

Tax News

Fourth quarter 2003

Electronic Services for Employers

Québec employers are required to submit the *Summary of Source Deductions and Employer Contributions* and RL-1 slips to the Ministère du Revenu no later than March 1, 2004. If you are a Québec employer, you should note that it is now possible to file and transmit these documents electronically using our **Clic Revenu** electronic services.

The summary

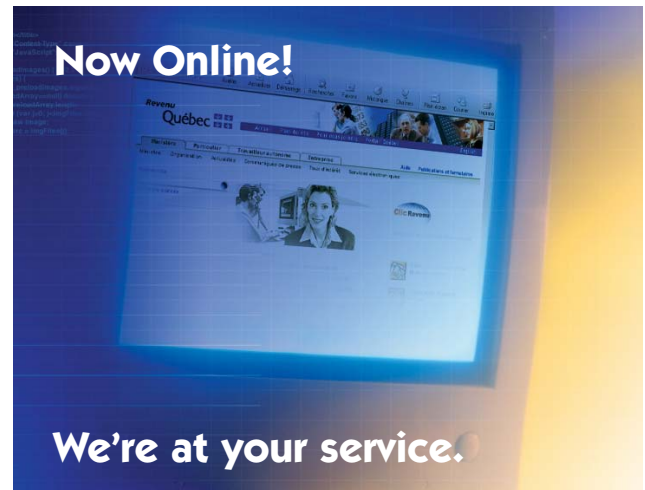
Clic Revenu makes it easier and faster for all employers to fulfil their obligation to file the *Summary of Source Deductions and Employer Contributions*, regardless of the size of their business.

Employers can complete the form on-screen and send it immediately to the Ministère via the Internet. They can also make their payments online through their financial institution, thereby further simplifying things for themselves.

Clic Revenu offers employers other advantages, such as quick, easy access to the information in their file at the Ministère, and enables them to view the particulars of all their payments made during the year. Access to that information makes it possible for employers to ensure that their payments correspond to the amounts owed. Hence, they can eliminate the risk of error before transmitting the summary, and reduce the likelihood of having to reopen their books when the Ministère reconciles accounts.

RL-1 slips

Employers can also use Clic Revenu to complete RL-1 slips on-screen, print the documents to be remitted to their employees and transmit the information to the Ministère via the Internet. Moreover, given the detailed information provided on the RL-1 slips, additional totals are calculated automatically when the *Summary of Source Deductions and Employer Contributions* is filed.



Employers that currently fill out their employees' RL-1 slips by hand or on a typewriter will be especially interested in this service.

Other electronic services

Not only does Clic Revenu enable businesses and individuals in business to file the *Summary of Source Deductions and Employer Contributions* once a year, it also offers them other possibilities. For example, they can use Clic Revenu to file returns and make payments of taxes and source deductions. They can also consult their business's tax file, regardless of how their returns were filed and payments made. Online consultation of information is another way for all of the Ministère's business clientele to obtain information pertaining to their returns, balances, refunds or payments. These new options make business tax life easier.

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Prerequisite: registration for Clic Revenu

Businesses and individuals in business must first register for Clic Revenu in order to use these electronic services. Registration is free of charge.

Registering is as easy as accessing the Clic Revenu section of the Ministère du Revenu Web site, at www.revenu.gouv.qc.ca, and completing the application form on-screen. Applicants must designate someone as the person in charge of electronic services within their business. Once the application has been completed, it must be printed, signed and sent to the Ministère, along with the appropriate documents.

To maximize security, the Ministère checks whether the person having applied for registration is authorized to do so (a resolution may be required) and whether the person identified as being in charge of electronic services is so mandated by the directors of the business (a power of attorney may be required). Once these checks have been made, the right of

access (user code and password) of the person in charge of electronic services will be activated, thereby giving the person access to Clic Revenu.

Clic Revenu is highly flexible. For example, clients can

- access the services when and where they wish;
- use one or several of the many services offered;
- deal online with the Ministère regularly or as necessary.

Clic Revenu at the service of outside specialists

The business clientele of the Ministère regularly uses the services of outside specialists—accountants, tax professionals, preparers, bookkeepers and other tax specialists.

Clic Revenu offers a management of powers of attorney service for outside specialists. With the new service, outside specialists are now able to access the tax files of clients who have granted them a power of attorney.

The client determines the scope of the power of attorney. Hence, depending on the type of access granted, a specialist can file returns and make electronic payments on behalf of a client, in addition to consulting information concerning the client's corporation tax return, source deductions and QST file.

However, the firm of outside specialists must first register for the Clic Revenu services. It must then have its client complete form MR-69.E-V, *Power of Attorney, Authorization to Communicate Information, or Revocation*, and send it to the Ministère.

The Ministère du Revenu set up electronic services to help businesses meet their fiscal obligations with modern means. As an offshoot of this, the Ministère received an OCTAS award in May 2003. This award is bestowed annually by the Fédération de l'informatique du Québec. The Ministère also earned a gold medal in October 2003, during GTEC (Technology in Government) Week. These awards testify to the quality of the electronic services we provide to our business clientele through Clic Revenu.

News Briefs

Specific duty on perchloroethylene

The specific duty of \$1.25 per litre no longer applies to perchloroethylene purchased in or brought into Québec after December 31, 2003.

Donations to certain charities and recognition criteria for political education organizations

In the issue of *Tax News* for the first quarter of 2003, we informed you that, 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 gave entitlement to a tax credit for donations made to a registered charity in the calculation of Québec income tax.

However, the Ministère des Finances recently indicated that the above measure would not be incorporated into the tax legislation. Thus, a charity whose purpose is to promote Canadian unity (such as the Council for Canadian Unity) may issue income tax receipts for donations under the Québec taxation system in 2003.

In addition, the Ministère des Finances announced that the category of recognized political education organizations would now include any non-profit organization (other than a registered charity) recognized by the Minister of Revenue, on the recommendation of the Minister for the Reform of Democratic Institutions, as having the purpose of promoting Québec sovereignty or Canadian unity through educational means.

Reduction of the specific tax on gasoline in regions bordering on New Brunswick and Newfoundland and Labrador

This reduction was eliminated on November 1, 2003.

Agents responsible for collecting and remitting the specific tax on lodging

In certain resorts, the owners of sleeping-accommodation units hire a management company to operate their units. Since October 10, 2003, these management companies have been

required to collect and remit the tax on lodging, as operators of a sleeping-accommodation establishment, because they carry out actions, such as administration, maintenance and advertising, relating to the operation of the establishment.

However, a person mandated solely to offer an owner's sleeping-accommodation unit for rent and to make reservations on the owner's behalf is not considered to be the operator of a sleeping-accommodation establishment for the purpose of collecting and remitting the tax on lodging.

For more information on these measures, see information bulletin 2003-4 on the Web site of the Ministère des Finances at www.finances.gouv.qc.ca.



The Design Tax Credit

This tax credit promotes the use of design to stimulate the development, mass production and marketing of distinctive quality products with high value added. Since June 13, 2003, the rate of the credit has varied between 15% and 30%, depending on the corporation's assets for a given taxation year. This change applies to qualified design activities carried out as of June 13, 2003, under an outside consulting contract concluded after that date, and to wages incurred by a qualified corporation after that date regarding its in-house designers.

The Ministère du Revenu grants the design tax credit to corporations that hold a certificate respecting design activities (fashion, textile or industrial design) issued by the Ministère du Développement économique et régional (MDER). In the case of in-house design activities, the certificate indicates, among other things, the names of the designers recognized by the MDER who are employed by the corporation and whose wages attributable to the realization of design activities give entitlement to the tax credit. In the case of outside consulting contracts, the certificate specifies the consulting contracts entered into by the corporation with outside designers recognized by the MDER.

The design tax credit is refundable, and can be applied against the income tax payable by a corporation that holds a certificate. Consequently, where the credit exceeds a corpora-

tion's income tax payable, the corporation obtains a refund. The credit can also be used to reduce a corporation's instalments of income tax and tax on capital. The credit is calculated at the end of the taxation year. To claim it, corporations must complete the form prescribed by the Ministère du Revenu and file it with their annual income tax return.

Eligibility criteria

Corporations may claim the design tax credit if, in a given taxation year, they have an establishment and carry on a business in Québec, and manufacture one or more products designed in Québec.

To qualify for the credit in regard to in-house design activities, claimants must be manufacturing corporations in the fashion, textile or furniture sector; their gross revenue for a given taxation year must be \$150,000 or more, and they must hold a certificate from the MDER respecting the designers in their employ. Qualified expenditures correspond to the wages of the designers (maximum of \$60,000 per year per designer) attributable to the period during which a design activity is carried out.

To qualify for the credit in regard to design activities carried out by an outside consultant, claimants must be manufacturing corporations that entered into an outside consulting contract with a designer. Moreover, the contract must be specified in the

certificate issued by the MDER to the corporation. Qualified expenditures correspond to the fees or royalties attributable to design activities and paid under the contract.

How to obtain, from the MDER, a certificate for a corporation or a recognition of qualification for a designer

Certain fees must be paid to obtain a certificate ("attestation") or a recognition ("reconnaissance de qualification"). Access the MDER Web site at www.mder.gouv.qc.ca, and click on "Industrie et Commerce." Using the search function, enter "design industriel" or "design de mode," depending on your sector of activity. Note that the mere fact of having obtained an MDER certificate does not guarantee that a corporation will be granted the design tax credit, as the eligibility criteria of the Ministère du Revenu must also be met.

How to claim the tax credit

Complete the forms prescribed by the Ministère du Revenu: form CO-1029.8.36.5, in the case of design activities carried out by an outside consultant, and form CO-1029.8.36.7, in the case of design activities carried out by an employee of a corporation; and forward the certificate issued by the MDER by the deadline.



Clothing Industry: A New Electronic Form

In July 2003, the Ministère du Revenu made the electronic version of the information return for the clothing industry available on its Internet site (www.mrq.gouv.qc.ca). The new form is already very popular. Some five months after its introduction on the site, it has been downloaded 825 times, including 197 times in English.

This new Web application will save you time, as the information concerning your subcontractors, once entered, can be reused as necessary from one month to the next.

To access this electronic form, click on "Forms and publications" on the Ministère's home page; then enter VDZ-350.49-V (the number of the form) in the "Search" box.

This is another initiative by the Ministère du Revenu to simplify the fiscal obligations of individuals and businesses.



What Employees Should Be Told About Prescription Drug Insurance

Did you know that a large number of people who are covered under the public prescription drug insurance plan of the Régie de l'assurance maladie du Québec (RAMQ) should actually be covered under a private group insurance plan? Or that, worse yet, many people have no prescription drug insurance at all? These situations generally arise further to a separation or divorce or the decision to live as a couple, but they also frequently occur when people change jobs.

As an employer, you are in contact with the people who work for you. Consequently, the RAMQ would like your cooperation in informing them of their rights and obligations under the *Act respecting prescription drug insurance*. Here are a few ideas of how you can help.

You offer a group insurance plan

When you hire new employees, inform them that they must be a member of a private group insurance plan, whether it be the plan you offer, the plan of their spouse or the plan available to them through a profes-

sional order, a union or a professional association. Emphasize that the coverage must include their children and their spouse if the latter has no other group insurance.

Individuals who have access to prescription drug insurance coverage under a private group insurance plan, but who do not become a member of the plan, are generally required to pay a premium to the public prescription drug insurance plan when they file their Québec income tax return. They must pay the premium even if they are not a member of, and are not covered by, the public plan.

You do not offer a group insurance plan

Remind your employees that they must have prescription drug insurance coverage. If they are not covered under their spouse's private group insurance plan or under another private group insurance plan (such as might be available to them as members of a professional association), they must telephone the RAMQ to become a member of the public prescription drug insurance plan.



Any premium required under the public plan must be paid when they file their Québec income tax return.

New employees in particular will be interested in this information, as changing jobs often means that they are no longer covered under a group insurance plan. As an employer, you should get into the habit of talking about prescription drug insurance to the employees you hire.

During the winter, the RAMQ will post a new section on its Web site, containing the basic information on prescription drug insurance in Québec. Visit the section by clicking on "Prescription Drug Insurance Plan" on the home page (www.ramq.gouv.qc.ca).

GST
QST

Net Tax Calculation Method for Charities

To calculate their net GST or QST remittance or refund, charities that are registrants are required to use the simplified net tax calculation method.

Under the simplified method, charities remit only 60% of the GST and QST collected or collectible on most of their taxable sales. However, they remit 100% of the GST and QST collected or collectible on taxable sales of real property ("immovables," for QST purposes) and capital property.

Charities may claim input tax credits (ITCs) and input tax refunds (ITRs) respecting only the tax payable on purchases of and improvements to real property and capital property. However, they can continue to claim 50% GST and QST rebates respecting the tax that does not give entitlement to ITCs or ITRs.

Registered charities must complete the combined GST-QST return, that is, form FPZ-500-V or FPZ-500.AR-V. If they cannot use the combined return, they must fill out form FPZ-34-V respecting the GST and form VDZ-471-V respecting the QST.

Charities may elect not to use the simplified net tax calculation method if they make sales abroad (or outside Québec, for QST purposes), if they make zero-rated sales in the course of their normal activities, or if 90% or more of their sales are taxable. The election is made on form FP-2287-V, *Special Quick Method of Accounting – Simplified Net Tax Calculation Method*.



Going Once, Going Twice, Sold!

As a rule, where a registered auctioneer sells, as an agent, taxable corporeal movable property¹ (motor vehicles, antiques) on behalf of another person (the principal), the auctioneer is not considered to have rendered auctioneer's services for the benefit of the principal. Rather, the sale is considered to have been made for the benefit of the purchaser, so that GST and QST must be collected from the **purchaser** (not from the principal) and remitted to the Ministère du Revenu.

The principal and the auctioneer may, however, elect to have the principal remit the taxes on the property sold, by completing form FP-2506-V, *Election or Revocation of an Election Made Jointly by a Principal and an Agent or Auctioneer*. (Both parties to the election must keep the form for their own files; they are not required to send it to the Ministère.) Further to the election, the principal must remit the taxes to the Ministère on the property sold by the auctioneer, who, in turn, must collect the taxes on the auctioneer's services rendered, and remit them to the Ministère.

1. "Tangible personal property" for GST purposes.

To make this election, the following conditions must be met:

- The principal is registered for the GST and the QST.
- The sale is taxable.
- Prescribed property accounts for 90% of the property sold by the auctioneer on behalf of the principal.

The following are examples of prescribed property: flowers and bedding plants; horses; motor vehicles designed for highways; and machines and equipment designed for oil exploration, mining, the construction or demolition of buildings, roads, etc., the manufacturing or production of corporeal movable property, and the processing or transformation of toxic waste, as well as the accessories and tools needed to repair such machines and equipment. Antiques are not prescribed property. Hence, the above election cannot be made in regard to antiques sold at auction.



Replacement Guarantee for a Motor Vehicle Written Off as a Total Loss

Where automobile dealers, at the time of the sale or long-term lease of a new or used vehicle, sell a replacement guarantee for a motor vehicle written off as a total loss, GST and QST must be collected on the sale of the guarantee, as the amount paid for the guarantee is taxable.

Dealers that buy insurance coverage for losses sustained in replacing a motor vehicle under a replacement guarantee sold by them are required to pay the tax on insurance premiums on the premiums they pay to the insurer or insurance broker for the coverage. Such premiums are paid under an insurance contract whose premiums are taxable at 9%. However, neither QST nor GST is payable on the premiums.

The tax on insurance premiums must be indicated separately from the premium on the bill sent by the insurer or insurance broker to the automobile dealer. The tax on insurance premiums does not give entitlement to an input tax refund.

Are In Vitro Diagnostic Products Taxable?

In vitro diagnostic products include such items as test kits, reagents and animal blood products purchased by medical laboratories and hospitals. They are used in a wide range of laboratory procedures such as the growth of cells, research and the testing of bodily specimens.

These products are not considered drugs for inclusion by name or description in the schedules to the *Food and Drugs Act*. Accordingly, they are not zero-rated under the provision relative to prescription drugs and biologicals. They are therefore subject to GST and QST.

Latest consolidation!

The fourth edition of the *Codification administrative des lois et des règlements fiscaux ainsi que des lois et des règlements connexes* (current as of November 1, 2003) is now available. You may purchase these volumes at bookstores, or from Les Publications du Québec, in person or online at www.publicationsduquebec.gouv.qc.ca.



Carrying Out of Municipal Works

This article deals with the application of the GST and the QST when an agreement is entered into by a municipality and a real estate developer with regard to the carrying out of municipal works.

A developer is a person that sells land capable of receiving municipal services (improved land). Essentially, work respecting municipal infrastructures and equipment includes the installation of the water distribution, sewerage or drainage system, as well as the paving of the public road and the installation of the lighting system.

A supply of a municipal service by or on behalf of a government or a municipality to the owners or occupants of immovables situated in a particular geographic area is exempt from GST and QST if the owners or occupants have no option but to receive the service. This exemption does not apply, however, to services whereby property is tested or inspected for the purpose of verifying or certifying that it meets particular standards of quality or is suitable for consumption, use or supply in a particular manner.

The municipality is in charge of the work

Where the municipality acts as principal contractor, it is responsible for managing the work. The municipality generally subcontracts the work, by means of a call for tenders. The municipality can pay its own subcontractors or agree to have the developer pay the subcontractors directly.

Two separate services are performed here. One results from the agreement entered into between the municipality and the developer, under which the municipality undertakes to act as principal contractor; the other constitutes the subject of the subcontract. The municipality is the recipient of the services rendered by its subcontractors. The developer, under the agreement entered into with the municipality, is the recipient of the services rendered by the municipality. Generally, the services rendered to the promoter by the

municipality are exempt from tax. Moreover, the municipality is not entitled to a rebate of the QST respecting its purchases; however, it may claim a GST rebate.

Where the municipality bills the cost of the work and includes the amount corresponding to the QST and to the GST that it cannot recover, that amount cannot be considered to be tax. Consequently, the developer, who is generally a registrant, cannot claim an input tax refund (ITR) or an input tax credit (ITC) respecting the cost of the work.

Where the municipality and the developer agree that the latter will pay the subcontractors directly, the agreement is simply a method of payment, not a change in the initial subcontract. The initial subcontract continues to bind the municipality with respect to its subcontractors if the developer fails to pay them.

Consequently, where the developer pays the subcontractors directly, the developer is not entitled to an ITR or an ITC in respect of the QST and the GST billed by the subcontractors. As the recipient of the services rendered by its subcontractors, the municipality remains liable for the tax billed.

The developer is in charge of the work

Where the developer acts as principal contractor, the developer is responsible for managing the work, which is generally contracted out.

The developer is the recipient of the services rendered by the subcontractors it entrusted with the performance of the work. A registered developer is entitled to an ITR and an ITC respecting the QST and GST paid to its subcontractors, as the tax relates to expenditures incurred by the developer in selling improved land, which is taxable.

Municipal councils must adopt a by-law when they entrust the performance of work to a developer.

Important Notice Concerning the Rental of a Dwelling to a Family Member

A change was made recently to the policy of the Ministère du Revenu concerning taxpayers who rent a dwelling to a family member and sustain a loss on the rental. Hence, interpretation bulletin IMP. 81-1/R2, published on July 31, 1997, is cancelled as of the 2004 taxation year. The bulletin explained the administrative policy

governing recognition by the Ministère, under certain conditions, of losses attributable to the rental of a dwelling to a family member.

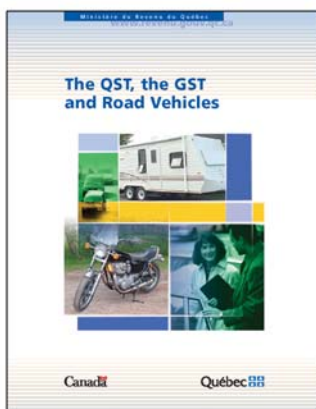
Thus, **as of the 2004 taxation year**, the general rules and criteria for establishing the admissibility of a loss, as modified recently by the courts, are

those that will apply to the rental of a dwelling to a family member. Essentially, taxpayers who rent a dwelling to a family member must, like any other person who rents out a dwelling, show that their primary intent is to make a profit.



Trade-Ins of Used Vehicles

Special rules apply when car dealers accept a used vehicle as a trade-in for a vehicle that they sell or lease. The application of the GST and the QST varies depending on whether the customer (i.e., the person whose used vehicle is accepted by a dealer) is required to charge the taxes. However, the QST system has other specificities, particularly as regards the trade-in rules for large businesses, the sale of vehicles acquired for resale and the collection of the QST by the Société de l'assurance automobile du Québec (SAAQ) on certain sales. For more information, consult the brochure *The GST, the QST and Road Vehicles* (IN-624-V), available on our Web site at: www.revenu.gouv.qc.ca.



Customer required to charge tax

The customer may be a registered individual or partnership that trades in either a passenger vehicle used 90% or more in commercial activities or a motor vehicle (other than a passenger vehicle) used more than 50% in commercial activities. The customer may also be a registered corporation that trades in a motor vehicle (including a passenger vehicle) used more than 50% in commercial activities.

In both cases, two separate transactions occur:

- The dealer sells or leases a new vehicle to the customer.
- The dealer purchases the vehicle traded in by the customer.

Consequently, the dealer collects GST and QST on the full price charged for the vehicle sold or leased, and pays the taxes on the value of the trade-in. However, in the case of a motor vehicle, the purchaser (and, where applicable, the dealer) must pay the QST to the SAAQ at the time of registration. Where the trade-in is purchased by the dealer solely for resale or lease, QST must not be collected, as the sale is zero-rated under the QST system.

Both the dealer and the customer may claim an input tax credit (ITC) respecting the GST paid and an input tax refund (ITR) respecting the QST paid, subject to the ITR restrictions under the QST system.

Customer not required to charge tax

In this case, the dealer charges GST and QST on the net amount of the sale or lease, that is, on the price of the vehicle sold or leased by the dealer, minus the amount credited for the trade-in. However, in the case of a motor vehicle, the purchaser must pay the QST to the SAAQ at the time of registration.

Example

An individual goes to a registered car dealer to trade in his car for a new one. The selling price of the new car is \$25,000, and the dealer grants \$10,000 for the trade-in. The dealer must charge GST and QST on \$15,000, that is, on the difference between the selling price of the new car and the trade-in value of the used car.

Harmonization of the GST and QST Systems

Amendments to the *Excise Tax Act* were announced in the Department of Finance Canada press release of December 20, 2002. On January 10, March 11 and June 12, 2003, the Ministère des Finances du Québec announced that the *Act respecting the Québec sales tax* would be harmonized with the following amendments:

- Where an agent and a vendor jointly elect to have the agent remit the taxes, the agent will be able to recover any portion of the taxes relating to a bad debt.

- The Ministère du Revenu will be able to accept new housing rebate applications respecting owner-built homes after the prescribed time period, where exceptional circumstances prevent an owner-builder from filing the application on time.
- Speech-language pathology services will be definitively included in the list of GST- and QST-exempt health services.

- The Société québécoise des auteurs dramatiques inc. will be added to the list of prescribed artists' representatives authorized to account for the taxes on the royalties of member artists.

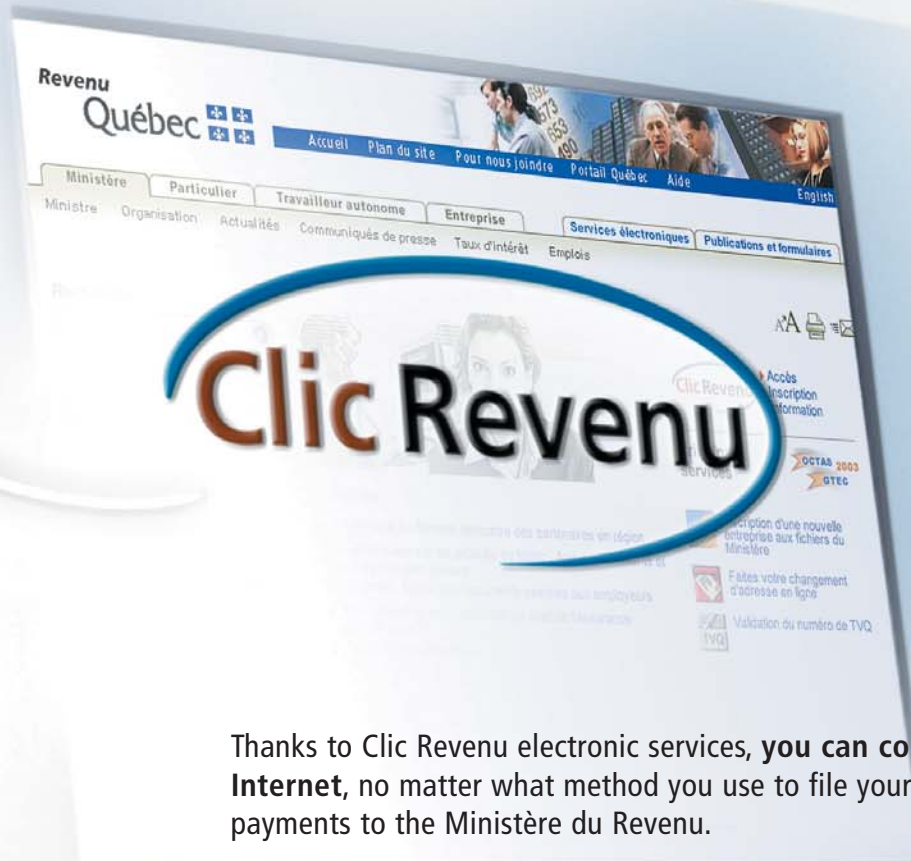
These measures will be adopted only after the federal statute or regulation stemming from the December 20 press release has been assented to, and will be effective under the QST system on the same dates as under the GST system.

Why waste time?



Just click.





Thanks to Clic Revenu electronic services, **you can consult your tax file by Internet**, no matter what method you use to file your returns or remit your payments to the Ministère du Revenu.

At any time you can also

- file your consumption tax returns and source deduction returns, transmit RL-1 slip data, and submit the *Summary of Source Deductions and Employer Contributions*;
- remit your payments;
- **authorize an accountant** to consult your file and carry out transactions on your behalf using a power of attorney; and
- take advantage of many other services.

Clic Revenu electronic services!
Just the thing for your business!

Register for Clic Revenu.
www.revenu.gouv.qc.ca/clicrevenu

Personal Income Tax Measures

As announced in the last issue of *Tax News*, this article provides details on the fiscal measures contained in the 2003-2004 Budget Speech that apply to individuals.

Five-year tax holidays granted to certain foreign employees

Elimination of certain tax holidays

The tax holidays granted to the following foreign employees were eliminated, effective June 13, 2003: specialists employed by a corporation that carries out an innovative project in certain designated sites, other than a biotechnology development centre (BDC); specialists employed by a corporation that carries on a business in certain designated biotechnology sites; specialists employed by a corporation that carries on a business in the nutraceuticals and functional foods sector; specialists employed by a corporation that carries on a business in the Cité du multimédia, the Centre national des nouvelles technologies de Québec (CNNTQ), a market place for the new economy (MNE), an innovation centre or E-Commerce Place; specialists working in the E-commerce sector for a corporation that carries on a business in the CNNTQ or the Montréal E-Commerce Zone; and specialists working for a person that carries on a business in the Montréal international trade zone at Mirabel.

The organizations responsible for issuing annual qualification certificates will continue to issue them, in particular in regard to individuals who concluded an employment contract before June 13, 2003, and who commenced employment no later than September 1, 2003, provided the individuals do not change jobs on or after June 13, 2003.

Reduction in the level of assistance under certain tax holidays

The assistance granted under tax holidays to the following foreign employees was reduced by 25%, effective June 13, 2003: post-doctoral research fellows employed by an eligible university

entity or public research centre; professors employed by a Québec university; researchers employed by a person carrying on a business in Canada and carrying out R&D in Québec; specialized experts, particularly in the field of management of innovation activities, employed by a person carrying on a business in Canada and carrying out R&D in Québec; specialists employed by a corporation carrying out an innovative project in the biotechnology sector in a BDC; specialists in the field of international financial transactions employed by a person operating an IFC; and experts employed by a corporation operating a stock exchange business or a securities clearing-house business.

Individuals may therefore deduct, in the calculation of their taxable income, an amount equal to 75% of their remuneration or total income. However, this reduction does not apply to individuals who concluded an employment contract on or before June 12, 2003, and who commenced employment no later than September 1, 2003. Accordingly, they may continue to deduct, in the calculation of their taxable income, an amount equal to 100% of their remuneration or total income.

Tax benefits relating to flow-through shares

All tax benefits relating to flow-through shares will be replaced by the refundable tax credit for resources. (This replacement was announced in the March 2001 Budget Speech.) The flow-through share system may, however, be used until the end of 2004.

A 25% reduction in assistance applies to certain components of the flow-through share system. Accordingly, the deductions individuals may claim regarding mining, oil and gas exploration expenses incurred in Québec are equal to 110.42% or 131.25%, as the case may be. These reductions in the rate of the additional deductions apply to flow-through shares issued after June 12, 2003. However, they do

not apply to flow-through shares issued after that date, either following an investment 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.

Deductions for security options

Where, further to an event relating to an option to purchase securities that takes place after June 12, 2003, an individual must include, in the calculation of income from an office or employment for a taxation year, the value of a benefit he or she is deemed to have received during that year, the amount that the individual may deduct for the year, in the calculation of taxable income, is limited to 37.5% of the value of the benefit. This represents a 25% decrease in assistance.

Tax holiday for sailors engaged in international freight transportation

Individuals may deduct, in the calculation of their taxable income, an amount equal to 75% of their remuneration from an eligible shipowner. For 2003, this 25% reduction in assistance applies to the remuneration of individuals that is attributable to the period, following June 12, 2003, during which the individuals are engaged in international freight transportation and carry out their duties on a ship operated by an eligible shipowner.

Partial tax holiday for IFC employees

Employees of an international financial centre (IFC), other than foreign specialists, who hold a job with a corporation or a partnership operating an IFC may deduct, in the calculation of their taxable income for a taxation year, an amount equal to 37.5% (rather than 50%) of the salary derived for the year from their job with the IFC and attributable to a period subsequent to June 12, 2003.

Québec stock savings plan (QSSP)

The relevance of the QSSP is being examined. Throughout the examination, a moratorium will be in effect. Thus, no issue of securities for which an application for a receipt for the final prospectus or an application for an exemption from filing a prospectus, as the case may be, is submitted to the Commission des valeurs mobilières du Québec after June 12, 2003, will be recognized. However, in the case of a distribution of securities to a sophisticated purchaser or a private distribution of blocks of more than \$150,000 under the *Securities Act*, the moratorium will apply in relation to a placement made after June 12, 2003.

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.

New tax credit for family caregivers

The refundable tax credit respecting the housing of a parent (in line of ascent) was not transformed into a refundable tax credit for family caregivers, and its value was maintained at \$550. For 2003 and subsequent taxation years, the credit will be granted in accordance with the terms and conditions that were applicable for the 2002 taxation year.

Introduction of a refundable tax credit for maternity or adoption leave taken by self-employed workers

This measure was not incorporated into the tax legislation. However, taxpayers who, on the basis of the budgetary statements relative to this measure, reduced accordingly the amount of their instalments payable no later than March 15 and June 15, 2003, will not have to pay more interest than they would have had to pay had the measure been incorporated into the tax legislation.

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

This measure applies only to individuals who, after March 11, 2003, took up an eligible job for which they were hired no later than June 12, 2003.

Increase in the tax assistance granted to residents of remote resource regions regarding interest paid on a student loan

This measure was not incorporated into the tax legislation.

Introduction of tax relief for employee transit passes

This measure was designed to make the benefits stemming from the reimbursement or granting of a public transit pass by an employer non-taxable and to enable employees to deduct the cost of their monthly passes. It was not incorporated into the tax legislation. Special rules apply in the case of employers that took the measure into account in calculating source deductions for a pay period ended on or before June 12, 2003.

Increase in the medical expenses deductible for dependants

The measure modifying the terms and conditions for calculating the non-refundable tax credit for medical expenses, where the expenses are paid for a dependant, was incorporated into the tax legislation. As of the 2003 taxation year, the calculation of the tax credit will no longer take into account the income of dependants for whom medical expenses were paid.

Recognition of public lending right payments for the application of the deduction respecting copyright income

The measure recognizing that, for the purposes of the deduction respecting copyright income, public lending right payments received under the federal program administered by the Public Lending Right Commission are closely related to copyrights was incorporated into the tax legislation.

Simplification of the tax treatment of donations made by members of a religious order

The measures simplifying, as of the 2003 taxation year, the tax treatment applicable to members of religious orders having taken a vow of perpetual poverty were incorporated into the tax legislation.

Additional eligible adoption expenses for individuals residing in outlying regions

The measure broadening eligible expenses to include, for the purposes of the refundable tax credit for adoption expenses, travel and accommodation expenses paid by parents to pick up an adopted child escorted only as far as a major urban centre in Québec was incorporated into the tax legislation. This measure applies to final adoption judgments rendered after December 31, 2000, or, where applicable, to certificates of registration of an adoption issued by the clerk of the Court of Québec after that date.

Personal Income Tax: Principal Changes for 2003



This article summarizes the changes made in the 2003 income tax return. For further information, consult the guide to the income tax return.

De facto spouse

If, in 2003, you and another person began living together again following a breakdown of your relationship that lasted for a period of more than 89 days, you and the other person are not considered to be spouses in 2003, unless you are the parent of a child of whom the other person is also the parent (for further information, see the definition of "spouse" on page 12 of the guide to the income tax return). This change applies to the 2001 and subsequent taxation years.

Change to the definition of "spouse on December 31, 2003"

Wherever the term "spouse on December 31, 2003" is used in the guide, the return or the schedules, it refers to the person who was your spouse on that date. If your spouse died in 2003, he or she is considered to be your spouse on December 31, 2003, provided you did not have a new spouse on that date.

Full indexation of the taxation system

In order to restore full indexation of the tax system, certain amounts and tax credits have been increased, including

- the QST credit;

- the basic amount and the flat amount;
- the basic amounts respecting dependent children and other dependants;
- the income threshold above which certain tax credits are reduced;
- the amount for a person living alone;
- the basic exemption in the calculation of the contribution to the health services fund.

Increase in the maximum premium payable under the Québec prescription drug insurance plan

Effective July 1, 2003, the maximum premium payable under the Québec prescription drug insurance plan was raised from \$422 to \$460. However, the maximum premium for 2003 is \$441. In addition, the premium rates have changed.

Introduction of a mechanism for transferring non-refundable tax credits from one spouse to the other

Beginning in 2003, you and your spouse on December 31 are no longer required to file returns under the simplified tax system in order to have non-refundable tax credits transferred from one spouse to the other.

If you wish to use the unused portion of your spouse's non-refundable tax credits, your spouse **must** file a return so that the Ministère can transfer the credits to your file.

Longer reference period used in the calculation of the amount for medical expenses

In calculating the amount for medical expenses paid on behalf of a deceased person, you can now use a reference period of 24 consecutive months (rather than 12), including the date of death.

This rule also applies to 2001 and 2002. If you wish to claim such expenses for one of those years, complete form TP-1.R-V, *Request for an Adjustment to an Income Tax Return*.

Possibility of claiming moving expenses after 1997

As a rule, if you moved after 1997 in order to take up employment duties or be closer to your place of work and you paid expenses in a year following the year of your move, you may deduct the expenses in the year of payment.

Possibility of a capital gains exemption respecting qualified fishing property

If you have not used up the \$500,000 capital gains exemption and you disposed of certain property used in the operation of a fishing business, you may be entitled to an exemption respecting the capital gain realized. This measure also applies to qualified fishing property disposed of after December 10, 2002.

Information available

- For general information on generating income tax returns using tax preparation software, filing returns over the Internet or the Volunteer Program, consult the guide to the income tax return on our Web site at www.revenu.gouv.qc.ca.
- For any tax-related information, you may call or visit one of our offices. Our business hours are given below. To provide additional service, **some offices will be open longer** during the months of March and April.

Monday, Tuesday, Thursday and Friday 8:30 a.m. to 4:30 p.m.
Wednesday 10:00 a.m. to 4:30 p.m.

Important Notice

In the Budget Speech of June 12, 2003, the Minister of Finance announced that the government would table a draft regulation raising the total payroll exemption under the Act from \$250,000 to \$1 million. The *Regulation respecting the determination of total payroll* has therefore been amended, increasing the exemption to \$1 million as of 2004. **Thus, for 2003, all businesses whose total payroll is between \$250,000 and \$1 million are subject to the Act to foster the development of manpower training.**

2004 Is a Leap Year



A certain number of tax obligations must be performed no later than the last day of February of each year. In 2004, the deadline would be Sunday, February 29. The deadline for filing certain documents is therefore extended to **Monday, March 1, 2004**. This measure applies mainly to the filing of

- the forms for monthly remittances of income tax, tax on capital or compensation tax by a corporation for February 2004;
- the GST/HST-QST return for the period ending January 31, 2004; and
- the RL-slips and summaries concerning personal income tax (such as the RL-1 slip, the RL-4 slip and the related summaries).



Make Sure You Have the Right Number!

A new GST/HST identification number

To facilitate administration of the GST/HST in Québec, the Ministère du Revenu will assign a new identification number, that is, a new GST/HST account number, to GST/HST agents and public service bodies as of April 2004. The number will be harmonized with the Business Number used by the Canada Customs and Revenue Agency. Below are answers to questions you might have regarding this change.

When should I start using the new number?

As soon as the Ministère notifies you of it.

When will the Ministère notify me of my new number?

The Ministère will indicate the number on the various forms it will begin sending to GST/HST agents and public service bodies as of May 2004. These forms include:

- form FPZ-34-V, *GST/HST Return*;
- form FPZ-500-V, *GST/HST - QST Return*;
- form FPZ-558-V, *Tax Instalment Form*;
- form FPZ-66-V, *GST/HST Rebate Application for Public Service Bodies*.

In other words, the Ministère will notify GST/HST agents and public service bodies of their new number as it is required to contact them, depending on their reporting period (monthly, quarterly or annual) or on when they file their rebate application.

If I don't know my new number, what number should I use to contact the Ministère?

Use your current GST/HST number until the Ministère notifies you of your new one.

What will my number consist of?

Presently, all branches of the same business have separate numbers consisting of nine digits followed by the letters RT.

Example (before April 13, 2004)

Head office:	123456789RT
Branch 1:	132568234RT
Branch 2:	145679000RT

As of April 2004, the numbers will consist of 15 alphanumeric characters—nine digits, followed by the letters RT and four more digits. All of a business's branches will have a similar number: the first nine digits will be the same as in the head office's number; only the last four digits will vary for each branch.

Example (as of April 13, 2004)

Head office:	12345 6789 RT0001
Branch 1:	12345 6789 RT0002
Branch 2:	12345 6789 RT0003

Should I start indicating my new number on my invoices right away?

You should start using your new number as soon as the Ministère notifies you of it. However, you have until September 2005 to use up your current stock of invoices. Consequently, if you need to renew your stock before you receive notification of your new number, the Ministère suggests that you take care to order only the quantity needed.

A new identification number for corporations

As we indicated in the previous issue of *Tax News*, the Ministère has changed the corporation identification number for income tax purposes. Corporations must now use their identification and file numbers instead of the registration number they used previously in their dealings with the Ministère.

To ensure the confidentiality of the information provided, the staff at the Ministère will ask corporations to confirm their identity by furnishing certain particulars in addition to their identification and file numbers. Depending on the nature of their request, they may be asked for information contained in their latest income tax return or notice of assessment, or concerning their instalment payments.

The Web Site of the Ministère du Revenu

A new and improved version



Already a year has gone by since the Ministère du Revenu revamped its site, making it more complete, with a veritable treasure trove of information. And it's user-friendly too, thanks to the site's new division into six portals. Three of the portals target specific groups (individuals, self-employed persons, businesses), a fourth provides general information on the organization of the Ministère, while a fifth presents its forms and publications, and a sixth its electronic services.

The tax information of each portal is compiled under broad themes, then subdivided under more specific headings in a pulldown menu. For example, everything concerning such topics as the income tax return, tax credits and taxation rates can be found under the "Income tax" theme of the "Individuals" portal.

The electronic services portal provides access to a range of downloadable applications, online solutions and electronic services. It offers a number of services tailored to the different needs of businesses and individuals. Information is given on each service to facilitate access and use.

If you haven't visited our new site yet, why wait? All of the changes were made with a view to helping you and making the information more accessible. We hope we have attained our objective.

Feel free to send the Ministère any questions or comments you may have. Our E-mail system is secure.

Forms you can complete on your computer

Did you know that, for the past few years now, all MRQ forms and guides have been available in print mode on our site, along with a large percentage of dynamic forms that you can complete on-screen?

The following are among the most popular dynamic forms and may be of particular interest to you:

- the QST detailed calculation forms (e.g., VD-471.CD-V);
- the GST/HST and QST new housing rebate applications (FP-190-V and VD-366-V);
- the laser-printed version of the RL-4 slip, relating to property taxes (RL-4.L);

- the laser-printed version of the RL-24 slip, relating to child-care expenses (RL-24.L);
- the application for a permit under the *Fuel Tax Act and the Tobacco Tax Act* (LM-1.CT-V);
- the application for registration for source deductions, GST/HST, QST, other taxes, etc. (LM-1-V).

You can make things a lot easier for yourself by using these dynamic forms. They do calculations automatically, immediately validate certain data you enter and can be filled out more quickly. Because they are more complete, they are less likely to be refused by the Ministère when processed. Consequently, processing time is reduced.

Why not try them out? All dynamic forms on the Web site of the Ministère are identified as such. Just look for the word "Dynamic" below the number of the form.

New Publications

In recent months, the Ministère du Revenu has published or updated the following documents:

- **IN-229-V** *The QST and the GST/HST: How They Apply to Non-Profit Organizations* (2003-02)
- **IN-205-V** *QST and GST/HST Rebates: New Housing and New Residential Rental Property* (2003-02)
- **IN-902-V** *The Collection of Support Payments: Source Deductions and Employers* (2003-03)
- **IN-322-V** *International Fuel Tax Agreement: Articles of Agreement and International Fuel Tax Agreement: Procedures Manual (available on the IFTA Inc. Web site only)*
- **IN-203-V** *General Information Concerning the QST and the GST/HST* (2003-07)
- **IN-119-V** *New Residents and Income Tax* (2003-09)

You can consult these documents on our Web site at www.revenu.gouv.qc.ca.

The Canada Customs and Revenue Agency has published or updated the following documents:

GST/HST Memoranda Series

7.5 *Electronic Filing and Remitting*

13.4 *Rebates for Printed Books, Audio Recordings of Printed Books, and Printed Versions of Religious Scriptures*

GST/HST Technical Information Bulletins

B-089 *Returnable Containers*

B-090 *GST/HST and Electronic Commerce*

B-091 *Timing of the Application of the GST/HST to Prepaid Funeral Arrangements*

You can consult these documents on the CCRA Web site at www.ccradrc.gc.ca.



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 January 1, 2003, to December 31, 2003, are listed below.

Period	Annualized interest rate* %	Penalty rate %
2003		
Jan. 1 – Mar. 31	2.4333	6
Apr. 1 – June 30	2.4066	6
July 1 – Sept. 30	3.5707	6
Oct. 1 – Dec. 31	2.3804	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 January 1, 2003, to December 31, 2003.

		Interest rate %
2003		
Jan. 1 – Mar. 31	Refunds	2
	Debts	7
Apr. 1 – June 30	Refunds	2
	Debts	7
July 1 – Sept. 30	Refunds	2
	Debts	8
Oct. 1 – Dec. 31	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 concerning the calculation of interest rates, consult our Web site at www.revenu.gouv.qc.ca. You may also refer to earlier issues of *Tax News*.

Interpretation Bulletins

In the months of June through November 2003, the Ministère du Revenu du Québec published 24 interpretation bulletins, of which 15 deal with income tax and 9 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. 81-2/R1 Source of income

IMP. 484-2/R2 The effect of the resolution of a contract

LMR. 28-1/R59 Interest rates

SPECIAL 176 Bill 3

Act to amend the Taxation Act, the Act respecting the Québec sales tax and other legislative provisions

SPECIAL 177 Adjustments to certain measures announced in the Budget Speech of June 12, 2003

IMP. 87-2/R1 Funeral directors – Prearranged funeral services and sepultures

IMP. 128-8/R1 Tax shelters – Franchises

IMP. 128-10/R1 Condominiums (dwellings held in divided co-ownership)

IMP. 205-1/R1 Farm losses

IMP. 1136-15/R3 The financing of vehicles purchased for resale

LMR. 28-1/R60 Interest rates

IMP. 37-1/R13 The value of certain taxable benefits that a hotel or restaurant employee receives or enjoys by reason of his or her office or employment

IMP. 81-1/R3 Dwelling leased to a relative

IMP. 1177-2 Logging operations: Disposition of forest land and timber limits

SPECIAL 178 Elimination of the specific duty on perchloroethylene and standardization of recognition criteria for political education organizations

Consumption taxes

LMR. 28-1/R59 Interest rates

SPECIAL 140 Bill 3

Act to amend the Taxation Act, the Act respecting the Québec sales tax and other legislative provisions

TVQ. 678-1/R3 The government of Québec and Québec's consumption taxes

LMR. 28-1/R60 Interest rates

TVQ. 201-2 Input tax refund documentary requirements – Name of a corporation and name under which a corporation does business

SPECIAL 141 Elimination of the specific duty on perchloroethylene and standardization of recognition criteria for political education organizations

TVQ. 127-1/R1 Supply of massage therapy courses

TVQ. 127-2/R1 Supply made by a vocational school of an educational service pertaining to the operation of heavy equipment

TVQ. 127-3/R1 Supply made by a vocational school of an educational service pertaining to truck driving



Message for Professional Tax Preparers that Use Commercial Software to Complete Personal Income Tax Returns

A new paper document to be filed with 2003 return

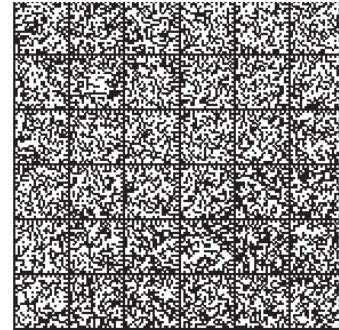
In the case of most commercial software programs, you will have to print an additional sheet (TPF-1U-V) and send it to the Ministère du Revenu. This new paper document contains a two-dimensional square bar code approximately two inches by two inches in size (see the example opposite). All the information provided in a given tax return is contained in the square. The bar code will be read electronically as soon as the Ministère receives it. Depending on the volume of information contained in the return, a second bar code may be printed on the sheet.

Commercial software developers were informed of this change in time to incorporate it into their programs for 2003. Consequently, the version of the commercial software you use probably already contains this new function.

As a preparer, all you have to do is print an additional sheet.

You must ensure each year that the software you are using has been certified by the Ministère du Revenu.

A listing of authorized software is available on the MRQ Web site at www.revenu.gouv.qc.ca/impotnetquebec.



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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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