminum production or aluminum processing businesses. Related installation and commercialization activities are also excluded.

The rate of these three tax credits was reduced to 30%, for a 25% decrease in assistance. This change applies as of the 2004 calendar year. For the 2003 calendar year, the rate is 35%. Special rules apply to qualification certificates and eligible employees as of the 2003 calendar year.

Where a qualified corporation carries on two or more businesses for which qualification certificates were issued, these certified businesses will constitute a single certified business **for the purposes of these tax credits**. Accordingly, the increase in payroll will be calculated for all certified businesses carried on by a qualified corporation. Similarly, where a corporation gives entitlement to more than one tax credit, it must calculate the increase in payroll for all certified businesses for the purposes of these tax credits. These changes apply as of the 2003 calendar year.

### **Suspension of the reduction in the tax on capital rates and more significant increase in the deduction of \$250,000 in paid-up capital**

The tax on capital rate of corporations that are not financial institutions will not be further reduced for 2004 and subsequent calendar years. The tax on capital rate of these corporations is therefore maintained at 0.6%. Similarly, the tax on capital rate of financial institutions is maintained at 1.2%.

The maximum deduction, which was to have been \$500,000 as of January 1, 2004, was raised to \$600,000 for 2004 and subsequent calendar years. However, the reduction of the maximum deduction depending on size was maintained. The maximum deduction will be partially reduced for 2004 and subsequent calendar years, where paid-up capital is between \$600,000 and \$2,400,000.

Lastly, given that corporations governed by an act establishing a labour-sponsored fund, as well as Capital régional et coopératif Desjardins, can no longer claim a tax exemption, they will henceforth be allowed to claim this deduction in calculating their paid-up capital, according to the same terms and conditions as those that apply to other corporations, including for all of the 2003 calendar year.

### **Elimination of the two-year holiday from tax on capital**

The holiday from tax on capital was eliminated respecting property acquired after June 12, 2003, unless the property was acquired after June 12, 2003, but not later than one year after that date, in accordance with a written undertaking contracted no later than June 12, 2003, or unless construction of the property by or on behalf of the corporation or the partnership, where applicable, began not later than June 12, 2003.

### **Elimination of the deduction in the paid-up capital of savings and credit unions and certain financial institutions**

This deduction was eliminated for taxation years ending on or after June 12, 2003. However, in the case of a taxation year that includes June 12, 2003, the deduction will be calculated proportionately to the number of days in the taxation year that precede that date.

### **Clarification concerning the control of a corporation for the purposes of refundable Québec tax credits**

For the purposes of determining a corporation's eligibility for refundable Québec tax credits, the shares of a corporation owned by a partnership are considered to be owned by each member of the partnership, in proportion to the distribution of the partnership's income or loss among them for the fiscal period. These changes apply to the taxation year of a corporation that begins after June 12, 2003.

### **Clarification concerning the notion of eligible employee for the purposes of various refundable tax credits**

Further to a clarification applicable as of the 2003 calendar year, the notion of eligible employee provides that "period" used therein refers to a pay period, for the purposes of the following tax credits: the tax credit for job creation in the optics industry in the Québec City region; the tax credit for job creation in the manufacturing or environmental sector in the Angus Technopole; the tax credit for E-commerce activities carried out in certain designated sites; the tax credit for biotechnology development in certain designated sites; the tax credit for nutraceuticals and functional foods; and the tax credit for innovation centres.

The following measures were announced in the Budget Speech of March 11, 2003. The government's position on each of the measures and, where applicable, the terms and conditions governing the application of the measures, are given below.

### **Measures to encourage hiring in remote resource regions**

#### **Introduction of a refundable tax credit for hiring new graduates**

This fiscal measure was not retained. However, it applies to eligible salaries incurred after March 11, 2003, for eligible employees hired after March 11, 2003, but no later than June 12, 2003.

#### **Improvement to the tax credit for an on-the-job training period**

This fiscal measure was not retained. However, it applies to qualified expenditures incurred after March 11, 2003, for a qualified training period that began after March 11, 2003, but no later than June 12, 2003.

### **Introduction of a temporary refundable tax credit for the construction of public access roads and bridges in forest areas**

This fiscal measure was not retained. However, it applies to expenses relating to the construction of eligible access roads and bridges incurred by a corporation or partnership after March 11, 2003, but before June 12, 2003, or, in certain cases, on or after June 12, 2003, but before January 1, 2004.

### **Partial withdrawal of the limit on the deductibility of patronage dividends paid by a co-operative**

This fiscal measure was not retained.

### **One-year extension of tax benefits relating to flow-through shares**

The changes announced in regard to this one-year extension of the flow-through share system were introduced. However, they will be adapted to reflect the changes announced on June 12, 2003 (see page 9).

### **Streamlining relating to an innovative project carried out in a designated site**

The measures streamlining existing rules were introduced as announced, and those regarding transition rules will be applied by Investissement Québec as announced. The measures were designed to better respond to the concerns of corporations seeking to take advantage of the fiscal measures regarding the carrying out of an innovative project in a designated site, when they earn investment income before an application for a qualification certificate is submitted concerning their innovative project.

### **Consolidation of certain responsibilities with Investissement Québec**

As announced, certain responsibilities were entrusted to Investissement Québec. They were previously assumed by the Bureau du commerce électronique in regard to eligible activities carried out in E-Commerce Place and E-commerce activities carried out in certain designated sites.

### **Simplification of the refundable tax credit for corporations specialized in the production of multimedia titles**

The two changes relative to this measure were introduced as announced. The first change concerns the definition of "eligible multimedia title," which was broadened to include any multimedia title produced by a specialized corporation, other than a title excluded by Investissement Québec. The second change allows for the introduction of a consultation power under which the Ministère du Revenu can refer to Investissement Québec regarding the eligibility of production work relating to a multimedia title.

## **Adjustments to the five-year tax holidays granted to certain foreign employees**

The adjustments were introduced as announced. Further to the adjustments, the presumption that an individual is deemed to have resided in Québec throughout a taxation year if, during that year, he or she stayed for one or more periods totalling at least 185 days will not apply to these tax holidays. The adjustments also ensure that the respective roles of the Ministère du Revenu and the sectoral organizations charged with administering certain eligibility conditions regarding these tax holidays remain complementary.

## **Eligibility for various tax incentives of certain corporations that do not pay tax**

The adjustment to create a general application rule stipulating the ineligibility of exempt corporations for incentive measures such as tax exemptions or tax holidays was introduced as announced. However, the adjustment does not apply to exempt corporations regarding a tax holiday for a major investment project for which a detailed application to obtain the tax holiday was submitted before March 11, 2003.

Moreover, given the elimination of certain tax benefits that may currently be claimed by labour-sponsored funds, the restriction announced on March 11, 2003, regarding the eligibility of corporations governed by an act establishing a labour-sponsored fund for incentives such as tax exemptions or tax holidays is no longer needed. The restriction on the eligibility of a labour-sponsored fund for refundable tax credits provided for under the taxation system, in regard to expenses incurred after June 12, 2003, is also no longer needed. However, the ineligibility of expenditures incurred by a labour-sponsored fund during the period from March 12, 2003, through June 12, 2005, relative to refundable tax credits provided for under the taxation system, was maintained.

## **Clarification concerning international financial centres**

This clarification was introduced as announced. Its purpose is to ensure that the Minister of Revenue cannot disqualify, as a qualified international financial transaction, a transaction covered by a certificate issued by the Minister of Finance.

## **Tightening measures to ensure a portion of the funding for the new Québec film and audiovisual production policy**

The change lowering the rate of the cap on labour expenditures from 50% to 45% based on the production costs of a Québec film was not incorporated into the legislation. The change to broadcasting times during which a variety or magazine-type television show must be broadcast in order to qualify as a Québec film was not incorporated either. The change introducing a new requirement for original productions in a language other than French was introduced as announced.

Regarding the changes stemming from the end of the eligibility period of private broadcasters for tax credits for film production, the adjustments to the notions of qualified corporation and qualified production were introduced as announced. However, the terms and conditions governing the application of the changes to the notion of qualified labour expenditure were adjusted to protect productions that were under way at the time of the disqualification of the remuneration reasonably attributable to the employees of a broadcaster or of a corporation that is not dealing at arm's length with a broadcaster.

## **Addition of a new component to the regional increase for a Québec film or television production**

This fiscal measure was not retained.

## **Other measures regarding culture**

### **Refundable tax credit for Québec film and television production**

The technical changes concerning certain notions—namely, qualified corporation, government assistance, non-government assistance and production costs—of the refundable tax credit for Québec film and television production, along with the clarifications regarding the period, beyond post-production, during which costs may be incurred for the production of a film, were generally incorporated into the tax legislation as announced. However, a clarification was made to the notion of financial contribution from a government, a municipality or other administration in order to specify that income derived from the operation of property does not constitute a financial contribution attributable to the property for the purposes of the notion of amount of assistance.

### **New exclusion for the application of the tax credit for the production of sound recordings**

The rules were changed to stipulate that a sound recording that is a component of a game is not a qualified sound recording for the purposes of the tax credit for the production of sound recordings.

### **Concordance changes regarding certain refundable tax credits relating to the cultural field**

The change to the notion of qualified corporation was introduced as announced. Another change stipulated that the amount of any financial contribution, other than an excluded amount, that is attributable to a production, a dubbed version of a production, a show, a sound recording or a work, as the case may be, regardless of its form, and that is provided, directly or indirectly, by a government, a municipality or other administration would be considered a reducing amount of assistance for the purposes of the tax credit for film production services, the tax credit for film dubbing, the tax credit for the production of performances, the tax credit for the production of sound recordings and the tax credit for book publishing. It was also generally incorporated into the tax legislation as announced.



However, a clarification was made to the notion of financial contribution from a government, a municipality or other administration in order to specify that income derived from the operation of property does not constitute a financial contribution attributable to the property for the purposes of the notion of amount of assistance.

#### **Standardization of rules for the purposes of tax credits relating to the cultural field**

The following changes were introduced as announced: the changes designed to simplify the calculation of production costs, printing costs and preparation costs; the change to the notion of qualified labour expenditure for the purposes of each tax credit in the cultural field; and the changes to simplify the administration of these tax credits by the Ministère du Revenu.

#### **Relaxation of the investment requirements imposed on certain mutual fund corporations**

It was announced that various amendments would be made to the *Act to establish the Fonds de solidarité des travailleurs du Québec (F.T.Q.)*, the *Act to establish Fondation, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* and the *Act constituting Capital régional et coopératif Desjardins* to streamline the investment requirements of corporations constituted under these laws. The amendments announced were retained.

#### **Elimination of the transfer pricing penalty**

As announced, the tax legislation will be amended to eliminate the transfer pricing penalty retroactive to its effective date.

#### **Clarifications concerning transfers from a Farm Income Stabilization Account (FISA)**

The changes providing for special terms and conditions governing authorized transfers from a FISA were introduced as announced.

## **Measures concerning income tax**

### **BUSINESSES AND INDIVIDUALS**

#### **Fiscal measures relating to the carrying out of an innovative project**

##### **Elimination of fiscal measures**

The fiscal measures relating to the carrying out of an innovative project in certain designated sites were generally eliminated as of June 12, 2003. However, exempt corporations, along with corporations for which an application for a qualification certificate was submitted to Investissement Québec before June 12, 2003, may continue to take advantage of these fiscal measures, according to the existing terms and conditions. Moreover, foreign specialists employed by a corporation that is still eligible for these fiscal measures may also continue to take advantage of a tax holiday, according to the prior rules.

##### **Specific case of innovative projects carried out in the biotechnology sector in a biotechnology development centre (BDC)**

Corporations that have already obtained a qualification certificate for carrying out an innovative project in the biotechnology sector in a BDC, along with corporations for which an application for a qualification certificate was submitted to Investissement Québec before June 12, 2003, may continue to take advantage of these fiscal measures, according to the terms, conditions and level of assistance provided for. As for the other corporations, the five-year tax holiday regarding income tax, tax on capital and the employer contribution to the health services fund was reduced by 25%.

The rate of the refundable tax credit respecting salaries and wages, the refundable tax credit regarding eligible specialized equipment and the refundable tax credit for the short-term rental of eligible specialized facilities was reduced from 40% to 30%.

#### **Fiscal measures relating to the carrying out of specified activities**

The fiscal measures relating to the carrying out of specified activities in certain designated sites were eliminated. However, specified corporations for which a qualification certificate was obtained before June 12, 2003, along with corporations for which an application for a qualification certificate was submitted to Investissement Québec before June 12, 2003, may continue to take advantage of these fiscal measures, according to the terms and conditions provided for. Moreover, foreign specialists employed by a corporation that is still eligible for these fiscal measures may also continue to claim a tax holiday, according to the prior rules.

#### **Fiscal measures relating to biotechnology development, nutraceuticals and functional foods, innovation centres, the carrying out of eligible activities in E-Commerce Place and E-commerce activities**

These refundable tax credits for the development of activities in certain designated sites were eliminated, according to the terms and conditions indicated in the previous section. In addition, changes based on those terms and conditions were made to the tax holiday for foreign specialists.

#### **Montréal international trade zone at Mirabel**

The tax holidays respecting income tax, tax on capital and the employer contribution to the health services fund, as well as the refundable tax credits regarding the salaries and wages of eligible employees, the fees incurred for an eligible customs brokerage contract and the acquisition expenses or rent paid for eligible equipment, were eliminated.

However, corporations may continue to take advantage of these tax benefits if they carry on a business regarding which a qualification certificate was in effect on June 12, 2003, or if they submitted an application to the Société de développement, before June 12, 2003, regarding a business they plan to carry on in the Montréal zone. Foreign specialists employed by such a corpora-

tion may also continue to claim the tax holiday, according to the prior rules.

In addition, the refundable tax credit for the construction, renovation or alteration of strategic buildings was eliminated. In certain situations, corporations may continue to claim this credit. However, in all situations, only eligible construction, renovation or alteration expenses incurred for work carried out no later than 12 months after June 12, 2003, give entitlement to the credit.

Lastly, since there will be no new recognized businesses after June 12, 2003, the requirement relating to the use of strategic buildings was eased to shorten the recapture period of the refundable tax credit for construction, renovation or alteration of strategic buildings.

### **Refundable tax credit for an on-the-job training period**

The rate of this tax credit is 30% if the taxpayer is a corporation and 15% in other cases, for a 25% reduction in assistance. This reduction applies to qualified expenditures incurred after June 12, 2003, for qualified training periods beginning after that date.

### **Refundable tax credit for railway businesses**

The rate of this tax credit was reduced to 56.25%. This change applies to the eligible property taxes of a taxpayer for a taxation year ending after June 12, 2003, or to the eligible property taxes of a partnership for a fiscal period ending after that date. However, in the case of a taxation year or fiscal period that includes June 12, 2003, this change applies to eligible property taxes calculated in proportion to the number of days in the year or period that follow that date.

### **Refundable tax credit respecting the reporting of tips**

The tax assistance granted as a refundable tax credit respecting the reporting of tips was reduced by 25% for the taxation years of an employer (or the fiscal periods of an employer that is a partnership) ending after June 12, 2003.

### **International financial centres (IFCs)**

The deduction that may be claimed by the operators of an IFC that is a corporation, in the calculation of taxable income for a taxation year, is equal to 75% of the amount representing the income derived from the operation of the IFC for the year. This represents a 25% decrease in assistance. This change applies to taxation years ending after June 12, 2003. However, in the case of a taxation year that includes June 12, 2003, the change applies proportionately to the number of days in the taxation year that follow that date. These changes also apply to a member of a partnership that operates an IFC.

The deduction that may be claimed by the operator of an IFC that is a corporation, in the calculation of paid-up capital for a taxation year, was also reduced to 75%, as was the exemption from the employer contribution to the health services fund, with respect to salaries paid that are attributable to a period subsequent to June 12, 2003.

### **Refundable tax credit respecting the apprenticeship period of a specialized IFC employee**

The privileges associated with eligibility certificates that have already been issued were maintained; however the tax credit was not renewed, and was terminated ahead of schedule, on June 12, 2003. To be considered, applications for an eligibility certificate must have been submitted no later than June 11, 2003.

Moreover, the rate of this refundable tax credit was reduced from 40% to 30%. Consequently, the maximum annual amount of the credit is now \$22,500. This modification applies to qualified wages incurred by an IFC operator in regard to an eligible specialist after June 12, 2003, relative to a period covered by the annual certificate issued to the operator with regard to the specialist.

### **Refundable tax credit for financial analysts specialized in securities of Québec corporations or in financial derivatives**

This tax credit was changed according to the terms and conditions indicated in the previous section.

### **Refundable tax credit fostering the participation of securities dealers on the NASDAQ stock exchange**

Once it expires on December 31, 2003, this measure will not be renewed.

### **Deduction for independent traders of financial derivatives**

Once it expires on July 1, 2004, this measure will not be renewed.

### **Refundable tax credit respecting the maintenance of a racehorse**

Once it expires on January 1, 2004, this measure will not be renewed.

### **Tax holiday for major investment projects**

A moratorium was imposed on this tax holiday. No new applications will be accepted during the review period. The moratorium applies to investment projects for which an application for the tax holiday was not made before June 12, 2003.

### **Québec business investment companies (QBICs)**

The relevance of the QBIC system is under examination. A moratorium is in effect during this period, with regard to investments made by QBICs after June 12, 2003.<sup>1</sup> Thus, investments made in a qualified corporation after that date will not entitle individuals to claim a deduction respecting an investment in a QBIC.

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1. Changes were made by the Ministère des Finances on July 18, 2003, as announced in information bulletin 2003-03, which is available on the Web site of the Ministère des Finances at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca).



Furthermore, the definition of "convertible preferred share" was withdrawn and replaced with the definition of "convertible share." Lastly, a clarification was made to the definition of "common share with full voting rights" in order to specify that, regarding a qualified corporation, this category of shares excludes a share that enjoys a conversion privilege. These changes apply to convertible shares issued by a qualified corporation after July 11, 2002.

### **Co-operative investment plan (CIP)**

The relevance of the CIP is under examination. As of June 13, 2003, and throughout this examination, no co-operative, other than a work co-operative, will be issued a qualification certificate authorizing it to issue qualifying preferred units in the CIP.

In addition, where, on June 12, 2003, a qualified co-operative other than a work co-operative had authorization to issue qualifying preferred units in the CIP, that authorization is restricted (subject to the revocation of the eligibility certificate) solely to units that must be issued to satisfy a commitment concluded in writing no later than June 12, 2003, with an eligible worker as part of a workers investment program. Accordingly, preferred units acquired by a taxpayer after June 12, 2003, may give entitlement to a tax benefit solely if they are acquired from a work co-operative holding a CIP qualification certificate or from any other co-operative holding such a certificate provided, in the latter case, that such units were acquired as part of an investment program for workers in accordance with a written agreement concluded no later than June 12, 2003, between the taxpayer and the co-operative. The tax benefit relating to the acquisition of such units after June 12, 2003, was reduced by 25%.

### **Measures specific to the Québec flow-through share system**

A moratorium was imposed on the deduction for certain issue expenses and on the additional capital gains exemption respecting certain resource property. The deductions relating to flow-through share issue expenses may no longer be renounced to an investor. As regards the additional cap-

ital gains exemption respecting certain resource property, no amount may be added to the historical account for flow-through shares acquired and covered by the moratorium, and no share covered by the moratorium may give entitlement to the additional capital gains exemption.

The moratorium applies to flow-through shares issued after June 12, 2003. It does not apply, however, to shares acquired after that date, where they were issued either following a private placement made no later than June 12, 2003, or following an application for a receipt for a final prospectus or for an exemption from filing a prospectus made no later than that date.

### **Measures concerning scientific research and experimental development (R&D)**

The rate for each of the refundable R&D tax credits was reduced by 12.5%. Thus, the rate of the refundable tax credit for R&D salaries and wages is now 17.5%. However, a Canadian-controlled corporation may benefit, depending on the amount of its assets, from a rate varying between 17.5% and 35%, according to the same terms and conditions as those that applied before June 12, 2003. The rate of the tax credits for university research, pre-competitive research, catalyst projects or environmental technology innovation projects and the rate for fees to an eligible research consortium are now 35%. This change applies to R&D expenditures incurred after June 12, 2003, for R&D carried out after that date under a contract concluded after that date.

In addition, the additional refundable tax credit based on the increase in R&D expenditures no longer applies to the taxation years of corporations that begin after June 12, 2003. The terms and conditions governing the application of the credit are unchanged for corporations whose taxation year began on or before that date.

Certain changes were made to the contribution rules respecting refundable R&D tax credits. The streamlining of the contribution rules under which an R&D project gives entitlement to refundable R&D tax credits—even if an eligible university entity or an eligible public research centre subscribes for shares of the capital stock of a corpo-

ration that mandates it to carry out work on such an R&D project—applies solely to shares of a corporation's capital stock comprising a number of votes in the corporation under any circumstances, regardless of the number of shares held. This change applies to R&D expenditures incurred after June 12, 2003, with respect to R&D carried out after that date, under a contract concluded after that date.

The eligibility requirement for a corporation, regarding the persons who control it, also applies to the refundable tax credit for R&D salaries and wages. In addition, the control of a corporation relative to a research contract is determined for a period subsequent to the contract, and control by several entities is taken into account. These changes apply to the refundable tax credit for R&D salaries and wages solely in cases where a corporation subcontracts R&D work, as part of a research contract, to an eligible university entity, an eligible public research centre or an eligible research consortium. They also apply to R&D expenditures incurred after June 12, 2003, with respect to R&D carried out after that date, under a contract concluded after that date.

A direct or indirect financial contribution made by an eligible university entity or an eligible public research centre no longer prevents an R&D project from giving entitlement to refundable R&D tax credits. However, the funding authorized will reduce the refundable R&D tax credits that may be claimed by a corporation having concluded a research contract with such an entity or centre. Moreover, special conditions limiting the financial contribution of such entities or centres will be introduced.

Lastly, the following points will be clarified: the financial contribution of a research applications organization, where the university entity or university research centre carrying out the R&D is not a member of the organization and the contribution is not a subscription for shares having full voting rights or eligible funding.

## Reduction in government support for labour-sponsored funds and Capital régional et coopératif Desjardins

### Elimination of the income tax exemption

For any taxation year ending after June 12, 2003, the Fonds de solidarité des travailleurs du Québec, Fondation and Capital régional et coopératif Desjardins are no longer authorized to deduct, in the calculation of their taxable income, an amount not exceeding their taxable income for the year.

In the case of a taxation year that includes June 12, 2003, these investment corporations can deduct, in the calculation of their taxable income, an amount not exceeding the portion of that income that corresponds to the number of days in the year that precede the day following June 12, 2003.

Moreover, Capital régional et coopératif Desjardins and labour-sponsored funds may claim the refundable tax credits granted to corporations for expenses incurred after June 12, 2003.

### Temporary limit on government assistance for capitalization

The government contribution to the growth of the Fonds de solidarité des travailleurs du Québec, Fondation<sup>1</sup> and Capital régional et coopératif Desjardins was reduced by 50% for the capitalization period beginning in 2003.

### Clarification concerning amounts giving entitlement to a tax credit

A declaratory amendment will be made to the tax legislation to specify that the amount paid by an individual to purchase defined-class shares corresponds solely to the issue price paid in respect of the shares.

### Non-deductibility of the cost of borrowing to purchase defined-class shares

As of the 2003 taxation year, individuals are not allowed to deduct, in the calculation of their income, an amount paid in accordance with a legal obligation to pay interest on a loan used to purchase defined-class shares in any of these corporations.

## Elimination of tax benefits for accelerated depreciation of certain property

The measures respecting the accelerated depreciation of 100% of the capital cost of certain property used in Québec, the additional deduction of 20% and the supplementary deduction of 25% were, in general, eliminated in regard to property acquired after June 12, 2003.

## Introduction of a cap on deductible entertainment expenses

As of June 12, 2003, entertainment expenses that are subject to a 50% deduction limit in the calculation of a taxpayer's business or property income are now also capped at an amount equal to 1% of the taxpayer's annual sales. However, those entertainment expenses that are exempt from the 50% limit are also exempt from the 1% ceiling.

Where a taxpayer's income for a taxation year is earned through a partnership, the 1% ceiling applies to the partnership and is calculated in proportion to the partnership's sales for its fiscal period ending in the taxation year. For the purposes of calculating the 1% ceiling, a taxpayer's or a partnership's sales correspond to its gross income. However, exceptions apply in the case of regular trips and sales agencies.

These changes apply to a taxation year or fiscal period ending after June 12, 2003. In the case of a taxation year or fiscal period that includes that date, the changes apply to entertainment expenses and sales calculated in proportion to the number of days in the taxation year or fiscal period that follow that date.

## Streamlining in relation to the temporary absence of an employee whose remuneration is normally eligible for tax assistance

In certain circumstances, tax assistance is now available respecting employees who receive remuneration from their employer further to a temporary absence from work for reasons—such as sickness or maternity leave—that are considered reasonable. This streamlining measure applies to certificates and assessments issued after June 12, 2003.

## Measures concerning income tax

### INDIVIDUALS

#### The measures announced pertain to

- five-year tax holidays granted to certain foreign employees;
- tax benefits relating to flow-through shares;
- deductions for security options;
- the tax holiday for seamen engaged in international freight transportation;
- the partial tax holiday for international financial centre (IFC) employees;
- the Québec stock savings plan (QSSP).

Further details concerning these measures will be given in the next issue.

#### The following measures were announced in the Budget Speech of March 11, 2003:

- the new tax credit for caregivers;
- the introduction of a refundable tax credit for maternity or adoption leave taken by self-employed workers;
- the introduction of a refundable tax credit for new graduates working in a remote resource region;
- an increase in the tax assistance granted to residents of remote resource regions regarding interest paid on a student loan;
- the introduction of tax relief for employee transit passes;
- an increase in the medical expenses deductible for dependants;
- recognition of public lending rights for the application of the copyright deduction;
- a simplification of the tax treatment of donations made by members of a religious order;
- additional eligible adoption expenses for individuals residing in outlying regions.

The government's position on each of the measures and, where applicable, the terms and conditions governing the application of the measures, will be given in the next issue.

1. Changes were made by the Ministère des Finances on July 18, 2003, as announced in information bulletin 2003-03, which is available on the Web site of the Ministère des Finances at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca).

## Elimination of the registration duties for electric road vehicles

The measure providing for the elimination of registration duties for electric road vehicles was not retained. Accordingly, registration duties remain applicable for such vehicles.

GST  
QST

## B-6, I-19, N-41, G-53, O-72 ... BINGO!

The GST and the QST generally apply to the rental of a hall and to the services rendered by a bingo hall operator to the holder of a bingo licence. Although most bingo hall operators are profit-oriented, some are non-profit organizations. Holders of a bingo licence are charities or religious organizations.

The services rendered by a bingo hall operator usually consist in the organization of a bingo game for the benefit of the holder of a bingo licence. Bingo hall operators must collect GST and QST on these services, regardless of whether they are non-profit organizations.

Some bingo hall operators retain (from bingo proceeds) the amounts required to cover the expenses incurred to organize the games. Bingo hall operators must collect GST and QST on such amounts, even if no invoice is issued.

Where a transaction involving a bingo hall operator consists solely in the rental of a bingo hall to one or more holders of a bingo licence, the bingo hall operator must collect GST and QST on the amount charged for rent. If the parties are not dealing at arm's length, this amount must reflect the fair market value.

Note that a bingo hall operator may claim input tax credits (ITCs) and input tax refunds (ITRs) for GST and QST paid or payable on expenses incurred to provide a service or carry out a taxable rental transaction.

The holder of a bingo licence may, because of its status as a charity, apply for a rebate (50%) of the taxes paid or payable.

During a game, the sale of bingo cards is not subject to GST and QST. The taxes therefore need not be collected on such sales.





## Are Hospital Beds Taxable or Zero-Rated?

As indicated in the issue of *Tax News* for the third quarter of 2001, hospital beds are zero-rated if they are supplied to health-care institutions or on prescription to incapacitated persons. The prescription must specify that the person named requires a hospital bed because of his or her incapacity. The bed need not be sold to the person named in the prescription, but must be intended for that person.

The term "hospital bed" is used here to specify a type of bed. As a hospital is an institution where medical care is provided and surgical procedures (including childbirth) are carried out, a hospital bed must facilitate patient care and ensure patient safety.

As a rule, hospital beds have the following features, among others: a tilting, rigid mattress deck (generally of metal or of rigid panels), a mattress deck with height and tilting mechanisms, a headboard and a footboard, side rails, legs that assemble with castors, shock absorbers and bumpers, and attached drip (intravenous) pole.

Some of these features are common to all hospital beds. However, a bed is not necessarily a hospital bed because it has some of the features described above. To be a hospital bed, the bed must be designed for patient care and ensure patient safety.

This means that reclining or adjustable electric beds available for sale by furniture retailers for domestic and not hospital use do not constitute hospital beds. Such beds are designed for improved comfort, not for patient care and safety needs.

The QST and the GST must therefore be collected on the sale of reclining or adjustable electric beds, or on the sale of any beds that are not hospital beds, even if a medical prescription is presented.

## Important Information Concerning the Tax on Lodging

Since July 1, 2003, a specific tax on lodging has been charged for each sleeping-accommodation unit rented in a sleeping-accommodation establishment located in the Gaspésie and Centre-du-Québec tourist regions. For more information on this tax, please consult the issue of *Tax News* for the second quarter of 2002.

## Computer System Update

The Ministère du Revenu is currently revamping its computer systems. While the dealings of taxpayers and agents with the Ministère will, in the main, not be affected by this overhaul, a number of changes are in the works, most of which will be communicated at a later date. For now, corporations and agents should take note that the numbers they use in their dealings with the Ministère will soon be modified.

### Corporation identification number (income tax purposes)

The number currently in use by corporations is called a registration number. It is to be replaced by identification and file numbers in the following format: 9999999999 IC<sup>1</sup> 0001. A number of corporations are already familiar with this type of number, because it is used for the purposes of source deductions and consumption taxes.

Beginning on December 6, 2003, and over the course of a transition period ending in November 2005, the Ministère will be assigning these new identification numbers to corporations. During this period, it is likely that certain documents sent by the Ministère will have either the registration number or the identification and file numbers.

### GST account number

In April 2004, the Ministère will be replacing the 9-position number used to identify businesses for GST purposes in Québec with the 15-position Business Number, which the Canada Customs and Revenue Agency (CCRA) has used since 1995 for the purpose of managing its various accounts. The Ministère needs to make this adjustment in order to improve its administration of the GST in Québec. For GST purposes, the new number will be in the following format: 99999 9999 RT9999.

For most businesses, the first nine positions of the new GST account number will be the same as those of the number currently used. However, in the case of the branches of a business, the first nine positions will correspond to the Business Number used by the CCRA for the business's head office.

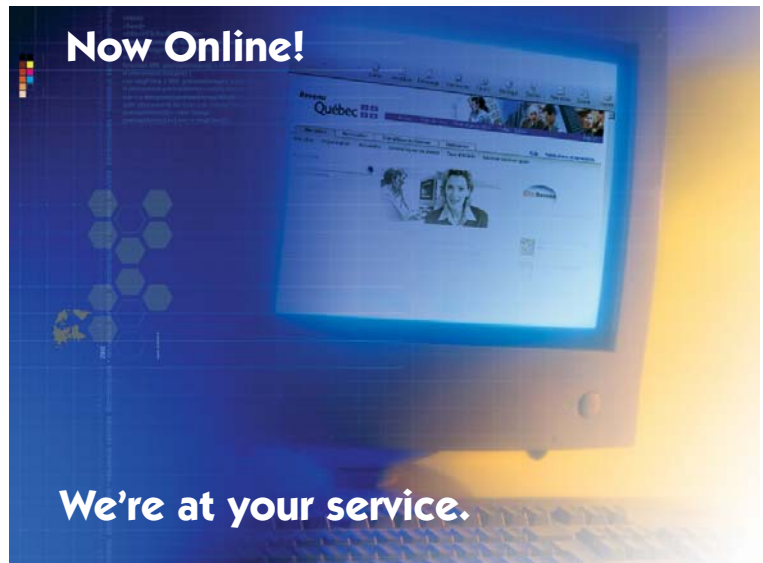
As of April 13, 2004, the Ministère will begin to use the 15-position number in its dealings with GST agents who, in turn, will gradually be required to use this number in their correspondence and electronic communications with the Ministère, as well as with their customers and business partners. This means that the agents will have to adapt their computer systems and change their stationery (invoices, in particular), if applicable.

The Ministère will soon be in touch with GST agents in order to provide them with more information concerning the use of the new GST number.

1. The letters IC refer to corporation income tax.

## The New Electronic Services of the Ministère du Revenu

For some time now, individuals and businesses have had the option of using the various electronic services provided by the Ministère du Revenu. In 2001, the Ministère began developing a range of electronic services in order to take greater advantage of the new technologies on the market. In our issue for the fourth quarter of 2002, we provided an overview of these services. In this column, the first of a series presenting the new electronic services in more detail, we will explain how to validate a QST registration number.



### Validation of a QST registration number: A user-friendly electronic service

Confirm the validity of a QST registration number in seconds! This is one of the new services that has been available since December 2002, when the first phase of the new electronic services went online. You may now confirm a QST registration number quickly and easily, even if you are not registered for Clic Revenu electronic services. To do so, go to the home page of the Ministère ([www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca)) and click on **Validation of a QST registration number**.

#### Users

Individuals and businesses may use this service to confirm a QST registration number and request the name associated with the number. However, since businesses have no legal obligation to inform the Ministère du Revenu of their corporate names, the Ministère does not keep a record of all the corporate names used by a business. If no corporate name is on file, the Ministère will display the name of the business.

#### Purpose


When you are claiming an input tax refund (ITR), the documentary proof you are required to submit must include your supplier's registration number. You may use this new electronic service to validate the number.

#### Validation process

Before you use this service, make sure you have the number to be confirmed close at hand. The QST registration number has 16 characters: 10 digits, followed by the letters "TQ" and 4 more digits (example: 9999999999 TQ 0001). Please note that the file number, TQ 0001, is displayed by default, because most registrants have only one QST file. However, since some businesses may have more than one file, make sure that you have obtained from the supplier the QST number you wish to validate. Once you have entered this number, you can change the default number as necessary. If applicable, indicate whether you wish to know the holder's name. Then all you need to do is view the results!

If the QST number you entered is incomplete or invalid, you will receive a message to that effect, and you will be allowed to correct the number. You will also be informed if the QST number entered is valid, does not exist or is no longer active.

For more information on the new electronic services of the Ministère du Revenu, consult the brochure *The New Electronic Services of the Ministère du Revenu: Now Online!* (IN-312-V).



## Submitting RL-Slip Data Electronically: Additional Options

Do you wish to safely transmit your RL-slip data to the Ministère du Revenu using electronic means? Recently it has become possible to do so. For the 2002 taxation year, the Groupe de promotion de l'EDI et d'acquisition des données électroniques offered accounting professionals two methods of transmitting their RL-slip data electronically. The first method, introduced for the 2001 taxation year, uses software that encrypts the RL-slip data and then transmits the data by E-mail.

The second method is a new way of transmitting data online. To select this method (which should not be confused with the Clic Revenu service used only to file RL-1 slip data), go to the Web site of the Ministère and complete online form OPR-400-V, *Description of the RL-Slip Data File*, attach your data file to the form and transmit the form and file to the Ministère.

Results for the electronic transmission of RL-slip data were excellent for 2002. More than 300,000 RL slips were sent by E-mail and nearly 560,000 were submitted online. Several types of RL slips may be transmitted in this way.

For further information regarding the electronic transmission of RL slips to the Ministère, contact the Groupe de promotion de l'EDI et d'acquisition des données électroniques at (418) 652-5281 or, toll-free, at 1 888 830-7747 (extension 5281).



## Cessation of Business Activities and Distribution of Property

Under the *Act respecting the Ministère du Revenu*, if you wind up, administer or control the property, business, income or commercial activities of another person, you must obtain a certificate from the Ministère du Revenu before distributing the property under your control. If you do not obtain a certificate before distributing the property, the Ministère may issue a notice of assessment based on the amount of duties, interest and penalties that is exigible (or that will become so within the 12 ensuing months) from the other person under any fiscal law, up to the value of the property that you distributed.

If the assets of a corporation have been distributed without a certificate being obtained from the Ministère, all of the directors of the corporation will be solidarily liable for the payment of the above-mentioned duties, interest and penalties if they have assented to the distribution or acquiesced or participated in it.

Therefore, when a business ceases its activities, it is required to file form MR-14.B-V, *Notice Before Distribution of Property*, with the Ministère du Revenu in order to obtain a certificate authorizing the distribution of its property. This form is available on the Web site and at any office of the Ministère.



## Suspension of Recovery Measures in the Case of an Objection or Appeal

Under the *Act respecting the Ministère du Revenu*, the Ministère may not take steps to recover an amount of income tax owed by a taxpayer before the expiry of the statutory 90-day period during which the taxpayer may file an objection; nor may the Ministère undertake recovery measures once the taxpayer has filed an objection or appeal. In respect of large corporations (that is, corporations whose paid-up capital for the year is \$10 million or more), recovery measures are suspended solely in respect of the unpaid half of the amount in dispute.

These suspension measures do not apply to source deductions or consumption taxes collected by agents on behalf of the Ministère. Such amounts are the property of the government and are held in trust by the agents. However, the Centre de perception fiscale of the Ministère may use administrative procedures to suspend measures undertaken to recover an amount in respect of which the agent has filed an objection or an appeal, provided the agent applies to have those measures suspended and it appears likely that the original assessment, after verification, will be subject to correction.

Furthermore, no judicial recourse will be exercised in respect of amounts regarding which an objection or appeal has been filed, unless the debtor is unco-operative or the Ministère determines that there is an immediate danger of losing the amounts in question.





## 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 October 1, 2002, to September 30, 2003, are listed below.

Period	Annualized interest rate*	Penalty rate
	%	%
<b>2002</b>		
Oct. 1 – Dec. 31	2.3804	6
<b>2003</b>		
Jan. 1 – Mar. 31	2.4333	6
Apr. 1 – June 30	2.4066	6
July 1 – Sept. 30	3.5707	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 October 1, 2002, to September 30, 2003.

		Interest rate
		%
<b>2002</b>		
Oct. 1 – Dec. 31	Refunds	1.35
	Debts	7
<b>2003</b>		
Jan. 1 – Mar. 31	Refunds	2
	Debts	7
Apr. 1 – June 30	Refunds	2
	Debts	7
July 1 – Sept. 30	Refunds	2
	Debts	8

#### 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](http://www.revenu.gouv.qc.ca).



## Interpretation Bulletins

In February, March, April and May 2003, the Ministère du Revenu du Québec published fifteen interpretation bulletins, of which six deal with income tax and nine with consumption taxes. The numbers and subjects of the bulletins are listed below (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

**IMP. 37-5/R11** The value of benefits in respect of a dwelling located in a prescribed area

**LMR. 28-1/R58** Interest rates

**SPECIAL 175** Bill 21  
*Act to amend the Act respecting the Ministère du Revenu and other legislative provisions*

**IMP. 80-1/R4** Foster family and foster home

**IMP. 80-11/R1** Foster home for adult offenders

**IMP. 489-1** Non-institutional lodging resources

### Consumption taxes

**LIC. 4/R4** Application of the fiscal provisions respecting consumption taxes and licence duties in respect of alcoholic beverages for the holders of a small-scale production permit, a small-scale beer producer's permit and a brewer's permit issued under the *Act respecting the Société des alcools du Québec* (R.S.Q., c. S-13)

**LMR. 28-1/R58** Interest rates

**SPECIAL 137** Bill 21  
*Act to amend the Act respecting the Ministère du Revenu and other legislative provisions*

**TVQ. 177/R1** Supply of food supplements and similar products – Meaning of the words "food," "beverages" and "ingredients"

**TVQ. 177-4/R1** The supply of creatine and similar products

**TVQ. 206.1-4/R1** Supply of natural gas

**SPECIAL 138** Regulation to amend the Regulation respecting the Québec sales tax

**SPECIAL 139** Application of the specific tax on lodging in the Centre-du-Québec and Gaspésie tourist regions

**TVQ. 288.1-1** Electricity acquired by a municipality



GST  
QST

## Important Clarification for Persons Who Sell Automobiles to Recyclers

Where persons, such as insurers, sell damaged automobiles to recyclers, **they should not collect QST** on the transactions, which are zero-rated under the QST system. The **GST, however, must be collected** with respect to such sales.



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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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