

Tax News

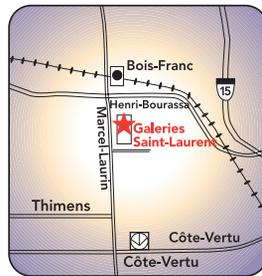
Fourth quarter 2002

In Brief

Relocation of the Montréal-Ouest office and new customer service desk

The Ministère du Revenu recently moved to new offices in the Montréal-Ouest area and further improved its services by opening a customer service desk at the same location. The address of the Montréal-Ouest office is

Les Galeries Saint-Laurent
2215, boulevard Marcel-Laurin
Saint-Laurent (Québec) H4R 1K4
Tel.: (514) 873-6120
1 866 570-2500 (toll-free)



All taxpayers and agents can now enjoy a personalized customer service. Office hours are from 8:30 a.m. to 4:30 p.m. on Monday, Tuesday, Thursday and Friday and from 10:00 a.m. to 4:30 p.m. on Wednesday.

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

A lifetime capital gains exemption of \$500,000 is granted with respect to gains resulting from the disposition of farm property and shares of a corporation carrying on a small business. This exemption also applies to capital gains resulting from the disposition of certain fishing property after December 10, 2002. For more information, refer to information bulletin 2002-11 of the Ministère des Finances, de l'Économie et de la Recherche at www.mfer.gouv.qc.ca.

Important clarifications concerning

● the tax exemption for Indians

In our issue for the second quarter of 2002, we published an article about the tax exemption for Indians and the documents required as proof. It should be pointed out, however, that Mohawks residing in Kahnawake are subject to interim measures providing for a QST exemption. These measures, which result from a tax agreement on consumer goods and services signed by the Québec government and the Mohawk Council of Kahnawake, have been in effect since December 15, 1999. The measures provide for a QST exemption on certain transactions made by members of this community, and do not affect the application of the GST.

For further information, refer to the article entitled "Mohawks of Kahnawake: Interim Measures respecting Exemption from the QST," published in the issue of *Tax News* for the fourth quarter of 1999 and available on our Web site at www.revenu.gouv.qc.ca.

● the new residential rental property rebate

In the issue of *Tax News* for the third quarter of 2002, we published an article on the new residential rental property rebate. The last paragraph should have read as follows: "A lessor that has been granted a rebate will be required to remit the full amount of the rebate to the Ministère du Revenu where all of the following conditions apply:

- the rebate pertained to a single-unit residential complex or a residential unit held in co-ownership;
- the residential complex is sold within one year following the date on which it was first occupied as a place of residence; and
- the purchaser is not buying the residential complex to use as his or her primary place of residence."

Contents

R&D in Business	2	Online Payment	7	Confidentiality	14
Reducing Instalment Payments	3	NetFile Québec	7	Authorization or Power of Attorney?	14
Tax on Lodging	5	Personal Income Tax: Innovations	8	In Your Interest	15
Quick Method of Accounting	4	Tax FAQs	11	Interpretation Bulletins	15
Food Supplements	5	New Publications	11	New MRQ Web Site	16
New Electronic Services	6	Tax Credit for Seniors	12		

A broad consensus has been reached on the important role scientific research and experimental development (R&D) plays as a lever of economic development in Québec. For several years now, the Québec tax system has included various measures aimed at stimulating R&D activities among businesses in Québec. The refundable tax credits granted by the Québec government in this area are the main thrust of these generous incentives.

Do you carry out R&D?

Many small and medium-sized businesses (SMBs) that conduct R&D, or that have R&D conducted on their behalf, are not aware that certain expenditures can, in addition to being deducted from their income, give entitlement to tax credits.

The expression “scientific research and experimental development” refers to a systematic investigation or search that is carried out in a field of science or technology. Such research may be basic or applied, and must be undertaken for the advancement of scientific knowledge. It may also be accomplished by means of experimental development undertaken for the purpose of creating new processes, materials, products or devices, or of improving existing ones. Lastly, it may take the form of work conducted in the areas mentioned below.

Eligible activities

- Basic or applied research;
- Experimental development;
- Work that directly supports basic research, applied research or experimental development. However, this work must be commensurate with the needs of such research or development and must relate to one of the following fields: engineering or design; operations research; mathematical analysis or computer programming; data collection; testing; or psychological research.

Non-eligible activities

Work in the following areas is not considered R&D:

- market research and sales promotion;
- quality control or routine testing of materials, products, devices or processes;
- research in the social sciences and the humanities;
- prospecting, exploring or drilling for (or producing) minerals, petroleum or natural gas;
- the commercial production of a new or improved material, device or product, or the commercial use of a new or improved process;
- style changes; or
- routine data collection.

R&D tax credits

The most frequently claimed tax credit is the tax credit for salaries and wages, which covers up to 40% of the salaries and wages paid for R&D. There is also a tax credit for university research or research carried out by a public research centre or a research consortium, a tax credit for pre-competitive research, and a tax credit for fees or dues paid to a research consortium. These credits correspond to 40% of the eligible expenditures.

For a taxation year beginning prior to July 1, 2004, corporations with assets of less than \$25 million may benefit from an additional tax credit for scientific research and experimental development.

All of these credits are refundable. This means that the amount of the credit is either paid to you or used to reduce the amount of any income tax that you owe.

How to claim R&D tax credits

To claim R&D tax credits, you must complete the required forms and enclose them with your income tax return for the taxation year in question. The forms for R&D tax credits are as follows:

- *Deduction Respecting Scientific Research and Experimental Development Expenditures* (form RDW-222-V)
- *Tax Credit for Salaries and Wages* (form RDW-1029.7-V)
- *Tax Credit for University Research or Research Carried Out by a Public Research Centre or a Research Consortium* (form RDW-1029.8.6-V)
- *Tax Credit for Fees or Dues Paid to a Research Consortium* (form RDW-1029.8.9.03-V)
- *Tax Credit for Pre-Competitive Research* (form RDW-1029.8.10-V)
- *Additional Tax Credit for Scientific Research and Experimental Development* (form RDW-1029.8.16.6-V)

For more information, consult the publications *Tax Assistance for Scientific Research and Experimental Development* (IN-109-V) and *Scientific Research and Experimental Development* (IN-110-V). These documents are available from the offices of the Ministère or on our Web site at www.revenu.gouv.qc.ca.





Reducing Instalment Payments by Means of Refundable Tax Credits

In information bulletin 2002-8, issued on July 11, 2002, the Ministère des Finances, de l'Économie et de la Recherche announced a simplification in the method for calculating instalment payments for businesses that claim refundable tax credits. The main points are outlined below. For more information, visit the Web site of the Ministère at www.mfer.gouv.qc.ca.

Refundable tax credits based on a payroll increase

A person who claims a refundable tax credit based on a payroll increase must compare the payroll for a given calendar year with that of a reference calendar year. A corporation can reduce its instalment payments by subtracting the lower of the following amounts for a given year: the refundable tax credit claimed by the corporation for the preceding taxation year or the refundable tax credit that it will claim for the current year. The calculations must be done separately for each of these amounts. This new rule can be applied for calendar years 2001 and following. However, the year in question must be at least the second one for which the corporation claimed the credit.

Other refundable tax credits

Other types of refundable tax credits are usually calculated based on eligible expenditures that have been incurred and paid. As a rule, they are not subject to or conditional on an event occurring after the expenditures have been incurred and paid. A corporation can subtract all the refundable tax credits, other than those based on a payroll increase, from its instalment payments of income tax and the tax on capital. However, for a given taxation year, a corporation that elects to claim a refundable tax credit for the employer contribution to the health services fund, instead of the refundable tax credit for corporations located in the E-Commerce Place, cannot, for the year in question, subtract such tax assistance from its instalment payments. This rule applies to taxation years ended after July 11, 2002.

Order in which reductions are applied

Refundable tax credits are subtracted from instalment payments in chronological order, without reference to the month in which the corresponding expenditures were incurred. This rule applies to taxation years ended after July 11, 2002.



Tax on Lodging in the Cantons-de-l'Est and Chaudière-Appalaches Tourism Regions

The Cantons-de-l'Est and Chaudière-Appalaches tourism regions, following the example of the Montréal, Laval, Québec City, Charlevoix, Outaouais and Saguenay—Lac-Saint-Jean tourism regions, have opted to participate in the tourism partnership fund, which was established by the Gouvernement du Québec to bolster and promote the Québec tourism industry.

Consequently, beginning on January 1, 2005, the specific tax on lodging of \$2 per overnight stay applies to sleeping-accommodation units in the Cantons-de-l'Est and Chaudière-Appalaches tourism regions. The tax must be charged for each such unit occupied (and for which the rental is billed) after December 31, 2002.

Furthermore, in these two tourism regions, the operator of a sleeping-accommodation establishment is not generally required to collect the tax on

lodging in respect of the rental of sleeping-accommodation units billed to a travel agent (or other intermediary), where the price of the rental is fixed pursuant to an agreement entered into by the operator and the intermediary before January 1, 2005, and the units are to be occupied during the period after December 31, 2002, and before October 1, 2003.

A regional tourism association (RTA) wishing to participate in the tourism partnership fund must apply to the government to do so. The revenues generated by this tax (minus the costs of administering the tax) are remitted to the participating regions and are used in accordance with the terms and conditions set forth in a memorandum of understanding between Tourisme Québec and the RTAs of the participating regions.

For a list of the municipalities in the Cantons-de-l'Est and Chaudière-Appalaches tourism regions, see information bulletin 2002-10 on the Web site of the Ministère des Finances, de l'Économie et de la Recherche at www.mfer.gouv.qc.ca.



Quick Method of Accounting

If you have a small business, you may be entitled to use the Quick Method of Accounting to calculate the GST and QST that you are required to remit to the Ministère du Revenu. When you use this method, you do not have to submit a record of the GST and QST collected on each sale made in the usual course of your business. Nor do you have to claim input tax credits (ITCs) and input tax refunds (ITRs) on your operating expenditures and inventory purchases, as ITCs and ITRs are already accounted for in the Quick Method.

Who can use the Quick Method of Accounting?

The Quick Method can be used by small businesses whose annual worldwide taxable sales do not exceed \$200,000 (GST included) under the GST system, or \$215,000 (GST and QST included) under the QST system. These totals include zero-rated sales and sales made by associates, but do not include sales of financial services, real (immovable) property, capital assets and goodwill.

Listed financial institutions, charities, certain non-profit organizations, and public service bodies cannot use this method. This is also the case for businesses that supply legal, accounting or actuarial services in carrying on their activities; businesses that provide financial or tax consulting services; and businesses that do bookkeeping or prepare income tax returns in the course of their commercial activities.

How does the Quick Method of Accounting work?

You collect GST and QST in the usual way. To calculate the GST and QST to remit, you multiply your total taxable sales made in Canada (GST included) by 2.5% or 5% under the GST system. Under the QST system, the rate is 2.7% or 5.3%, and the calculation is based on the total sales made in Québec (GST and QST included).

Do you make taxable sales in a participating province (a province in which the HST applies)? The rates may vary based on the location of your busi-

ness. They may also change according to whether you charged GST at 7% or HST at 15% in respect of your taxable sales.

As mentioned above, you do not have to claim ITCs or ITRs for most of your business expenditures, including heating, rent and telephone costs. However, you can claim ITCs or ITRs on land or property that entitles you to capital cost allowance for income tax purposes. Examples include a building, a vehicle or office furniture. These amounts may be claimed in your GST and QST returns for the period in which the purchases were made.

The remittance rate under the Quick Method applies only to sales made as part of your normal business transactions. For other types of transactions, you must remit all the GST and QST that was or should have been collected. An example of this type of transaction is the sale of land or second-hand equipment that entitles you to capital cost allowance for income tax purposes.

You can use this method whether you file your returns annually, quarterly or monthly, but you must still keep records of your sales and purchases.

What rate should be used?

The 5% or 5.3% rate

The 5% rate for GST and the 5.3% rate for QST can be used by most businesses, including delivery services, dry cleaners, automobile repair shops, fast-food outlets, travel agencies, taxi companies, small manufacturers, caterers, photographers and painting contractors.

The 2.5% or 2.7% rate

The 2.5% rate for GST and the 2.7% rate for QST are reserved for retailers and wholesalers (including grocery and convenience stores) that buy goods in order to resell them. Examples include bookstores, tobacco shops, boutiques and service stations. A business may qualify for these rates only if the goods purchased for resale purposes represent at least 40% of the total annual taxable sales, including zero-rated sales. These goods can also be purchased for use in other goods

intended for resale. Basic food items are excluded from the calculation, as are goods for which registrants were not required to pay taxes when purchasing them.

The 1% credit

When you use the Quick Method as of the beginning of your fiscal year or the day you become a registrant, you are entitled to a credit equal to 1% of the first \$30,000 of taxable sales (GST included) made during your fiscal year. Under the GST system, you have to remit only 1.5% or 4%, as applicable, of the first \$30,000 of sales, and 2.5% or 5%, as applicable, of sales exceeding \$30,000. Under the QST system, you have to remit only 1.7% or 4.3%, as applicable, of the first \$32,250 of sales (GST and QST included), and 2.7% or 5.3% of sales exceeding \$32,250.

How can I start using the Quick Method?

You must complete the form entitled *Election Respecting the Quick Method of Accounting for Small Businesses* (FP-2074-V) and send it to the Ministère. Your election will be confirmed in writing. You can then begin using the Quick Method on the start date that you indicated on the form. The date you choose must correspond to the first day of your GST and QST reporting periods.

If you file monthly or quarterly returns, you must file the election on or before the due date for the return for the reporting period in question. If you file annual returns, you must file your election within the first three months of your reporting period for it to be effective for that period.

Food Supplements: In Most Cases Taxable

Food supplements and other similar products encompass a wide range of products available in the following forms:

- solids, such as pills, capsules, tablets and gels in tubes;
- liquids, such as vitamin and mineral supplements, liquid vials, oils, tinctures and liquid herb extracts in dropper bottles;
- powders or granules that must be mixed with a liquid, for example, protein isolate, phosphate compounds, creatine, fibre mixes and shark cartilage;
- decoctions, for example, herbal teas or perforated bags containing herbs.



Food supplements are generally taxable. They are zero-rated when they are considered to be foods or beverages intended for human consumption. This is also true when they are ingredients to be mixed into such foods or beverages or used in their preparation.

Food supplements are considered to be food, beverages or ingredients in the following situations:

- they are normally purchased as a basic food item;
- they are consumed at a time when food and beverages are usually consumed, for example, with a meal or as a snack.



A supplement is considered to be a food or beverage ingredient when it is integral to a final product that is generally recognized as a food or beverage.

In general, foods, beverages and ingredients are consumed to sustain or maintain life, to allay hunger or thirst, or for enjoyment. They are not consumed for therapeutic or preventive effects (for example, to correct actual or perceived health problems) or to achieve special beneficial effects related to performance or physique.

A product that is marketed for its beneficial effects and that is added to a food or beverage simply as a means of consuming it is not considered an ingredient simply because it is ingested in this manner.

The following labelling, packaging or marketing criteria help determine that a product is generally not considered to be a food, beverage or ingredient:

- identification of the product as a "supplement";
- product name, pictorial representations or claims indicating that the product has a therapeutic or preventive effect, enhances mental or physical performance, enhances physique or promotes weight loss;
- emphasis on particular nutrients not usually considered to be ingredients or statements respecting the product's purity or indicating that it is a superior source of a nutrient;
- restrictions as to dosage or frequency of use;
- warnings as to who should not consume the product or should consume it only in limited amounts;
- a Drug Identification Number (DIN);
- a list of active or medicinal ingredients;
- comparison with other products that are not considered to be foods, beverages or ingredients;
- emphasis on the product's benefits rather than on its presentation as such.

Meal replacements and food supplements that meet the criteria established in the *Food and Drug Regulations* under the *Food and Drugs Act* are generally zero-rated.

The New Electronic Services of the Ministère du Revenu

For some time now, citizens and businesses have had the option of using the various electronic services provided by the Ministère du Revenu. In 2001, the Ministère began developing a new range of electronic services in order to take greater advantage of the new technologies on the market.

New Internet services

The new electronic services that the Ministère is making available on the Internet provide users—businesses in particular—with the means to meet their various fiscal obligations more easily and efficiently.

Advantages of the new services

- They are provided free-of-charge.
- You have more time to complete your returns because there are no postal delays.
- There are no postal costs.
- The electronic services are adapted to the needs of modern businesses.
- Filing is paperless, since the returns are saved on the Ministère's server. You can, however, print out a copy of your return for your files.
- Services are available outside normal business hours.
- There is less waiting time to reach customer services.
- Services are available to more people simultaneously.
- You have access to more information than ever.



More services

The new electronic services will be introduced in three phases. Some services are already available. For instance, it is now possible to access the new Web site of the Ministère, register for electronic services, manage powers of attorney (within a business), notify the Ministère of a change of address, confirm a QST registration number, file RL-1 slips (employment and other income) and the *Summary of Source Deductions and Employer Contributions* (RLZ-1.S-V), and consult QST and source deduction files.

Other services will soon be available, in particular the filing of consumption tax returns, remittances of source deductions and employer contributions, and the registration of new businesses with the Ministère.

Registration is fast and secure

Your business must be registered in order for you to use most of these electronic services. Registration is carried out in a few steps on the Web site of the Ministère. Once the registration is completed and has been activated by the Ministère, you will be assigned a user code and password giving you access to your tax file. Other services, such as the registration of new businesses with the Ministère, will require the confirmation of personal information (such as a director's name, his or her social insurance number and so on). Use of these services is governed by a rigorous security protocol and confidentiality policy.

Individuals and businesses will be informed, primarily on the Web site of the Ministère, as the new electronic services are implemented.

For more information about the new electronic services provided by the Ministère du Revenu, consult our Web site at www.revenu.gouv.qc.ca. An information brochure is also available at all the offices of the Ministère.

Online Payment:

An Increasingly Popular Service

An increasing number of businesses and individuals are making online payments to the Ministère du Revenu through participating financial institutions. The popularity of this payment method increased substantially in the 2001-2002 fiscal year. The Ministère recorded more than 850,000 transactions totalling over \$10 billion in 2001-2002, as compared to 700,000 transactions totalling \$8 billion in the preceding fiscal year.

For the moment, businesses are using this online service primarily to remit source deductions. However, other types of online payments can be made, such as instalment or sup-

port payments. Since the beginning of fiscal 2002-2003, a definite increase has already been noted in these other types of payments.

If you have any questions concerning online payments, please contact your financial institution or the Groupe de promotion de l'EDI et d'acquisition des données électroniques of the Ministère du Revenu at 1 888 830-7747, extension 5281.

Why not join the numerous businesses that are taking advantage of online payments to the Ministère?

NetFile Québec: Full Speed Ahead!

Once again this year, a considerable number of personal income tax returns will be filed electronically with the Ministère du Revenu by individual taxpayers themselves and by professional preparers. In its fourth season, NetFile Québec thus promises to be more successful than ever!

The NetFile Québec service is being used by an increasing number of taxpayers each tax season. It is estimated that for next year, i.e., the 2003 taxation year, over one return in three will be transmitted to the Ministère via the Internet. Use of NetFile Québec by professional preparers rose 13% for the 2001 taxation year, with over 875,000 returns filed. Another fact worth noting is that the Ministère registered more than 200 new professional preparers for the NetFile Québec service last year, which means that there were 2,240 registered preparers for the 2001 taxation year.

The growing popularity of the NetFile Québec service is due to its many benefits, especially in terms of efficiency and the accuracy of the returns filed. Electronically filed tax returns are processed faster, thus enabling refunds to be sent out sooner. Furthermore, NetFile Québec conforms to one of the most rigorous security protocols.

If you are a professional preparer of personal income tax returns and would like information on the NetFile Québec service, the Ministère can help you, mainly by providing you with all the documents you need. In addition, an assistance service is available to all preparers who use NetFile Québec during tax period. You may also consult the section "NetFile Québec and tax preparers" on the Web site of the Ministère at www.revenu.gouv.qc.ca.



Personal Income Tax: Innovations

The Ministère, seeking to devise ways to better address the needs of taxpayers, has introduced customized income tax forms for taxpayers who file paper returns.

New customized income tax returns

Three customized income tax returns have been introduced for the 2002 taxation year. **These forms are provided only to individuals who file their return using the traditional paper return.** Each form is designed for a specific group of individuals who filed their 2001 return under the simplified tax system. The number of these taxpayers is estimated to be 1.3 million. The three customized income tax returns are designed mainly for

- individuals who do not have a spouse, children or other dependants, and who received income from various sources (employment income, retirement income or certain benefits);
- individuals who do not have a spouse but do have children and individuals who do have a spouse, regardless of whether they have children, who received mainly employment income or certain benefits;
- individuals, who have a spouse and who received mainly retirement or investment income.

Since the 1998 taxation year, taxpayers have been able to file their returns under the general tax system or the simplified tax system, and a complete form is available for each of these systems. This means that, as of January 2003, five different paper returns will be available for individuals to use in filing their 2002 returns.

The individuals for whom the customized tax returns are intended will not have to determine which form to use; the Ministère will send them the form that corresponds to their tax and family situation for taxation year 2001. Persons whose situation has changed in 2002 will not be able to use the form sent to them by the Ministère, but instead will have to obtain the "Forms" booklet and report their income using a complete form. Pages 3 and 4 of the guide to the income tax return will help you determine whether you have received the right return for you.

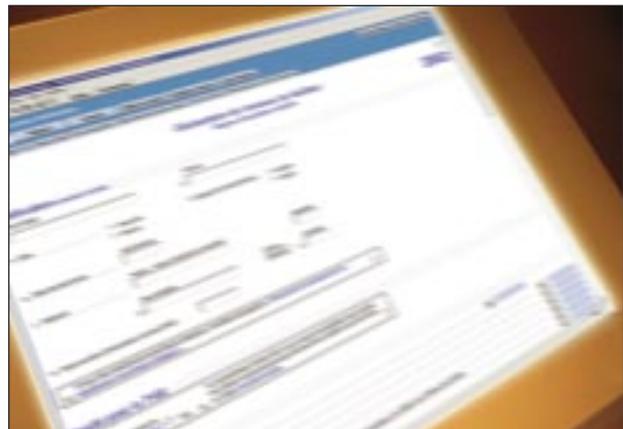
New layout for the simplified income tax return

The simplified income tax return now contains four pages. The layout has been improved by providing more space between the lines and by eliminating the flap. Please note that the simplified return is designed to allow you and your spouse on December 31, 2002, to file a joint return, if you so choose.

Are you familiar with the electronic tax return?

This new product, an income tax return that can be completed on-screen and transmitted over the Internet, is available for the 2002 taxation year. This is an electronic version of one of the customized returns and is designed specifically for individuals who do not have a spouse, children or other dependants, and who received employment income, retirement income or certain benefits.

What are the advantages of using the electronic return? Individuals using the return will find that it speeds up the filing process since there is no need to mail supporting documents and refunds are issued more quickly. However, the restrictions that apply to the NetFile Québec service also apply to the electronic return. Please also take care to distinguish between the electronic return and commercially available tax preparation software; among other differences, the electronic return cannot be used to file your federal return.



Something new for businesses!

The Ministère du Revenu is making changes for businesses as well as for individuals. Recently some 40% of all businesses received a simplified employer's kit, as part of the Ministère's effort to make things easier for employers by providing them only with the documentation they need.

Using computer software to prepare your income tax return

If you use tax preparation software and you mail us the required documents, you must ensure that

- the required summaries are enclosed with the return you file (the summaries are form TPF-1.W-V, *Keying Summary for the Income Tax Return*, and, if applicable, forms TPF-1.X-V and TPF-1.Y-V);
- the paper used is white and letter-size;
- the print quality is acceptable (forms must be printed on one side of the paper and in vertical format only);
- the authorization number appears in the upper right-hand corner of the forms; and
- the identification label is affixed, where necessary, to the summary (form TPF-1.W-V).

If an income tax return does not meet these conditions, the Ministère may reject it and send it back without processing.

Please note that the Ministère does not validate whether the software program used is consistent with all the relevant legal provisions, nor whether it correctly performs all calculations and transfers all data correctly to the summaries. It is your responsibility (and the responsibility of the software developer) to ensure that the software is used correctly and that there are no errors or omissions in the information provided.

Filing your income tax return via the Internet

You may file your Québec income tax return via the Internet, either on your own or by using the Internet filing services of a person accredited by the Ministère.

One of the advantages of these filing options is a reduction in processing time, since returns do not have to be mailed and certain manual operations carried out by the Ministère are eliminated. Another advantage is that the Ministère will promptly confirm that it has received your return.



If you choose to use the services of a person accredited by the Ministère, this person will electronically transmit the data contained in your return.

In order to file your income tax return yourself, via the Internet, you must

- complete your return using tax preparation software (unless you are invited to use the electronic return referred to on the previous page);
- make sure that the software allows you to transmit the data contained in your return via the Internet; and
- contact the Ministère (preferably by telephone or Internet) to obtain your access code. If you used tax preparation software to complete your 2001 income tax return, the Ministère will have already sent you your access code.

For further information, consult the Web site of the Ministère at www.revenu.gouv.qc.ca.

Services available through the Internet

We invite you to visit the Internet site of the Ministère du Revenu, where you can find information about the Québec tax system and the role of the Ministère. The various forms, guides, folders and brochures published by the Ministère can also be consulted on the Internet.

The Volunteer Program

The Volunteer Program is administered jointly by the Ministère du Revenu du Québec and the Canada Customs and Revenue Agency. Under the program, hundreds of volunteers are recruited from associations

and community groups to provide assistance free of charge to taxpayers (employees, recipients of last-resort financial assistance, retirees, senior citizens, immigrants, or persons with disabilities) who have difficulty completing their tax return and who cannot afford to pay a professional to fill out the return for them.

If you wish to obtain free assistance under the Volunteer Program, contact the office of the Ministère in your area.



● ● ● ● ● (continued on page 10)

Information available at the offices of the Ministère

To obtain any tax-related information, you may call or visit one of our offices. Our business hours are given below. (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.

Principal changes for 2002

The following is a summary of the changes to the personal income tax return for 2002. For further details, see the guide to the income tax return.

Civil union

Persons who have contracted a civil union are subject to the same rules as persons who are married. Consequently, wherever the term "spouse" is used, it refers to the person to whom you were married, with whom you had contracted a civil union, or who was your de facto spouse at any time during 2002.

Personal income tax reduction

The personal income tax rates, which were 17%, 21.25% and 24.5% (depending on the income bracket), have been lowered to 16%, 20% and 24%. However, the rate used to convert non-refundable tax credits is now 20% rather than 20.75%

Full indexation of the tax system

Certain amounts and tax credits have been increased, including

- the QST credit;
- the basic amount and the amount respecting a spouse;
- the flat amount;
- the amounts respecting dependent children or other dependants;
- the income threshold above which certain tax credits are reduced; and
- the amount for a person living alone.

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

Effective July 1, 2002, the maximum premium payable under the Québec prescription drug insurance plan was raised from \$385 to \$422. However, the maximum premium payable for 2002 is \$403.50.



Contribution to the health services fund

The basic exemption in the calculation of the contribution to the health services fund has been increased from \$11,000 to \$11,500.

Forestry workers

If you incurred expenses as a forestry worker in the course of your employment duties (other than expenses related to the operation of a chain saw or brush cutter), you may be able to deduct such expenses from your income. Consult the brochure *Employment Expenses* (IN-118-V) for information on deductible expenses and on the conditions you must meet to claim them.



Improvement of the tax credit for taxi drivers or owners

Under certain conditions, you may claim the tax credit for taxi **drivers** even if you were the holder of one or more taxi **owner's** permits. You must, for instance, have paid less than 90% of the fuel costs for the taxi covered by each of the permits. This new measure applies retroactively to a taxation year ended after June 15, 2001.



Introduction of the RL-27 slip

As a rule, the RL-27 slip, entitled *Païements du gouvernement* (in French only), is issued to any individual, corporation or partnership to which a Québec government department or agency remitted an amount as consideration for a service or as a subsidy, provided no other RL slip attesting to the same amount is issued. The RL-27 slip may not indicate all such amounts you received during the year. However, all such amounts must be taken into account.

Information Return to Be Completed by the Beneficiary of a Designated Trust

If you were resident in Québec on December 31, 2002, and you were the beneficiary of a trust resident in Canada, outside Québec, you are required, in most cases, to complete the form *Information Return to Be Completed by the Beneficiary of a Designated Trust* (TP-663-V).



Tax FAQs

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

? What is the deadline for filing personal income tax returns for 2002?

! The 2002 income tax return must be sent to the Ministère du Revenu on or before April 30, 2003, or, if you or your spouse is reporting business income, on or before June 16, 2003 (the 15th being a Sunday). However, any balance of income tax payable must be remitted by April 30, 2003; interest will be charged on any amount not paid by that date. Furthermore, if you are late in filing your return, you will be liable to penalties calculated on the balance of income tax that has not been paid by April 30 or June 16, as applicable.

? On which line of the income tax return must I report my business income?

! Complete form TP-80-V, *Income and Expenses Relating to a Business or Profession*, or attach your financial statements to your income tax return. Then complete Schedule L and carry your net business income to line 164 of your return.

? What is an allowable business expense?

! In general, any reasonable expense incurred to earn business income may be considered a business expense. However, certain restrictions apply. For more information, see the brochure entitled *Business and Professional Income* (IN-155-V), available at the offices of the Ministère and on our Web site at www.revenu.gouv.qc.ca.

New Publications

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

IN-101-V *An Overview of the Tax Credit Respecting Home-Support Services for Seniors* (2002-11)

IN-102-V *The Tax Credit Respecting Home-Support Services for Seniors* (2002-11)

IN-103-V *Refundable Tax Credit for Child-Care Expenses* (2002-09)

IN-106-V *Recourse for Taxpayers* (2002-10)

IN-109-V *Tax Assistance for Scientific Research and Experimental Development* (2002-10)

IN-110-V *Scientific Research and Experimental Development* (2002-05)

IN-311-V *Seniors and Taxation* (2002-08)

IN-312-V *The new electronic services of the Ministère du Revenu: Now Online!* (2002-11)



Documents of interest for trusts and their beneficiaries

The new form, *Information Return to Be Completed by the Beneficiary of a Designated Trust* (TP-663-V) is now available at all offices of the Ministère and on the MRQ Web site. Also available are the most recent versions of the *Trust Income Tax Return* (TP-646-V), the *Guide to Filing the Trust Income Tax Return* (TP-646.G-V) and the related forms: *Taxable Capital Gains of a Trust That Give Entitlement to an Exemption for 2002* (TP-668.1-V) and *Alternative Minimum Tax of a Trust for 2002* (TP-776.47-V).

Information Update for Businesses in the Clothing Industry

Due to technical problems, the electronic version of the information return we referred to in the previous issue of *Tax News* is not yet available. We will advise you as soon as it is posted on our Web site.



A New and Improved Tax Credit Respecting Home-Support Services for Seniors

Did you know that senior citizens constitute one of the fastest growing segments of the Québec population? In 2001, there were 670,000 Quebecers aged 70 or over. By 2031, this figure will have risen to close to 1.5 million! Providing services to seniors is one of the government's priorities, and in January 2000, it introduced a tax credit respecting home-support services for seniors. This credit, which has been improved substantially since it first came into effect, allows persons aged 70 or over to receive certain home-support services at a reduced cost, so that they can remain in their communities and thereby enjoy a better quality of life. One of the specific features of the credit is that it is received throughout the year for which it is claimed rather than just once, i.e., when the income tax return is filed.

This article summarizes the changes that have been made to the tax credit respecting home-support services for seniors since it came into force. To find out more, consult the brochure entitled *The Tax Credit Respecting Home-Support Services for Seniors* (IN-102-V, 2002-11). While the brochure is designed to provide information to seniors who want to know more about this tax credit, it can also be useful for family members or other people who look after the senior's affairs, as well as for the owners of apartments, rooms or specialized residences occupied by seniors.

The brochure describes the tax credit and eligibility requirements, specifies which services are eligible and which are not, and explains how the credit works.



You can also consult the folder entitled *An Overview of the Tax Credit Respecting Home-Support Services for Seniors* (IN-101-V, 2002-11), which outlines the main features of the tax credit.

These documents are available at all offices of the Ministère and on our Web site at www.revenu.gouv.qc.ca.

Broadened definition of "dwelling"

Initially, the tax credit respecting home-support services for seniors was designed to provide financial support for seniors who choose to stay in their home, i.e., their house or apartment, as long as possible. However, it became quickly evident that this credit could be of interest to persons residing in other types of dwellings.

Thus, the term "dwelling" now refers to the place where a person ordinarily eats and sleeps. This may be a house or an apartment in a rental building or a senior citizens' residence or a residential unit in a building held in co-ownership (condominium). A dwelling may also be a room in such a residence, a hotel, a rooming house, or a private self-financing residential long-term care centre, provided it is the individual's principal place of residence. A room in a hotel or rooming house must be occupied for a period of at least 60 consecutive days to be considered an individual's principal place of residence. However, the definition of dwelling does not include a room in a public institution or a private institution under agreement.

Elimination of administration fees applicable to the service employment paycheque (SEP)

To claim the tax credit, the expenses incurred to obtain certain home-support services must be paid for through the "service employment paycheque" (SEP), offered by the Services de paie Desjardins, and **not by the person who received the services**. Prior to September 1, 2002, an administration fee of \$2 was charged to the person's bank account each time he or she used this service. Since that date, the service has been free of charge.

A new form for the owners of senior citizens' residences

To claim the tax credit, persons living in a senior citizens' residence must know the value of the eligible expenses included in their rent. To enable these persons to obtain this information quickly and easily, the owners of such residences must file, for a **lease signed or renewed after December 31, 2002**, the form *Information Return: Tax Credit Respecting Home-Support Services for Seniors* (TP-1029.8.61.R-V), on which they must indicate the value of eligible home-support services included in the rent.

It should be noted that a person wishing to claim this tax credit must inform the lessor that he or she, or an individual with whom he or she shares the dwelling, is 70 years old, or will turn 70 during the period covered by the lease. Such information must be provided before the lease is signed or renewed. If the person wishing to claim the tax credit does not provide this information, the lessor is not obliged to file form TP-1029.8.61.R-V.

The lessor must send the information statement to the Ministère on one of the following dates: within 10 days following the signing of the initial lease or on the date the lease is renewed. The lessor must also send the lessee concerned a copy of the information statement within the same period. To obtain this form, contact the office of the Ministère in your area or consult our Web site.

Streamlining of the rules regarding certain services included in the rent

The lessor is no longer obliged to determine the value of each eligible home-support service included in the rent. He or she will simply be required to assign a **reasonable overall value to these services**. Let us take the example of a lessor whose rent price includes only household maintenance. If the value of these services is established at half the cost of the rent, it will not be considered reasonable. However, if the rent price includes meal and supervision services as well as household maintenance, the value deemed reasonable will increase accordingly.

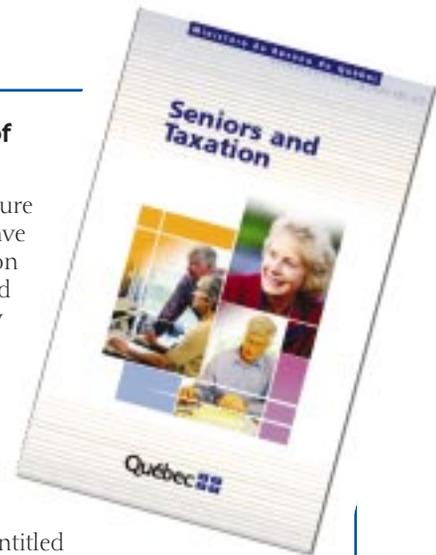


Simplification of the payment order form

As mentioned above, persons wishing to claim the tax credit respecting home-support services for seniors must not pay the expenses incurred to obtain home-support services themselves; instead, they must complete a payment order form and send it to the SEP processing centre, which issues the forms. The SEP processing centre is responsible for remitting the payment to the proper authorities. Over the coming months, the payment order form will be simplified.

Another brochure of interest to seniors!

It is important to ensure that all Quebecers have sufficient information about the measures and programs offered by the Ministère du Revenu and that they clearly understand the conditions governing them so that they may claim all of the benefits to which they are entitled under Québec tax legislation. For that reason, the Ministère has prepared a brochure, *Seniors and Taxation* (IN-311-V), specifically for seniors and those close to them. You may obtain a copy at your local office of the Ministère or consult it on our Web site.



Reinforcement of the Notion of Confidentiality

Bill 14, *An Act to amend the Act respecting the Ministère du Revenu and other legislative provisions as regards the protection of confidential information*, was assented to in May of 2002. The concept of confidentiality with regard to fiscal information is now based on the following general principle: a person's tax file is confidential and comprises any information held by the Ministère du Revenu in respect of that person for the application or enforcement of a fiscal law. Formerly, confidentiality of fiscal information was based on the fact that such information had been obtained by the Ministère for the application of a fiscal law.

All information that the Ministère holds with respect to a person, for the purpose of applying or enforcing a fiscal law, is part of that person's tax file and is considered confidential. This includes, for example, information appearing on the various forms and information slips (tax returns, RL-1 slips, etc.) as well as information obtained for audit, investigation or inquiry purposes (reassessment).

Confidential information held by the Ministère cannot be communicated or used unless the person concerned consents thereto or the Act expressly provides therefor. Fiscal confidentiality therefore remains an integral part of the Act, and only under the circumstances specified therein can the use or communication of such information be justified.

Certain measures authorize the employees of the Ministère to use or communicate confidential fiscal information. Consequently, taxpayers can now contact the Ministère in order to obtain or check certain information pertaining to the various registration or identification numbers (such as the QST registration number) assigned under fiscal laws. This means that a merchant wishing to ensure that he or she will be able to apply for an input tax refund can call the Ministère to check whether a given supplier's QST registration number is valid. Similarly, a person wishing to claim a tax credit for a charitable donation can call the Ministère to find out whether the charity concerned is registered.

(However, it should be noted that information relating to a GST number cannot be disclosed by the Ministère, since this number is not assigned by the Minister of Revenue of Québec under the fiscal laws of Québec.)

Bill 14 also provides that corporations are no longer required to be represented by their president, vice-president, secretary, or treasurer, but may appoint other persons to represent them.

Although new penal provisions have been introduced with regard to the unauthorized communication or use of information contained in a tax file, the fundamental principles concerning the consultation of confidential information remain the same (professional reasons, absence of conflict of interest, etc.). Bill 14 simply defines more precisely the penal consequences relating to the unauthorized consultation of such information.

Bill 14 testifies to the serious effort being made to ensure the confidentiality of fiscal information, reinforce measures designed to protect that information, and improve services to taxpayers.

Authorization or Power of Attorney— What Is the Difference?

Many people are unaware of the difference between an authorization (or revocation) respecting the communication of confidential information and a power of attorney. Below are a few tips to help you distinguish between them.

The form *Authorization or Revocation Respecting the Communication of Confidential Information* (MR-69-V) authorizes the Ministère to transmit, to a third party designated by the taxpayer, information contained in the latter's tax file. Form MR-69-V also allows the taxpayer to revoke an authorization already given. To be valid, this form must be duly completed and signed by the person granting or revoking authorization. For example, a taxpayer may mandate an accounting firm to file his or her tax returns. In this case, the firm must complete form MR-69-V, have it signed by the taxpayer and forward it to the Ministère. The taxpayer's signature authorizes the Ministère to contact the accounting firm and communicate confidential information in accordance with the description appearing in the authorization.

As for a power of attorney, it authorizes a taxpayer (the mandator) to entrust a third party (the mandatary), such as an agency, corporation, trust or financial institution, with the responsibility of administering the taxpayer's property or business. The scope of this responsibility may be limited, but the mandate must in all cases be clear and precise. In order for a power of attorney to be valid, both the mandator and the mandatary must have signed it and be correctly identified therein.

Many authorizations, revocations and powers of attorney are refused by the Ministère because the persons concerned have not signed the document in question (the taxpayer, for an authorization or revocation; the mandator and the mandatary, for a power of attorney) and because the description of the information to be provided is incomplete.





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, 2002, to December 31, 2002, are listed below.

Period	Annualized interest rate*	Penalty rate
	%	%
2002		
Jan. 1 – Mar. 31	2.4333	6
Apr. 1 – June 30	2.4066	6
July 1 – Sept. 30	2.3804	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, 2002, to December 31, 2002.

		Interest rate
		%
2002		
Jan. 1 – Mar. 31	Refunds	3.35
	Debts	8
Apr. 1 – June 30	Refunds	3.35
	Debts	7
July 1 – Sept. 30	Refunds	1.35
	Debts	7
Oct. 1 – Dec. 31	Refunds	1.35
	Debts	7

The penalty rates are

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

For further information, consult our Web site at www.revenu.gouv.qc.ca.

Interpretation Bulletins

Between August and November 2002, the Ministère du Revenu du Québec published 19 interpretation bulletins, of which 14 deal with income tax and five with consumption taxes. The numbers and subjects of the bulletins are listed opposite (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. 337-1/R1 Deduction for tuition and examination fees: Eligibility conditions

IMP. 337-2/R2 Meaning of the expression "full-time"

IMP. 752.0.18.10-1 Tax credit respecting tuition or examination fees

IMP. 752.0.18.10-2 Meaning of the expression "full-time"

SPECIAL 168 Temporary improvement to the refundable tax credit for resources

IMP. 337-3/R1 Tuition fees: Flying lessons

IMP. 752.0.18.10-3 Tax credit respecting tuition or examination fees: Flying lessons

LMR. 21-3 Application for a refund by Indians or Indian bands

LMR. 28-1/R56 Interest rate

IMP. 37-1/R12 The value of certain taxable benefits that a hotel or restaurant employee receives or benefits from by reason of his office or employment

IMP. 80-6/R1 Government assistance: Program for reducing hog production

IMP. 101-3/R1 Corvée-Habitation

IMP. 965.1-10/R2 Computation of adjusted cost

SPECIAL 169 Bill 78

Budget Act No. 2 giving effect to the Budget Speech delivered on 29 March 2001 and to certain budget statements

Consumption taxes

LMR. 21-3 Application for a refund by Indians or Indian bands

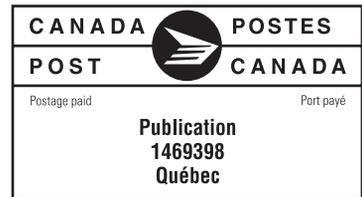
LMR. 28-1/R56 Interest rate

SPECIAL 132 Application of the tax on lodging in the Cantons-de-l'Est and Chaudière-Appalaches tourist regions and other fiscal measures

SPECIAL 133 Bill 78

Budget Act No. 2 giving effect to the Budget Speech delivered on 29 March 2001 and to certain budget statements

TVQ. 383-2 Time limit respecting applications for a QST rebate



The New MRQ Web Site

The new, improved version of the MRQ Web site facilitates access to the information and documents that are made available to you. In addition, the vast array of new, secure, state-of-the-art electronic services provides users with access to certain MRQ services in transactional mode—with the assurance that data confidentiality is protected.

With four information portals and one transactional portal, this high-performance reference tool will be indispensable to taxpayers in the management of their affairs and in their dealings with the government.

Happy surfing!



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

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

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

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

Serge Cormier

Sylvain Denault

Claudette Forgues

Ginette Landry

Francine Loiselle

Claire Thibault

Louise H. Lalonde
(Liaison Officer, CCRA)

Writers

Marie Godbout

Nathalie L'Italien

Francine Loiselle

Marie Verreault

Translators

Susan Deichert

Mary Claire Dugas

Jonathan Keathley

Sylvie Lemelin

Michael McKenzie

Sarah McNeill

Gillian Misener

Joanne Velenovsky

Graphics

Christine Bleau

Legal deposit

Fourth quarter 2002

National Library of Canada

ISSN 1192-1750

IN-136.59-V

