

# Tax News

First quarter 2002

GST  
QST

## Notice to Owners of Alarm Systems

In certain municipalities, owners of an alarm system are charged an amount in cases of false alarm, that is, when the municipality's emergency services are alerted by means of a call or other communication technique that an alarm system has been activated, and an officer of the police or fire department is dispatched to the building but finds no evidence of unauthorized or forcible entry, fire or damage.

The amount charged further to a false alarm may be a **fine**, that is, a penalty of a fixed sum not based on the value of property or services supplied by the municipality. This is the case if the amount is charged pursuant to a bylaw that renders the following idea: "The user or owner of an alarm system that causes more than X false alarms in the same calendar year commits an offence and is liable to a fine of not less than X dollars, plus costs, for each false alarm after the third false alarm, and to a fine of not less than X dollars, plus costs, for each false alarm after the tenth false alarm." A fine is not subject to GST or QST.

If the amount invoiced for a false alarm is **not a fine**, it is normally subject to GST and QST. However, it is not subject to GST and QST if it constitutes payment for a municipal service. This is the case if the amount is charged pursuant to a bylaw that renders the following idea: "If an alarm system is activated and has been emitting an audible alarm signal for more than X minutes, if no one in the vicinity can deactivate the system, and if it is impossible to contact the persons named in section X (or if none of these persons can deactivate the system within a reasonable length of time), a police officer may take the measures necessary to deactivate the system.



The cost of deactivating the alarm system is charged to the person who owns, rents or occupies the premises."

## Contents

Commissions Paid by a Finance Company or a Financial Institution to an Automobile Dealer . . . . .	2	Is Cosmetic Surgery Taxable? . . . . .	6	Tax Relief for the Taxi Industry . . . . .	10
Deadlines for Claiming ITCs, ITRs or Rebates of the GST and QST . . . . .	2	Visitor Rebate Program: Proof of Export Required . . . . .	7	New Measures to Foster Tax Compliance in the Garment Industry . . . . .	11
A Taxing Question . . . . .	3	Retaining Electronic Records . . . . .	7	More Offices to Serve You Better . . . . .	12
How the GST and the QST Apply to Freight Transportation Services . . . . .	4	Plasma Expanders and Industrial Hemp . . . . .	7	Serving the Public and Businesses is the Top Priority of the Ministère du Revenu . . . . .	14
Québec Sales Tax Rebate for Employees Who Earn Commissions . . . . .	6	GST Rebate on Accommodation Supplied to Non-Residents . . . . .	8	In Your Interest . . . . .	15
		Outside Québec? . . . . .	8	Interpretation Bulletins . . . . .	15
		Tax Credit respecting Technological Adaptation Services . . . . .	9	New Publications . . . . .	16

## Commissions Paid by a Finance Company or a Financial Institution to an Automobile Dealer

An article appearing in the issue of *Tax News* for the second quarter of 2000 stated that the transfer of a lease to a finance company or a financial institution constitutes a taxable supply (rather than a zero-rated supply of a financial service), and that vendors of road vehicles are therefore required to collect and remit QST and GST on any commission income they receive in such situations.

The article further indicated that the Ministère du Revenu intended to publish a revised version of interpretation bulletin TVQ 198-1, *Financial Services Provided by an Automobile Dealer*, in order to clearly explain the tax treatment accorded with regard to financing provided at the time the lease is signed and with regard to the subsequent transfer of the contract to a finance company or financial institution. The principal points contained in the revised bulletin with respect to such leasing practices are outlined in the following paragraphs.



In a situation where an automobile is supplied by way of lease and the automobile is subsequently transferred to a financial institution, the dealer makes an original transaction with the consumer, that is, the lease of the vehicle. Such a lease may include a purchase option clause that may be exercised at some time during the term of the contract or at its end, together with various other terms and conditions. The dealer subsequently transfers the lease and simultaneously sells the automobile to the financial institution. In addition to the consideration paid in respect of this transaction, the financial institution pays a commission to the dealer.

Since the notion of "lease" is expressly excluded from the meaning of "debt security" as defined in the Act respecting the Québec sales tax, the lease cannot be considered a financial instrument. Consequently, the transfer of the lease and the sale of the automobile to the financial institution does not constitute the transfer of ownership of a financial instrument, and is therefore not the sale of a financial service. (Financial services are zero-rated under the QST system and exempt under the GST system.) Therefore, these transactions, as well as the commission paid to the dealer, are subject to both the QST and the GST.

## Deadlines for Claiming ITCs, ITRs, or Rebates of the GST and QST

If you are claiming an input tax credit (ITC), an input tax refund (ITR) or a rebate<sup>1</sup> of the GST and QST with respect to taxable property or services that you acquired, your claim must ordinarily be submitted by the due date of your return for the last reporting period that ends within four years after the end of the reporting period in which the tax became payable. If you are a "specified person," you have two years in which to make your claim. For further information, consult the issue of *Tax News* for the second quarter of 1998, which you can find on the Web site of the Ministère, at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca).

If a person that supplied property or services to you charges you GST and QST after the deadline for claiming your ITC and ITR (or your rebate of the GST and QST), you must pay the taxes. However, you may claim an ITC and ITR (or a rebate) if

- you pay the taxes charged by the supplier;
- the supplier has received a notice of assessment concerning the taxes and informs you of this in writing; and
- you file your GST or QST return (or rebate application) for the reporting period in which you pay the taxes by the prescribed date.

1. Property and services acquired by certain public service bodies do not give entitlement to ITCs or ITRs, but may give entitlement to rebates (partial refunds) of the GST and QST. Public service bodies include qualifying non-profit organizations, charities, hospital authorities, school authorities, universities and public colleges that are organized and operated other than for profit, and municipalities. Since January 1, 1997, municipalities have not been entitled to QST rebates.

When do taxes apply to the sale of property intended for use outside Québec? If this is a question that concerns you, you will find described below the rules that apply when corporeal movable property (also called “tangible personal property”) such as a computer is sold by a registrant in Québec to a business located in a participating province.\*

\* Since April 1, 1997, the HST has been in effect in Nova Scotia, New Brunswick and Newfoundland<sup>1</sup> (the “participating provinces”). The basic GST rules also apply to the HST. (If you are registered for the GST, you are automatically registered for the HST.)

You are considered to have sold corporeal movable property in a participating province if one of the following situations applies to you:

- You deliver the property to the recipient or make it available to the recipient in the participating province.
- You ship the property to a destination in the participating province specified in the transportation contract, or the property is consigned to a common carrier you have retained on the recipient’s behalf in order to have the property shipped to the destination in question.
- You send the property by courier or messenger service to an address in the participating province.

In this case, you must collect 15% HST.

### Examples

1. A sawmill in Rivière-du-Loup is registered for the GST and the QST. It sells lumber to a furniture manufacturer in Fredericton, New Brunswick. The sales contract specifies that the delivery is “FOB recipient’s factory.” The sawmill must collect 15% HST as the sale is considered to have been made in New Brunswick. The same is true if the sawmill retains a common carrier on the recipient’s behalf to deliver the lumber to Fredericton.
2. The same sawmill sells lumber to a furniture manufacturer in Halifax, Nova Scotia. The sales contract specifies that delivery is to be “FOB vendor’s mill.” The furniture manufacturer comes to pick up the lumber or retains a common carrier to deliver the lumber to Halifax.  
  
In this case, the sawmill must collect 7% GST. However, it is not required to collect QST as the lumber is zero-rated for the following reasons:
  - (a) The recipient intends to ship the lumber outside Québec and does so as soon as is reasonable after delivery of the lumber.
  - (b) The lumber is not purchased for consumption, use or supply in Québec, and it is not processed, transformed or altered in Québec before being shipped outside Québec.
  - (c) The sawmill has sufficient evidence that the recipient shipped the lumber outside Québec.
3. A mail-order business located in Montréal and registered for the GST and the QST sells compact discs to customers throughout Canada. It must collect 15% HST on orders mailed to residents of participating provinces and 7% GST on orders mailed elsewhere in Canada. Of course, 7.5% QST and 7% GST must be collected on sales made in Québec.



1. On December 6, 2001, the official name of this province became Newfoundland and Labrador.

## How the GST and the QST Apply to Freight Transportation Services

Domestic freight transportation services are subject to GST and QST. Even where freight transportation services are supplied in part outside Canada (or Québec, for QST purposes), the supply is considered to be made in Canada (or Québec), if both the origin and the destination of the freight are in Canada (or Québec). Such services are therefore subject to GST of 7% (and, in Québec, to QST of 7.5%).

For QST purposes, where corporeal movable property (also called “tangible personal property”) such as a computer is transported from a place in Canada outside Québec to a place in Québec, the transportation service is deemed to have been supplied outside Québec. A person resident in Québec that acquires such a service must calculate and remit QST, unless the service is acquired for use exclusively in the person’s commercial activities.

International freight transportation services are zero-rated under both the GST and QST systems.

### Zero-rated transportation services

#### Definitions

##### Continuous freight movement

The transportation of corporeal movable property (tangible personal property) by one or more carriers to a destination specified by the shipper of the property, where all the freight transportation services supplied by the carrier or carriers are supplied as a consequence of instructions given by the shipper of the property.

##### Continuous outbound freight movement (GST system)

The transportation of tangible personal property by one or more carriers from a place in Canada to a place outside Canada, or to another place in Canada from which the property is to be exported. The property transported must not be further processed, transformed or altered in Canada (except to the extent that is reasonably necessary for or incidental to its transportation), other than, in the case of natural gas transported by pipeline, to recover natural gas liquids or ethane at a straddle plant.

(This definition also holds under the QST system, with the following substitutions: “corporeal movable property” for “tangible personal property;” “Québec” for “Canada;” and “taken or shipped outside Québec” for “exported.”)

#### Outbound services

Under the GST system, a freight transportation service is zero-rated when supplied in respect of goods that are transported from a place in Canada to a place outside Canada, provided the value of the transportation service is \$5 or more.

Under the QST system, a freight transportation service is zero-rated when supplied in respect of property that is transported from a place in Québec to a place outside Canada, provided the value of the transportation service is \$5 or more (not including GST).

#### Domestic outbound services

Under the GST system, a freight transportation service is zero-rated when supplied in respect of goods that are transported from a place in Canada to another place in Canada, provided all of the following conditions are met:

- The property is exported, and the service is part of a continuous outbound freight movement.
- The value of the transportation service is \$5 or more.
- The shipper provides the carrier with a written declaration that the property is being shipped for export and the freight transportation service is part of a continuous outbound freight movement. The shipper’s declaration may be written on the bill of lading given to the first carrier, or on a separate document given to the carrier, and must contain the following information:

##### Shipper’s Declaration

Excise Tax Act, Schedule VI, Part VII, par. 7(a)

The property is being shipped for export, and the freight transportation service to be supplied by the carrier is part of a continuous outbound freight movement of the property.

Yes  No



(continued on page 5)



(continued from page 4)

If no such declaration is provided, the carrier must collect GST on any part of the freight transportation service that is supplied in Canada.

Under the QST system, a domestic outbound service is also zero-rated, provided all of the following conditions are met:

- The property is transported from a place in Québec to another place in Québec.
- The shipper remits to the carrier a completed copy of form VD-197-V, *Declaration concerning the Transportation of Corporeal Movable Property*, as confirmation that the property is being shipped outside Québec (the declaration used under the GST system may also be used under the QST system).
- The service to be sold by the carrier is part of a continuous outbound freight movement.
- The property is taken or shipped outside Québec, and the service is part of a continuous outbound freight movement.
- The value of the transportation service is \$5 or more (not including GST).

### Inbound services

Under the GST system, a freight transportation service is zero-rated when supplied in respect of goods that are transported from a place outside Canada to a place in Canada, or from a place outside Canada to another place outside Canada. This includes fully in-bond freight transportation services, as well as in-transit moves through Canada from a place outside Canada to another place outside Canada.

#### Example

Goods enter Canada through the Port of Halifax, and a separate bill of lading is cut for an overland movement by rail to Montréal. As long as the goods are not released from customs until they reach Montréal, the domestic movement by rail is considered to be outside Canada, and is therefore zero-rated.

Under the QST system, a freight transportation service that is supplied in respect of corporeal movable property transported from a place outside Canada to a place in Québec is deemed to be supplied in Québec and is zero-rated. However, a freight transportation service from a place in Canada (outside Québec) to a place in Québec is considered to have been supplied outside Québec. This means that a freight transportation service is not subject to QST when supplied in respect of property that is transported from a place outside Canada to a place in Canada (outside Québec), or from a place outside Canada to another place outside Canada.

### Domestic inbound services

Under the GST system, a freight transportation service is zero-rated when supplied in respect of goods that are transported between two places in Canada, provided the service is supplied as a consequence of the shipper's instructions and is part of a continuous freight movement having its origin outside Canada and destination in Canada. However, the carrier providing the domestic freight transportation service must hold documentary evidence that the service is part of a continuous freight movement originating in a place outside Canada.

#### Example

A shipment arrives in Montréal from London, England, on an original bill of lading on which the shipper has specified that the destination of the goods is Toronto. A carrier engaged under a separate contract to deliver the goods to the consignee in Toronto may zero-rate the domestic transportation service, provided the carrier has a copy of the original bill of lading (or other documentary evidence satisfactory to the Minister), certifying that the transportation service is part of a continuous freight movement originating in a place outside Canada.

Under the QST system, a freight transportation service is zero-rated when supplied in respect of property that is transported from a place in Canada to a place in Québec, provided the service is supplied as part of a continuous freight movement having its origin outside Canada and its destination in Québec (documentary evidence to this effect is required), and as a consequence of the shipper's instructions.

A freight transportation service between two places in Québec is deemed to have been supplied outside Québec if the service is part of a continuous freight movement having its origin in Canada (outside Québec) and its destination in Québec. A person resident in Québec that acquires such a service must collect and remit QST, except where the service is acquired for use exclusively in the person's commercial activities.

For further information, refer to the brochure *The QST, the GST/HST and the Fuel Tax: How They Apply to Freight Carriers* (IN-218-V).



## Québec Sales Tax Rebate for Employees Who Earn Commissions

If you are an employee who earns commission income, you are entitled, under the provisions of the Taxation Act, to a rebate of the QST you pay with respect to certain expenses deducted in your income tax return. **The rebate is granted only if the expenses were incurred while your employer was registered for the QST.** To claim the rebate, you must complete form VD-358-V, *Québec Sales Tax Rebate Application for Employees and Partners*, and file it with your income tax return within four years after the end of the taxation year in which the expenses were incurred.

The amount of a QST rebate must be included in your income for the year in which the rebate is received, provided the taxes were included in the amount of expenses you claimed in your income tax return. However, if the rebate is related to capital cost allowance claimed in respect of property, the amount of the rebate must be subtracted from the undepreciated capital cost (determined according to the class of property) at the beginning of the taxation year in which the rebate is received.

### Calculating the refund

If you were an employee remunerated on a commission basis, you must apply a reduction in order to determine the amount of the expenses in respect of which you may claim a rebate and the amount that does not give entitlement to the rebate. The reduction must be apportioned between the expenses that include the GST and the QST and those that do not. For example, if the total amount of your expenses (\$11,000) can be broken down into \$10,000 in taxable expenses and \$1,000 in non-taxable expenses, and if the applicable reduction is \$750, you must do the following calculation:

<b>Expenses claimed in your income tax return, in accordance with the Taxation Act</b>		
	( $\$11,000 - \$750$ )	\$10,250
<b>Expenses that do not give entitlement to a rebate</b>		
	( $\$1,000 - \frac{[\$750 \times \$1,000]}{\$11,000}$ )	- \$932
<b>Expenses that give entitlement to a rebate</b>		\$9,318

On form VD-358-V, you must therefore enter \$10,250 on line 1 (expenses deducted in your return), \$932 on line 2 (expenses that do not give entitlement to a rebate) and \$9,318 on line 3 (expenses that give entitlement to a rebate).



## Is Cosmetic Surgery Taxable?

A consultative, diagnostic or treatment service, or other health-care service (including dental surgery) performed for cosmetic purposes is exempt from the GST and the QST if the service is rendered for medical or reconstructive purposes. For example, skin graft surgery on a burn victim is tax-exempt.

However, surgical or dental procedures are taxable if they are performed solely for the purpose of altering or enhancing a person's appearance.

A surgical procedure is considered medically necessary if it meets certain criteria. The principal criteria is whether the surgery must be performed in order to alter a significant defect in a person's appearance caused by disease, trauma or congenital deformity.

Furthermore, surgery is considered medically necessary where

- it is recommended by a mental health facility, or
- the patient is less than 18 years of age and the defect is in an area of the body not usually covered by clothing.

Each surgery must be evaluated on a case-by-case basis. The Ministère du Revenu follows the guidelines used for the purposes of the Régie de l'assurance maladie du Québec.





## Visitor Rebate Program: Proof of Export Required

Visitors to Canada may claim rebates of the GST/HST on goods they purchase in Canada and take back to their country of origin.

On February 1, 1999, the first phase of proof-of-export validation for GST/HST visitor rebates was implemented at land borders. Visitors who leave Canada by private vehicle or charter bus tour and who wish to claim a rebate of the GST/HST paid on goods must

- have the goods ready for inspection; and
- ensure that the receipts for the goods have been validated by Canadian customs officials or by staff at participating land border duty-free shops.

On April 1, 2001, the second phase of proof-of-export validation was implemented at Canada's nine major international airports. In order to claim a rebate of the GST/HST paid on goods

purchased in Canada, visitors departing from these airports must

- have the goods ready for inspection; and
- have the receipts validated, upon departure from Canada, by Canadian customs officials.

Visitors departing by ferry, non-charter bus or train must, if there is no Canadian customs presence, include their original boarding pass or carrier ticket with their rebate application.

**Note: Airport duty-free shops do not provide this validation service.**

For further information, access the Internet site of the CCRA Visitor Rebate Program at: [www.ccr-aadrc.gc.ca/visitors](http://www.ccr-aadrc.gc.ca/visitors)

Please note that QST rebates for visitors were eliminated on October 1, 2000. For further information, see the issue of *Tax News* for the third quarter of 2000.



## Retaining Electronic Records

If you keep your records (or supporting documents) in electronic format, you are required to retain the electronic records (even if a hard copy is also available) for a period of six years from the end of the year to which they relate. Some commercial accounting software may not allow for this requirement, so you may have to adjust your procedures to ensure that adequate documentation is retained.

Electronic records containing income tax and sales tax data must be made available upon request for inspection by officials from the Canada Customs and Revenue Agency and the Ministère du Revenu. Such examinations include the audit of electronic records, and registrants must, as a means of providing reasonable assistance, allow government auditors to access their electronic records.



## Plasma Expanders and Industrial Hemp

On April 12, 2001, the federal Minister of Finance announced certain refinements to the GST system, under which the sale and importation of plasma expander and industrial hemp would be zero-rated under the GST system as of April 13, 2001. On July 5, 2001, the Ministère des Finances du Québec issued an information bulletin announcing that the zero-rating measures would be adopted under the QST system, and would also apply as of April 13, 2001.

Plasma expander is a blood substitute product which is purchased by certain agencies and distributed to hospitals and other health-care providers for use in maintaining circulatory blood volume during surgical procedures or

trauma care. The amendments to the sales tax systems ensure that the treatment of plasma expanders is consistent with that of blood derivatives and of drugs (which are, as a rule, zero-rated).

The grains or seeds, and mature stalks (straw) of industrial hemp plants are also zero-rated. Currently, the grains or seeds of most other plant crops, and primary products such as fodder, straw and hops, can be purchased and sold by farmers on a tax-free basis. Under the GST and QST systems, industrial hemp will therefore be treated in the same way as other farm products.

For more information on zero-rated drugs, refer to *The QST and the GST/HST: How They Apply to Medical Devices and Drugs* (IN-211-V).





## GST Rebate on Accommodation Supplied to Non-Residents

If you are a registrant and you supply short-term accommodation (such as hotel rooms or campsites), you may under certain conditions pay or credit a GST accommodation rebate to persons not resident in Canada. The conditions, which apply regardless of whether the accommodation is supplied as part of a tour package, are outlined below.

A registrant that pays or credits the rebate to a non-resident may claim a corresponding deduction in determining the net tax

- for the reporting period that includes the last day on which any tax to which the rebate relates became payable or the day on which the rebate is paid or credited, whichever is later; or
- for any reporting period respecting which a return is filed within one year after the later of the above days.

A registrant that supplies eligible accommodation may pay or credit the rebate to an eligible recipient who is either

- a non-resident person (including a non-resident individual) that acquires the accommodation for use in the course of its business (for example, a company that rents hotel rooms for its employees travelling on business), or
- a non-resident person that acquires the accommodation for supply in the course of its business, where the business consists in making such transactions (for example, a tour organizer).

If the non-resident's business does not consist in supplying accommodation, a rebate may be granted only in one of the following situations:

- The payment for the eligible accommodation is made at a place outside Canada at which the supplier or its agent carries on a business.
- The eligible accommodation is supplied as part of a tour package that includes goods or services other than meals or rooms, and the recipient pays the supplier a deposit of at least 20% of the total price for the tour package at least 14 days before the first day any eligible accommodation is made available under the agreement. In addition, the payment must be made by means of a credit card or charge card issued by a non-resident institution that is a bank, co-operative credit society, trust company or similar institution, or by means of a cheque, draft or other bill of exchange drawn on an account outside Canada with such an institution. If the deposit is paid by means of a credit card or charge card, it is not considered to be paid until the supplier's account is actually credited for the amount of the deposit.

Note: QST rebates for visitors were eliminated on November 1, 2001.



## Outside Québec?

A new link has been added to the section entitled "How to reach us" on the Web site of the Ministère du Revenu ([www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca)). The page "Outside Québec?" provides information with regard to the office you should contact, depending on the location of your home or business.

If your home or business is located in a province other than Québec or Ontario, or if it is located outside Canada, please contact our office in Sainte-Foy.

If your home or business is located in Ontario, consult the table below. The addresses and phone numbers of all our offices are provided on page 12.

If your postal code begins with	Office you should contact
K	Hull
L, M0, M1, M2, M3, M4A, N	Montréal-Centre
M4B, M4C, M4D, M4E, M4F, M4G, M4H, M4I, M4J, M4K, M4L, M4M, M4N, M4O, M4P, M4Q, M4R, M4S, M4T, M4U, M4V, M4W, M4X, M4Y, M4Z, M5A, M5B, M5E, M5G	Montréal-Est
M5C, M5D, M5F, M5I, M5J, M5K, M5L, M5M, M5N, M5O, M5P, M5Q, M5R	Montréal-Ouest
M5S, M5T, M5U, M5V, M5W, M5X, M5Y, M5Z, M6, M7, M8A, M8B, M8C, M8D, M8E, M8F, M8G, M8H, M8I, M8J, M8K, M8L, M8M, M8N, M8O, M8P, M8Q, M8R, M8S, M8T, M8U, M8V, M8W, M8X, M8Y	Laval
M5H, M8Z, M9	Longueuil
P	Rouyn-Noranda





## Tax Credit respecting Technological Adaptation Services Help for Small Businesses

Taxpayers who run small businesses often lack the time and resources they need to obtain and process pertinent information before making a decision. They may also find it difficult to identify and make contact with specialized external resources. Access to business information is thus of great importance to small businesses. It enables them to select and use productive technologies, reduce costs for raw materials, establish profitable alliances and keep abreast of the most efficient management methods.

If you have a small business, you will want to know about the tax credit respecting technological adaptation services. The credit was created to support small businesses in a number of areas: obtaining and processing strategic information, innovating, and collaborating with other partners in the business sector. The credit has two components: business information; and liaison and transfer.

---

### Component 1: Business information

#### Supporting businesses in their decision-making process

Briefly, the business information discussed in this article results from the activities—that is, the identification, acquisition, analysis and evaluation of technological and other information—carried on by a business watch centre for use in decision making. There are currently 14 such centres recognized for the purposes of the tax credit. These centres, which bring together the different partners in an economic sector, provide products and services that include monthly newsletters, customized information services, multi-client studies and summaries, a one-stop information line, monitoring of international markets, a Web site, symposia, seminars, and business networking activities.

The expenses giving entitlement to the credit correspond to the following fees charged by an eligible business watch centre for its products or services:

- an amount equal to 80% of the fees relating to watch services;
- the amount of subscription fees for intelligence products or services;
- the amount of fees respecting training and information activities given in relation to intelligence services.



---

### Component 2: Liaison and transfer

#### Supporting businesses that carry out innovation projects

Liaison and transfer centres provide liaison and transfer services between businesses, universities and other innovation partners. They help businesses to pinpoint their needs, facilitate communications between the partners, and support businesses in the various stages of carrying out an innovation project.

College centres for technology transfer, with locations throughout Québec, are affiliated with CEGEPs. They play much the same role as liaison and transfer centres, but on a local and regional level. In addition, they provide technical training services.

Six liaison and transfer centres and 23 college centres for technology transfer are currently recognized for the purposes of the credit. The liaison and transfer services provided by these organizations are as follows:

- locating and brokering research results;
- assessing business needs;
- bringing the various partners together;
- carrying out technical feasibility studies and assessing the commercial potential of innovation projects;
- supporting businesses in the various stages of carrying out an innovation project; and
- carrying out software certification tests.

(continued on page 10)

(continued from page 9)

The expenses giving entitlement to the credit correspond to the following fees charged by an eligible liaison and transfer centre or college centre for technology transfer for its products or services:

- an amount equal to 80% of the fees relating to liaison and transfer services;
- the amount of subscription fees for liaison and transfer products or services;
- the amount of fees respecting training and information activities given in relation to liaison and transfer services.

### Determination of the credit

A corporation that carries on a business in Québec and has an establishment there may, under certain conditions, claim the tax credit for a given taxation year if all or substantially all of its gross income is derived from the operation of an eligible business. The corporation's assets, as shown in its financial statements submitted to shareholders for the taxation year preceding the year in question or, if applicable, at the beginning of its first fiscal period, must not exceed \$25 million.

However, a corporation cannot claim the credit if

- more than 10% of its gross income for the year is derived from a source other than the operation of an eligible business;
- it is exempt from income tax for the year; or
- it is a Crown corporation or a wholly owned subsidiary of a Crown corporation.

The tax credit is equal to the result obtained by multiplying by 40% the amount of eligible expenditures incurred by the corporation for the taxation year with respect to an eligible business watch centre, liaison and transfer centre or college centre for technology transfer, as the case may be.

To claim the credit, the corporation must complete form CO-1029.8.21.22, *Crédit d'impôt pour des services d'adaptation technologique*, which is available from the offices of the Ministère du Revenu or on its Web site ([www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca)). The form must be enclosed with the corporation's income tax return.

## Tax Relief for the Taxi Industry



On June 13, 2001, the Québec government announced two tax measures designed to provide tax relief for taxi drivers and taxi owners. These measures are part of the Act respecting transportation services by taxi, which was assented to on June 21, 2001.

The new measures are as follows:

- changes to the refundable tax credit for taxis; and
- recognition of the Association professionnelle des chauffeurs de taxi du Québec for the purposes of the tax credit respecting union or professional dues.

The first measure, which will apply throughout Québec, consists in an improvement of the tax credit for taxi firms. All taxi drivers will henceforth be entitled to a tax credit of up to \$500 for each permit, or 2% of their income from their taxi service business (to a maximum of \$500). This tax credit will be paid directly to the taxi drivers. Please note that the tax credit may still be claimed by taxi owners who assume all or virtually all of the cost of fuel.

The second measure will allow salaried taxi drivers to apply for a non-refundable tax credit respecting professional dues paid to the newly established Association professionnelle des chauffeurs de taxi du Québec. Self-employed taxi drivers continue to be authorized to deduct such dues in the calculation of their income.

The above-mentioned modifications were made to improve the fairness of the tax measures respecting taxi firms.

### Update

The Ministère des Finances has introduced a refundable tax credit for the modernization of the taxi fleet. It will apply to the period from January 1, 2001, to December 31, 2010.

For further information, see information bulletins 2001-5 and 2001-13 on the Web site of the Ministère des Finances at: [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca)



## New Measures to Foster Tax Compliance in the Garment Industry

QST registrants that carry out activities in the garment industry will be subject to new tax measures as of January 1, 2002.

Prior to the announcement of these measures by the Ministère des Finances on July 5, 2001, various groups involved in the industry were consulted by the Ministère du Revenu. Their proposals were carefully analyzed by the Ministère des Finances and the Ministère du Revenu.

The measures to be implemented are designed to

- eliminate tax evasion in the garment industry;
- promote fair competition between businesses;
- identify persons who work in the production sector of the industry; and
- give these workers greater access to employment-related benefits.

The measures will give the Ministère du Revenu the tools it needs to efficiently monitor tax compliance in the clothing industry and, as a result, the Ministère will step up its efforts to ensure that all those involved in the industry meet their tax obligations. In addition, it will implement stricter controls at the time new firms are registered.

### Particulars of the new measures

- The obligation to file QST returns on a monthly basis
- The obligation to file an information return respecting subcontracting expenses

As a rule, registrants in the garment sector will be required to file a monthly QST return along with a duly completed copy of form VDZ-471.AV-V, *Subcontracting Expenses Information Return*. On this new form, they must provide information identifying subcontractors (name, address, telephone number, etc.) and indicating the amounts charged for the work and, where applicable, the QST payable. Registrants that are required to file monthly QST returns may, if they wish, adopt a monthly reporting period under the GST/HST system as well.

In addition to being liable for the applicable penalties, a registrant that fails to file the information return or provide all of the required information will not be entitled to claim an input tax refund (ITR) with respect to the expense concerned or deduct the expense in the calculation of income. Moreover, if the property purchased from the subcontractor is included in the registrant's inventory, the registrant will not be entitled to include the amount paid for the property in the cost of goods sold.

For the purposes of these measures, clothing does not include footwear or jewellery. The measures do not apply to registrants that manufacture clothing (or have clothing manufactured) solely in order to use it in the course of their commercial activities or sell it at retail; nor do they apply to registrants that make made-to-measure clothing. It should be noted, however, that the measures apply to self-employed persons who carry out activities (other than excluded activities) related to the manufacture of clothing.

Further information is provided in information bulletin 2001-06, published by the Ministère des Finances and available on the Internet at: [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca)





## More Offices to Serve You Better

### Hull

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

#### Individuals

(income tax and social programs) (819) 770-1768

**Corporations** (income tax) (819) 770-8504

**Employers–Source deductions** (819) 770-8504

**Consumption taxes** (819) 770-8504

### Jonquière

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

#### Individuals

(income tax and social programs) (418) 548-4322

**Corporations** (income tax) (418) 548-6392

**Employers–Source deductions** (418) 548-6392

**Consumption taxes** (418) 548-6392

### Laval

Direction régionale de Laval, des Laurentides  
et de Lanaudière  
4, Place-Laval, bureau RC-150  
Laval (Québec) H7N 5Y3<sup>1</sup>

#### Individuals

(income tax and social programs) (450) 972-3320

**Corporations** (income tax) (450) 972-3320

**Employers–Source deductions** (450) 972-3320

**Consumption taxes** (450) 972-3320

Direction régionale de Montréal–Ouest  
705, chemin du Trait-Carré  
Laval (Québec) H7N 1B3

#### Individuals

(income tax and social programs) (514) 873-6120

**Corporations** (income tax) (514) 873-6120

**Employers–Source deductions** (514) 873-6120

**Consumption taxes** (514) 873-6120

If you wish to contact the staff of the Ministère at the above-mentioned office, you must do so by telephone or in writing.

### Longueuil

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

#### Individuals

(income tax and social programs) (450) 928-8820

**Corporations** (income tax) (450) 928-8820

**Employers–Source deductions** (450) 928-8820

**Consumption taxes** (450) 928-8820

### Montréal

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

#### Individuals

(income tax and social programs) (514) 873-2600

**Corporations** (income tax) (514) 873-2600

**Employers–Source deductions** (514) 873-2600

**Consumption taxes** (514) 873-2600

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

#### Individuals

(income tax and social programs) (514) 873-2610

**Corporations** (income tax) (514) 873-2610

**Employers–Source deductions** (514) 873-2610

**Consumption taxes** (514) 873-2610

### Québec

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

#### Individuals

(income tax and social programs) (418) 659-6299

**Corporations** (income tax) (418) 659-6692

**Employers–Source deductions** (418) 659-6692

**Consumption taxes** (418) 659-6692

1. **ERRATUM:** An incorrect postal code was indicated for this office in the issue of *Tax News* for the fourth quarter of 2001.



## Rimouski

Direction régionale du Bas-Saint-Laurent  
et de la Gaspésie—Îles-de-la-Madeleine  
212, avenue Belzile, bureau 250  
Rimouski (Québec) G5L 3C3

### Individuals

(income tax and social programs) (418) 727-3572

**Corporations** (income tax) (418) 727-3702

**Employers—Source deductions** (418) 727-3702

**Consumption taxes** (418) 727-3702

## Rouyn-Noranda

Direction régionale de l'Abitibi-Témiscamingue  
et du Nord-du-Québec  
19, rue Perreault Ouest, 3<sup>e</sup> étage  
Rouyn-Noranda (Québec) J9X 6N5

### Individuals

(income tax and social programs) (819) 764-6761

**Corporations** (income tax) (819) 764-6765

**Employers—Source deductions** (819) 764-6765

**Consumption taxes** (819) 764-6765

## Saint-Jean-sur-Richelieu

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

### Individuals

(income tax and social programs) (450) 349-1120

**Corporations** (income tax) (450) 349-1120

**Employers—Source deductions** (450) 349-1120

**Consumption taxes** (450) 349-1120

## Sainte-Foy

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

### Individuals

(income tax and social programs) (418) 659-6299

**Corporations** (income tax) (418) 659-4692

**Employers—Source deductions** (418) 659-4692

**Consumption taxes** (418) 659-4692

## Sept-Îles

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

### Individuals

(income tax and social programs) (418) 968-0203

**Corporations** (income tax) (418) 968-2211

**Employers—Source deductions** (418) 968-2211

**Consumption taxes** (418) 968-2211

## Sherbrooke

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

### Individuals

(income tax and social programs) (819) 563-3034

**Corporations** (income tax) (819) 563-3776

**Employers—Source deductions** (819) 563-3776

**Consumption taxes** (819) 563-3776

## Sorel-Tracy

Local office for the Montérégie region  
101, rue du Roi  
Sorel-Tracy (Québec) J3P 4N1

### Individuals

(income tax and social programs) (450) 928-8820

**Corporations** (income tax) (450) 928-8820

**Employers—Source deductions** (450) 928-8820

**Consumption taxes** (450) 928-8820

## Trois-Rivières

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

### Individuals

(income tax and social programs) (819) 379-5360

**Corporations** (income tax) (819) 379-5392

**Employers—Source deductions** (819) 379-5392

**Consumption taxes** (819) 379-5392



# Serving the Public and Businesses is the Top Priority of the Ministère du Revenu

This commitment is the basis of the Service Statement issued by the Ministère last April.

As part of Québec's far-reaching plan to modernize its public administration, the government has undertaken to improve the quality of services provided to the public and establish a results-based management framework. The Public Administration Act (the "Act"), assented to on May 30, 2000, supports this plan.

## Obligations under the Act

The Act sets out the responsibilities of government departments and agencies with regard to services provided to the public, such as the obligation to prepare a strategic plan and submit it to the National Assembly. The Act also supports the use of new technologies and obliges the government departments and agencies that provide services directly to the public to publish a service statement. Well before the Act was assented to, however, the Ministère du Revenu had already begun its own process of modernization.

As early as 1994, the Ministère published its *Charter of Rights: Taxpayers and Agents*. In 1996, the Ministère announced 12 commitments made with respect to the quality of services. The Ministère also decentralized its operations, organized services to offer assistance and information to new businesses in all of its regional offices and developed its electronic services. The service statement is one in a series of steps the Ministère has taken in its efforts to modernize and improve its services.

## The commitments of the Ministère

In its service statement, the Ministère makes commitments and sets specific goals with regard to the quality of services provided to all Québec citizens and all the businesses with which it deals, specifically:

- 5.4 million taxpayers;
- 0.5 million businesses and business people;
- 3.6 million beneficiaries or persons participating in one of the many social programs administered by the Ministère.

The Ministère pledges to

- facilitate access to services and provide accurate and reliable information;
- ensure respectful, cordial and courteous service;
- use clear, simple language in its communications and simplify the administration of the tax system and the programs;
- protect personal information;
- ensure that tax files are processed in a fair, equitable and impartial manner and support the right to file an objection or an appeal.

The Ministère has specific objectives with regard to the quality of its services, whether rendered by telephone, in person or through correspondence. In addition, the Ministère proposes to meet time limits set for the registration of businesses and for the processing of personal income tax returns, sales tax refunds (agents), support payment files or objections to decisions of the Ministère.

## Continuous improvement

Québec's public administration is committed to the well-being of our society. It is aware of the need to do everything possible to adapt to the social, technological, economical and other changes that affect our society.

Since the Ministère du Revenu is a part of this environment, it is continuously striving to improve the quality of the services it provides to the public and to businesses, in order to better meet their needs and expectations. For example, with regard to telephone services, the Ministère has made efforts to reduce the waiting time and provide toll-free information services to the entire population. To help accomplish this goal, the Ministère linked its regional call centres and improved work organization. Considering that the Ministère du Revenu has approximately six million incoming telephone calls per year, this was quite a challenge!

## On-going process

The Ministère plays an important role, as its activities generate approximately 80% of the Québec government's annual revenue. The task of collecting taxes for the Québec government is sometimes difficult, often unpleasant. Over the past several years, the Ministère du Revenu has made a special effort to improve the quality of its services, and has become more attentive to the needs and expectations of Quebecers. These efforts have helped earn the Ministère greater support from the public and businesses. The Ministère is encouraged to pursue its efforts and update its service statement periodically.

The service statement of the Ministère du Revenu is available on its Web site, at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca).

Serving the Public  
and Businesses Our Top  
Priority



## In Your Interest

### GST

Prescribed interest rates are adjusted quarterly to reflect market trends. Penalties and interest related to the GST are compounded daily. Annualized interest rates and penalty rates for the quarterly periods from April 1, 2001, to March 31, 2002, are listed below.

Period	Annualized interest rate* %	Penalty rate %
<b>2001</b>		
Apr. 1 - June 30	4.8132	6
July 1 - Sept. 30	4.7609	6
Oct. 1 - Dec. 31	4.7609	6
<b>2002</b>		
Jan. 1 - Mar. 31	2.4333	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

Interest is capitalized daily on amounts due and refunds granted under Québec tax laws. The prescribed interest rate applicable to debts owed to the Ministère du Revenu is set by calculating the simple arithmetic mean of the base rates for bank loans to businesses, as published by the Bank of Canada on the last Wednesday of each month included in the three-month period ending in the second month of the preceding quarter (for example, November 24, 1999, is the last Wednesday of the second month in the quarter preceding the first quarter of 2000). The result is rounded off to the nearest whole number (one-half being rounded down), and increased by 3%.

Up to December 31, 1999, the interest rate applicable, for a particular calendar quarter, to refunds payable by the Ministère du Revenu was the rate for Québec savings bonds

in effect on the first day of the third month of the preceding quarter, as published in the *Gazette officielle du Québec*.

As announced in information bulletin 99-5 published by the Ministère des Finances du Québec on November 26, 1999, amendments were made to the Regulation respecting fiscal administration with regard to the interest rate applicable to refunds payable by the Ministère du Revenu. The new rate, which applies to refunds payable by the Ministère as of January 1, 2000, corresponds to the rate in effect, with regard to the most recent issue of Québec savings bonds, on the first day of the third month of the quarter preceding the calendar quarter concerned. Thus, the interest rate for the quarter beginning on January 1, 2000, is the rate in effect on December 1, 1999, with regard to the issue of Québec savings bonds that was most recent on that date.

The following is a list of interest rates respecting refunds payable by and debts owed to the Ministère, for the quarterly periods from April 1, 2001, to March 31, 2002.

		Interest rate %
<b>2001</b>		
Apr. 1 - June 30	Refunds	4.85
	Debts	10
July 1 - Sept. 30	Refunds	3.35
	Debts	10
Oct. 1 - Dec. 31	Refunds	3.35
	Debts	9
<b>2002</b>		
Jan. 1 - Mar. 31	Refunds	3.35
	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.

## Interpretation Bulletins

In November 2001, the Ministère du Revenu du Québec published 6 interpretation bulletins, of which 3 deal with income tax and 3 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.536.0.2-1** Support amount and child support amount (definitions)

**IMP.536.0.5-1** Judicial and extra-judicial expenses concerning support amount

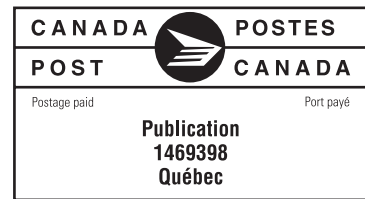
**IMP.536-6/R1** Legal or Extra-Legal Expenses Related to Alimony or Maintenance Allowance

### Consumption taxes

**SPECIAL 122** Increase in the tax on tobacco products

**TVQ. 1-8** Supply of property or services at direct cost

**TVQ. 177-6** Supplies made by a food store of cold, ready-to-eat tomato pizza



## New Publications

The Ministère du Revenu recently published

- *NetFile Québec and Tax Preparers: General Information and Application Form 2001* (IN-223-V) and
- *For top performance during the 2001 income tax season... Go online!* (IN-223.A-V)



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

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

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

*Tax News* est disponible en français sous le titre *Nouvelles fiscales*.

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

Subscription enquiries 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.

### Director of Communications

Carole Lafond

### Editor

Marie Godbout

### Advisory Committee

Bernard Cauchon  
Sylvain Denault  
Claudette Forgues  
Carole Lafond  
Ginette Landry  
Nicole Plourde  
Claire Thibault  
Marie-Paule Guilbault  
(Liaison officier, CCRA)

### Writers

Mélanie Crispo  
Linda Divita  
Marie Godbout  
Francine Loiselle  
Marie Verreau

### Translators

Susan Deichert  
Mary Claire Dugas  
Jonathan Keathley  
Sylvie Lemelin  
Michael McKenzie  
Sarah McNeill  
Joanne Velenovsky

### Graphics

Christine Bleau

Legal deposit  
First quarter 2002  
National Library of Canada  
ISSN 1192-1730  
IN-136.56-V

