

Tax News

Fourth quarter 2001

This issue of *Tax News* summarizes the various measures concerning consumption taxes and the taxation of businesses and individuals contained in the Budget Speech given on November 1, 2001, by Pauline Marois, Deputy Prime Minister and Minister of State for the Economy and Finance. Some of these measures are dealt with in greater detail in this issue; others will be discussed in future issues.



Measures concerning Consumption Taxes

Specific taxes

Reduction of the specific duty and tax on beer sold by microbreweries

Changes have been made to the rate reduction structure. Accordingly, the volume of beer sold to which the 67% reduction applies will be increased from 25,000 to 75,000 hectolitres. The 33% reduction applies to the next 75,000 hectolitres, which means that the total volume of beer sold for which a rate reduction is granted remains constant at 150,000 hectolitres. These changes will apply to beer sold by a brewer after December 31, 2001.

Increase in the tax on tobacco products

As of November 2, 2001, tobacco products will be taxed as follows:

- The specific tax of 5.3 cents per cigarette increases to 6.55 cents. This increase also applies to cigars with a retail price not exceeding 15 cents each.
- The specific tax of 5.3 cents per gram of leaf tobacco increases to 6.55 cents.

- The specific tax of 8.15 cents per gram of tobacco products other than cigarettes, loose tobacco, leaf tobacco and cigars increases to 10.8 cents. The minimum rate for a tobacco stick increases from 5.3 cents to 6.55 cents.

The ad valorem tax rate of 60% of the retail price continues to apply to cigars with a retail price exceeding 15 cents each.

1. This summary was made from section 1 of the document entitled "Additional Information on the Budgetary Measures," which has been made available by the Ministère des Finances on its Web site at www.finances.gouv.qc.ca (click on "The Budget").

Summary

Budget: Measures concerning Businesses	2
Budget: Measures concerning Individuals	6
Important Notice to Small and Medium-Sized Businesses	7
Small Employers: Reduction in the Number of Instalments	8

Illegal Use of Coloured Fuel Oil	8
Principal Changes in the 2001 Income Tax Return	9
More Than a Million Returns Filed Online	12
Filing RL Slips by E-Mail	12
Do You Receive More Than One Copy of <i>Tax News</i> ?	13

New Telephone Numbers	13
In Your Interest	14
If You Are Filing the Corporation Return	14
Interpretation Bulletins	15
New Publications	15



Measures concerning Income Tax

For businesses

Six-month interest-free deferral of tax instalments for the fourth quarter of 2001 for small and medium-sized enterprises (SMEs)

Due to the recent events in the United States and the repercussions they will have on the liquidity of SMEs, an interest-free deferral of the instalments for October 2001 to April 2002 has already been announced.¹

Subject to specific application measures relating to corporations whose taxation year ends after September 30, 2001, and before April 1, 2002, instalments of income tax, tax on capital, compensatory tax and contributions to the Youth Fund for the months of November and December 2001 may be paid at the same time as the instalments for May and June 2002, respectively. For further details, see the article on page 7.

Reduction in the number of instalments (of deductions at source and employer contributions) for small employers

Amendments will be made to tax legislation in order to reduce the number of instalments payable for a year from **twelve** to **four**, with respect to remuneration paid after December 31, 2001. For further details, see the article on page 8.

IMPORTANT

Support payments are not affected by this measure, and the frequency of support payments will therefore remain the same.

Significant reduction in the tax on capital, and technical change

Rate of tax on capital cut by more than half by 2007

The rate of the tax on capital of corporations that are not financial institutions (currently 0.64%), will be gradually reduced to 0.3%. This reduction will be granted on January 1 of each year from 2003 to 2007.

Accordingly, the first reduction will apply on January 1, 2003, the rate of the tax falling from 0.64% to 0.6%. Thereafter, the rate will be reduced by 0.075 percentage points on January 1 of each year, until it reaches a rate of 0.3% on January 1, 2007.

The rate of the tax on capital of financial institutions (currently 1.28%), will be gradually reduced to 0.6%. This reduction will be granted on January 1 of each year, from 2003 to 2007.

Accordingly, the first reduction will apply on January 1, 2003, the rate of the tax falling from 1.28% to 1.2%. Thereafter, the rate will be reduced by 0.15 percentage points on January 1 of each year, reaching 0.6% on January 1, 2007.

The corporations covered by this reduction are banks, savings and credit unions, loan companies, trust companies and corporations that trade in securities.

Gradual exemption of the first \$1 million of paid-up capital

Corporations will be able to claim a gradual deduction in the calculation of their paid-up capital, to an eventual maximum of \$1 million. This deduction will be granted on January 1 of each year from 2003 to 2006.

The reduction of the maximum deduction a corporation may claim during the period from 2003 to 2005 will be one dollar for each three dollars by which the corporation's paid-up capital for the preceding taxation year exceeds the maximum deduction such corporation could otherwise claim for the given taxation year.

The deduction a corporation may claim in calculating its paid-up capital will apply in addition to the other deductions the corporation may claim. Moreover, this deduction will be granted before the reduction for investment (where applicable).

The minimum amounts of \$250 and \$125 of tax on capital payable by corporations will be eliminated.

These changes will apply regarding taxation years of a corporation ending after December 31, 2002.

Technical change

A farm corporation or a corporation whose activities consist mainly in carrying on a fishing business may claim a deduction of \$400,000 in the calculation of its paid-up capital. However, the deduction must be divided among associated corporations, as applicable.

The legislation will be amended to allow two corporations that are associated solely because of their association with a third corporation to each claim a deduction of up to \$400,000 in the calculation of their paid-up capital, provided the third corporation makes the appropriate election.

This change applies for 2001 and subsequent taxation years, provided the taxation year of at least one of the corporations covered by the election ends after November 1, 2001.

Broadening of eligibility for the tax holiday for small and medium-sized manufacturing businesses in remote resource regions

The 10-year tax holiday granted to these corporations has been improved: the eligibility thresholds of \$10 million and \$15 million have been raised to \$20 million and \$30 million, respectively. These changes apply to eligible corporations for taxation years ending after March 29, 2001.

For the purposes of the tax holiday, a corporation generally must have establishments, within the meaning of the Taxation Act, only in remote

1. Information bulletins 2001-10 and 2001-11 (Ministère des Finances du Québec)

resource regions. However, this condition was eased on July 5, 2001, so that a corporation all or substantially all of whose payroll is attributable to employees who work in an establishment located in a remote resource region is deemed to have establishments only in that region.

Temporary improvement to various refundable tax credits granted in certain regions

So that eligible corporations may obtain tax credits for the jobs they create and, in certain situations, for the jobs they maintain, two adjustments have been made to the application details of the three tax credits discussed below.

Refundable tax credit for processing activities in a resource region

Eligibility certificate

At the request of an eligible corporation, Investissement Québec may cancel the eligibility certificate issued to that corporation for the 2001 calendar year. The corporation may then apply for an eligibility certificate regarding a subsequent calendar year (providing it satisfies the other eligibility conditions), and thereby receive the refundable tax credit regarding jobs created as of that year. (The eligible corporation must submit its cancellation request to Investissement Québec no later than April 1, 2002.)

Adjustment regarding payroll for reference calendar year 2000 or 2001

The total wages paid by the corporation for its reference calendar year will be adjusted when that year is 2000 or 2001. Accordingly, the total wages paid by the corporation to its eligible employees for either of these reference calendar years will be reduced by 10%.

An eligible corporation may use this adjusted amount to determine the increase in its payroll for the two consecutive calendar years following its reference calendar year (2000 or 2001, as applicable).

Refundable tax credit for Gaspésie and certain maritime regions of Québec

and

Refundable tax credit for the Vallée de l'aluminium

Eligibility certificate

At the request of an eligible corporation, Investissement Québec may cancel the eligibility certificate issued to the corporation regarding calendar year 2000 or 2001. However, such cancellation will become effective only as of calendar year 2001.

The eligible corporation must submit its cancellation request to Investissement Québec no later than April 1, 2002.

Adjustment regarding payroll of the reference calendar year 1999, 2000 or 2001

The details for determining the tax credit will be changed to enable an eligible corporation to adjust the payroll of its reference calendar year if that year is 1999, 2000 or 2001.

Thus, the total wages paid by a corporation to its eligible employees for one of these reference calendar years will be reduced by 10%. This adjustment may be used in determining the increase in payroll of an eligible corporation for the two consecutive calendar years following its reference calendar year (2000 or 2001). If the reference calendar year is 1999, this adjustment may be used in determining the increase in payroll for calendar years 2001 and 2002.

Eligibility of cut stone for the refundable tax credit for resources

In addition to those indicated in the Taxation Act, the natural resources covered by the tax credit will include granite, sandstone, limestone, marble and slate, provided these resources are used to make dimension stone, funerary monuments, building stones, cobblestones, sidewalk borders or roofing tiles. The eligible expenses relating to these new natural resources will be the same as those for mineral resources.

In the case of the natural resources covered by this broadening of the definition, a single rate of 20% will apply, regardless of whether the corporation incurring the eligible expenses exploits a natural resource. This broadening will apply to eligible expenses incurred after November 1, 2001.

Adjustments to the refundable tax credit regarding E-Commerce Place

Increase in the rate and the maximum tax credit

The rate of the refundable tax credit for corporations established in E-Commerce Place (currently 25%) has been raised to 35%. The rate of 25% used in the formula to determine the adjusted rate of the tax credit, applicable as of the sixth year of operations in E-Commerce Place, has also been raised to 35%.

Furthermore, the maximum tax credit an eligible corporation may receive regarding an eligible employee (currently \$10,000 for a given taxation year), has been raised to \$12,500, on an annual basis. Accordingly, for the purposes of the tax credit, the eligible salary of an eligible employee is limited to \$35,714.29, calculated on an annual basis.

Similarly, the denominator in the formula for determining the adjusted rate of the tax credit, applicable as of the sixth year of operations in E-Commerce Place, has been changed in order to exclude from the payroll of an eligible corporation, for a given calendar year, the portion of the salary of an eligible employee that exceeds \$35,714.29 for that year.

The change limiting the eligible salary of an eligible employee to a maximum of \$35,714.29, calculated on an annual basis, applies solely to eligible salaries incurred by an eligible corporation after December 31, 2000.

The eligibility period for the tax credit, and for the tax holiday for a foreign specialist, has been extended according to the date of the eligible corporation's lease (2000, 2001, 2002 or 2003, or after 2003).

Introduction of a refundable tax credit for E-business activities carried out in certain designated sites

A refundable tax credit has been introduced respecting E-business activities carried out in certain designated sites.

This tax credit will be granted, beginning in calendar year 2001, with respect to increases in payroll attributable to the eligible employees of an eligible corporation that moves into designated premises in a designated site (that is, the Zone de commerce Électronique du centre-ville de Montréal or the Centre national des nouvelles technologies de Québec (CNNTQ)). The credit, which is set at the rate of 35%, may be claimed for a maximum of five consecutive calendar years.

Extension of the eligibility period for tax assistance relating to certain designated sites

Tax assistance relating to the knowledge-based economy

Québec's tax legislation includes measures favourable to businesses that carry out scientific research and experimental development (R&D) and other forms of innovation in certain activity sectors, in particular those associated with the knowledge-based economy. Among such measures are those relating to carrying out eligible activities in certain designated sites, that is, measures relating to information technology development centres (ITDCs), the Cité du multimédia, the CNNTQ, market-places for the new economy (MNEs) and E-Commerce Place.

Three-year extension of the tax credits regarding salaries

Corporations that carry out eligible activities in a designated site following the conclusion of a lease in 2001, 2002 or 2003 may claim a tax credit regarding the eligible salaries incurred for a period of ten years, beginning on the date the lease is concluded.

Corporations that carry out eligible activities in a designated site following the conclusion of a lease after 2003 may claim a tax credit regarding the eligible salaries incurred after the date the lease is concluded and no later than December 31, 2013.

Extension of the eligibility period respecting the tax holiday for a foreign specialist

In view of the extension of the eligibility period for tax credits in certain situations, the period during which an individual must begin his or her employment as a foreign specialist with an eligible corporation will be extended in the same situations. Furthermore, the latest date of commencement of employment allowing a foreign specialist to benefit from this tax holiday will be changed to also refer to the date of conclusion of an employment contract.

Tax benefits relating to the Montréal international trade zone at Mirabel

Three-year extension of the tax benefits relating to the Mirabel Zone

The tax legislation will be amended with respect to corporations carrying on a business within the Mirabel Zone that hold an eligibility certificate issued by the Minister of Finance for 2001, 2002 or 2003. Under the amended legislation,

- the exemptions from income tax, tax on capital and the employer contribution to the health services fund are extended until the tenth anniversary (the anniversary day) of the effective date of the business's eligibility certificate;
- the wages incurred by the corporation regarding an eligible employee, before the anniversary day, give rise to the refundable tax credit respecting wages of eligible employees;
- the fees incurred by the corporation regarding an eligible customs brokerage contract, before the anniversary day, give rise to the refundable tax credit for an eligible customs brokerage contract;
- the assets acquired by the corporation before the anniversary day, or the rent it paid in a given taxation year, under a contract concluded before the anniversary day, give rise to the refundable tax credit covering the acquisition or leasing of eligible equipment;
- the eligible construction expenses of a strategic building incurred by the corporation in a taxation year, if the construction work on such strategic building began before the anniversary day, give rise to the refundable tax credit for the construction of a strategic building.

In the case of a corporation that carries on a business within the Mirabel Zone and that holds an eligibility certificate issued by the Minister of Finance that becomes effective after 2003, the period stipulated for each exemption and for each refundable tax credit, described above, is extended until December 31, 2013.

Extension of the eligibility period respecting the tax holiday for a foreign specialist

In view of the extension of the eligibility period for tax benefits respecting the Mirabel Zone in certain situations, the period during which an individual must conclude an employment contract or commence employment as a foreign specialist with a corporation that carries on an eligible business in the Mirabel Zone will also be extended in the same situations.

Refundable tax credit for the Cité de l'optique

and

Refundable tax credit for the Technopôle Angus

and

Refundable tax credit for the Cité de la biotechnologie et de la santé humaine du Montréal métropolitain

The rate of these refundable tax credits is 40% for a given calendar year. This rate is applied to the amount by which the salaries paid by the eligible corporation to its eligible employees for the calendar year exceeds the salaries paid to eligible employees during the preceding calendar year.

The first credit applies to calendar years 1999 to 2003, the second to calendar years 2000 to 2003; both credits have been extended for three years (to 2006). The third credit applies to calendar years 2001 to 2005, and has been extended for one year (to 2006).

Scientific research and experimental development

Technical clarification regarding certain types of sub-contracts for university R&D activities

As a rule, taxpayers who enter into a university research contract with an eligible university entity regarding R&D may claim a refundable tax credit equal to 40% of 80% of the amount of an eligible expenditure paid to that entity.

The tax legislation will be amended so that a given eligible university entity is deemed to perform itself the R&D work provided for in a research contract, where the work in question is contracted out to another, affiliated, eligible university entity.

The application for an advance ruling on such a contract must identify the other eligible university entity that is to perform the R&D work under the contract. The application must also specify the portion of the R&D work to be performed by this other eligible university entity, and must demonstrate that the first eligible university entity maintains general control over the execution of the R&D work provided for in the contract.

This amendment applies to university research contracts for which an advance ruling is handed down after November 1, 2001, provided that the deadline for submitting the prescribed form for claiming the tax credit for a university research contract has not expired.

Adjustments to the refundable tax credit fostering the participation of investment dealers on the Nasdaq stock market

Extension of the tax credit application period

This tax credit will be extended another two years, until December 31, 2003. Consequently, the rules respecting the credit will be changed so that the credit applies to eligible expenditures incurred by an eligible corporation after April 26, 2000, and before January 1, 2004, in relation to eligible activities carried out by the corporation during that period.

Introduction of a new component

A new component of the credit has been introduced, in order to encourage participating investment dealers to use electronic communications equipment, software, software user licences and dedicated electronic connections, while fostering the establishment of Nasdaq Canada in Montréal.

The credit eligible corporations will be able to claim under this component will be equal to 50% of the amount of eligible expenditures they incur in relation to eligible activities they carry out in their establishments located in Québec.

The amount of eligible expenditures incurred by an eligible corporation will be limited to \$300,000 (calculated on a cumulative basis), and must be reduced by the amount of any government assistance, non-government assistance, profit or gain.

An eligible corporation that wishes to claim this tax credit, for a given taxation year, must enclose with its tax return for that year a copy of the eligibility certificate issued by the Minister of Finance regarding the eligible transaction management system for which the tax credit is being claimed.

This measure applies to eligible expenditures incurred by an eligible corporation after November 1, 2001, but before January 1, 2004, in relation to its eligible activities during that period.

Measures concerning culture

Refundable tax credit for Québec film and television production

An application for final certification regarding a Québec film or television production may be filed with the Société de développement des entreprises culturelles (SODEC) later than 12 months following the date of recording of the master tape or trial print of the production, provided no application for an advance ruling has previously been filed with SODEC for the production. This change will apply retroactively to June 29, 2000.

Under changes that took effect on July 5, 2001,¹ an eligible corporation that filed an application for an advance ruling between July 5, 2001, and August 31, 2001, may use either method for calculating the refundable tax credit for Québec film and television production regarding the production covered by the application.

Clarification concerning co-ordination of certain refundable tax credits relating to the cultural field

Since October 20, 2000, there has been a time limit respecting the filing of an application for final certification with SODEC for the purposes of claiming the refundable tax credits for dubbing, shows, sound recordings and book publishing.

A clarification similar to the one described for the refundable tax credit for Québec film and television production will be made concerning the rule regarding the time limit for filing an application for final certification for the purposes of these tax credits.

Tax treatment of the Farm Income Stabilization Account

To support the implementation of the farm security program by fostering the participation of Québec farming businesses, the tax legislation will be amended to ensure that contributions made to a Farm Income Stabilization Account (FISA) in a given taxation year, by an entity that operates a farming business, are deductible in the calculation of the income from such a business for that taxation year.

Amounts withdrawn from a FISA by such an entity in a given taxation year will have to be added to the income for that year of the entity that operates the farming business. These measures apply after November 1, 2001.



1. Information bulletin 2001-06 (Ministère des Finances du Québec)

For individuals

Increase of \$100 per adult in the December 2001 instalment of the QST credit

An increase in the amount of this tax credit has been granted for taxpayers who request the credit for taxation year 2000, unless the taxpayer is not resident in Québec on December 1, 2001. The increase will also be granted to taxpayers who received income security benefits during the year 2000.

Increase in the exemptions granted for determining premiums under the prescription drug insurance plan

The following table shows the deductions that will be granted in calculating the premiums payable by persons whose coverage is provided by Régie de l'assurance maladie du Québec (RAMQ) in 2001.

Deductions according to family situation

Québec prescription drug insurance plan (2001)

1 adult, no children	\$11,460
1 adult, 1 child	\$18,570
1 adult, 2 or more children	\$21,170
2 adults, no children	\$18,570
2 adults, 1 child	\$21,170
2 adults, 2 or more children	\$23,570

Extension of the deadline for filing returns in respect of self-employed earnings

The Act respecting the Québec Pension Plan will be amended in order to set the date used to calculate the beginning of the four-year period for the purposes of the presumption regarding failure to file a return in respect of self-employed earnings for a given year at June 15 (rather than April 30) of the following year. This change will apply to 1995 and subsequent years.

Adjustment to the five-year tax holidays granted to certain foreign employees

Certain tax measures will be relaxed so as to enable foreign employees to change employers and still benefit from a tax exemption that differs from the one they claimed while working for their previous employer.

The other eligibility conditions applicable to the tax exemption respecting a new job must be met as of the date on which the person concludes the employment contract for the new job or commences the new job. This change applies as of January 1, 2001.



Important Notice to Small and Medium-Sized Businesses

Deferral of November and December 2001 instalment payments

In September, the government announced that certain corporations will be allowed to defer, interest-free, their instalments for the month of October 2001 until they make their April 2002¹ instalment payments. The purpose of this measure was to increase the cash flow of small and medium-sized businesses.

A measure aimed at providing additional assistance to these corporations was announced in the Budget Speech of November 1, 2001. Under this measure, the corporations will be able to defer, interest-free, their instalments of income tax, tax on capital, compensation tax and Québec Youth Fund contributions for the months of November and December 2001 until they make their instalment payments for May and June 2002, respectively. The measure applies to corporations whose paid-up capital calculated for the purposes of the tax on capital was \$15 million or less for the taxation year preceding the current year; the calculation of paid-up capital must take into account the paid-up capital attributable to associated corporations, including that of corporations not subject to the Taxation Act.

Special measure

Small and medium-sized businesses whose taxation year ends after September 30, 2001, but before April 1, 2002, will have at least six months in which to pay their October, November and December instalments, as well as



their balance of income tax and tax on capital. If this situation applies to you, refer to the table below to find out when you will be required to make your payments.

Taxation year ending on	Balance due (income tax and tax on capital)	Instalment payments		
		October 2001	November 2001	December 2001
October 31, 2001	April 30, 2002	April 30, 2002	May 31, 2002	June 30, 2002
November 30, 2001	May 31, 2002	May 31, 2002	May 31, 2002	June 30, 2002
December 31, 2001	June 30, 2002	June 30, 2002	June 30, 2002	June 30, 2002
January 31, 2002	July 31, 2002	July 31, 2002	July 31, 2002	July 31, 2002
February 28, 2002	August 31, 2002	April 30, 2002	August 31, 2002	August 31, 2002
March 31, 2002	September 30, 2002	April 30, 2002	May 31, 2002	September 30, 2002

For further information, contact the office of the Ministère du Revenu in your area. You may also consult the 2002-2003 Budget Speech on the Web site of the Ministère des Finances at www.finances.gouv.qc.ca.

Serving the Public and Businesses
Our Top Priority

1. Information bulletins 2001-10 and 2001-11 (Ministère des Finances du Québec)

Small Employers: Reduction in the Number of Instalments

To enable small employers to increase their liquid assets in the short term and ease their administrative burden, especially as concerns the number of forms they must submit to the Ministère, amendments will be made to tax legislation to reduce the number of instalments payable for a single year from twelve to four, with regard to remuneration paid after December 31, 2001.

This measure affects employers whose average monthly withholding does not exceed \$1,000 for the year preceding a given calendar year in which remuneration will be paid, or the year before that, and who, with regard to deductions at source, employer contributions and sales tax, have acted in compliance with the tax laws.

The MRQ will authorize these employers to remit source deductions and employer contributions no later than

- April 15 of the given calendar year, respecting remuneration paid during January, February and March of that year;
- July 15 of the given calendar year, respecting remuneration paid during April, May and June of that year;
- October 15 of the given calendar year, respecting remuneration paid during July, August and September of that year;
- January 15 of the year following the given calendar year, respecting remuneration paid during October, November and December of that year.

The specific rules that currently apply to very small employers (annual withholding of \$1,200 or less) will be maintained; these employers are entitled to continue making a single payment to the MRQ no later than fifteen days after the end of a calendar year during which remuneration was paid.

Employers who meet these conditions for a given calendar year will be notified once a year (generally in early December of the year preceding the calendar year) that their instalments are to be quarterly for that year.

For the first year to which this measure applies (the 2002 calendar year), employers were therefore notified early in December 2001, on the basis of their average monthly withholding for 2000 and 2001.

New employers may not make quarterly instalment payments for the 2002 calendar year.

IMPORTANT

Support payments are not affected by this measure. Employers must therefore continue to make these withholdings on the same weekly, bi-weekly or monthly basis.

Illegal Use of Coloured Fuel Oil

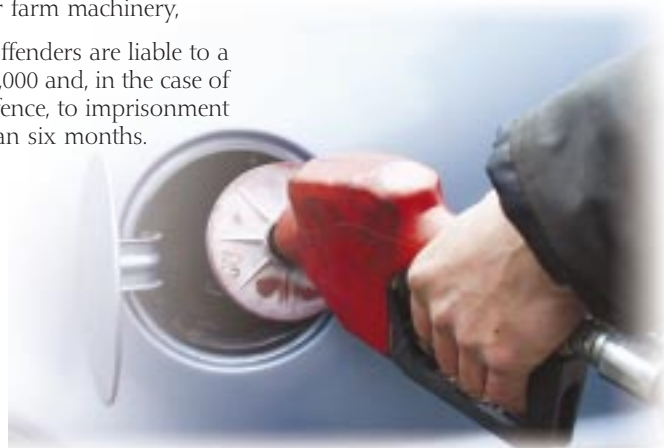
Inspectors from the Ministère du Revenu who, as part of their employment duties, sample the fuel used in road vehicles, have for some time noted an increase in the use of coloured fuel oil in trucks and other vehicles.

The Ministère du Revenu wishes to remind you that, under the Fuel Tax Act, it is illegal to use coloured fuel oil in the tank of a motor vehicle or truck that circulates on public highways. This prohibition also applies to equipment such as skidders and heavy vehicles such as tractors.

In addition, coloured fuel oil may not be transferred to a tank supplying a propulsion engine, except in the case of a pumper truck used to fight a forest fire, or in the case of a railroad locomotive, a fishing vessel, a commercial vessel or farm machinery,

Under the Act, offenders are liable to a fine of up to \$10,000 and, in the case of a subsequent offence, to imprisonment for not more than six months.

Interprovincial and international carriers who are licensed under the International Fuel Tax Agreement (IFTA) may lose their licence and decals if they use coloured fuel oil in qualifying trucks.



Principal Changes in the 2001 Income Tax Return

Below is a summary of the changes that have been made to the income tax return, and of new tax measures that have been implemented.

● Personal income tax reduction

The personal income tax rates, which were 19%, 22.5% and 25% (depending on the income bracket), have been lowered to 17%, 21.25% and 24.5%. However, the rate used to convert non-refundable tax credits is now 20.75% rather than 22%.

● Change to the tax reduction for families

The rate used to calculate the tax reduction for families has decreased from 5% to 3% for 2001.

● QST credit

The eligibility conditions for claiming the QST credit have changed. You may claim the QST credit if you meet the following conditions:

- You were resident in Québec on December 31, 2001.
- You were born before January 1, 1983 (or you were born after December 31, 1982, but had a spouse on December 31, 2001, were the parent of a child, or were recognized as an emancipated minor by a competent authority, such as a court).
- No one entered an amount respecting dependent children in your regard.
- No one designated you as a dependent child in order to claim the tax reduction for families.
- No one claimed in your regard a credit for individuals living in northern villages.

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

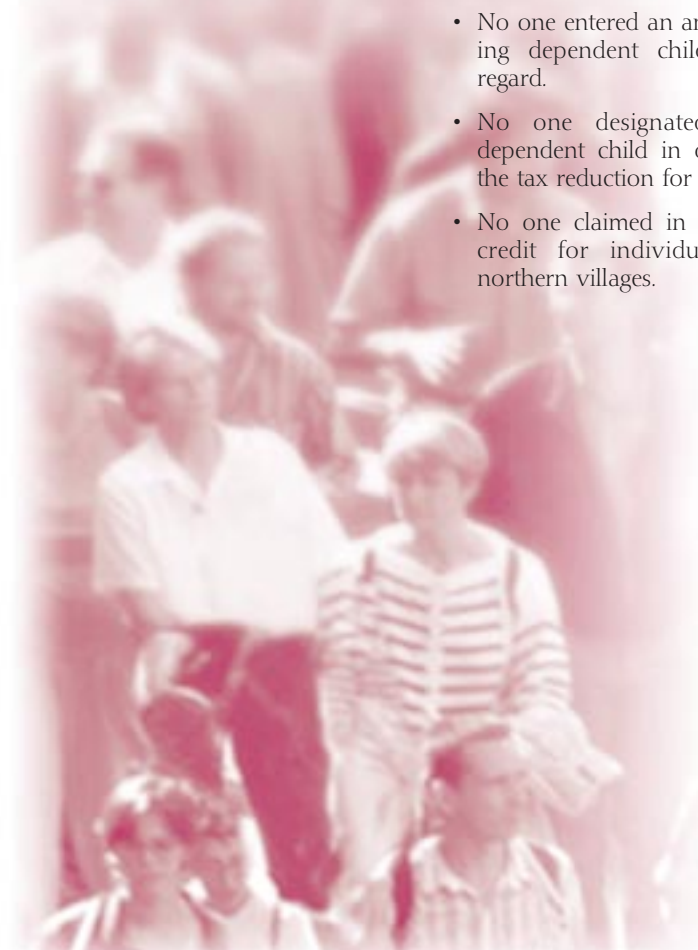
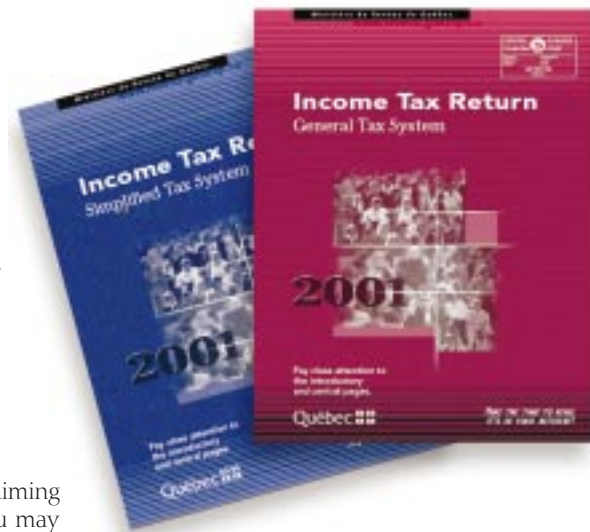
Effective January 1, 2001, the maximum premium payable under the Québec prescription drug insurance plan was raised from \$350 to \$385.

● Tax treatment applicable to scholarships, bursaries and prizes

Beginning with the 2001 taxation year, you must, as a rule, report the scholarships, bursaries and prizes you received. However, you will not have to pay income tax on these amounts, as they give entitlement to a deduction.

● Improvement to the simplified tax system

New measures concerning the income tax return of a deceased person and that of the surviving spouse have been introduced. As of the 2001 taxation year, the return of a deceased person may be filed under the simplified tax system. In addition, the amount for a person living alone and the amount respecting a spouse may be claimed in the year of death.



- **QST rebate for employees and partners**

Employees and partners may obtain a rebate of the QST applicable to professional dues and certain expenses deducted in the calculation of income. The rebate must now be claimed on line 462.

- **Improvement to the deduction respecting copyright income**

The maximum amount of copyright income giving entitlement to the deduction respecting copyright income has been increased from \$30,000 to \$60,000.

- **Introduction of the tax credit respecting the acquisition of Capital régional et coopératif Desjardins shares**

The Capital régional et coopératif Desjardins shares you purchased may give entitlement to a tax credit of up to \$1,250.

- **Improvement to the tax credit for contributions to provincial and municipal political parties**

You may now claim a tax credit of up to \$105 if you made contributions to municipal political parties in 2001.

In addition, the maximum amount of the tax credit respecting contributions made in 2001 to provincial political parties has been increased from \$250 to \$300.

- **Change in the tax credit for taxi drivers and taxi owners**

You may claim a tax credit if, in 2001, you were the holder of a taxi driver's permit or a taxi owner's permit.

- **Standardization of the tax treatment applicable to lodging resources**

As of the 2001 taxation year, you may, under certain conditions, exclude from your income amounts received for the benefit of a person to whom you provided lodging, even if you are recognized as an intermediate resource within the meaning of the Act respecting health services and social services.

In addition, you may exclude from your income amounts received under the terms of a service contract with the Minister of Public Security concerning the setting up of a foster home in order to facilitate the social rehabilitation of persons required to reside there.

- **Improvement to the tax credit respecting the treatment of infertility**

As of the 2001 taxation year, you may claim a tax credit of up to \$6,000 with regard to expenses related to artificial insemination or in vitro fertilization.

- **Introduction of the Statement of Employment Expenses form**

If you are claiming a deduction for expenses incurred in the course of your employment duties, you can use form TP-59-V, *Statement of Employment Expenses*, to calculate the amount of the deduction to which you are entitled.



Using software to prepare your income tax return

If you use tax preparation software and you send us a printed copy of your income tax return, you must ensure that

- the required summaries (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) are enclosed with the return you file;
- 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 your income tax return does not meet these conditions, the Ministère may reject it and send it back to you without processing it.

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.



Internet services

The Web site of the Ministère du Revenu du Québec contains 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 site.

We invite you to visit the Web site of the Ministère at www.revenu.gouv.qc.ca.

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 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 du Revenu du Québec in your area.

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.

More Than a Million Returns Filed Online

More than one million income tax returns were transmitted to the Ministère electronically for the 2000 taxation year—an increase of almost 35% over the previous year. Internet use increased by 169% among individuals who filed their own returns, which means that a large number of taxpayers have now adopted this filing method.

Of the one million returns that were filed electronically, 775,000 were transmitted by professional tax preparers. In all, more than 2,000 preparers made use of the service.

Advantages of NetFile Québec

NetFile Québec is an online service for filing personal income tax returns. Greater efficiency and increased accuracy of tax data are just two of the reasons behind the growing popularity of online filing among professional preparers, who can then pass on these benefits to their customers in the form of better service. In addition, NetFile Québec is protected by one of the strictest encryption protocols currently in use, thus ensuring complete confidentiality.

Processing time is also reduced, which means faster refunds for taxpayers. Finally, since the Ministère validates electronic returns when they are transmitted, assessments can often be issued without time-consuming manual verifications.

Services such as direct refund deposit and online payment of a balance due (Internet service through a financial institution) will continue to be offered for the 2001 taxation year, and more electronic services will be made available by the Ministère in the near future.

Future trends

If results thus far are any indication, the next few years should see further increases in the use of NetFile Québec. For the 2003 taxation year, we estimate that one in three returns will be transmitted to the Ministère online.

Professional preparers of personal income tax returns may obtain publications on NetFile Québec from the Ministère. The Service d'aide ImpôtNet Québec (NetFile assistance) provides on-going support to preparers during tax time.

Information may also be obtained from the Web site of the Ministère at www.revenu.gouv.qc.ca (click on "Electronic services").

NEW

The fast and reliable way to file:

NetFile
Q u é b e c

By using the access code, an individual need not file a copy of form TP-1000.TE-V, *Electronic Filing of Personal Income Tax Returns: Statement and Authorization by Individuals*.

Filing RL Slips by E-Mail

The Ministère du Revenu now offers the possibility of filing RL slips by E-mail. If you wish to take advantage of this opportunity, you must first encode your data using the encryption software provided by the Ministère. For more information, contact the Groupe de promotion de l'EDI et d'acquisition des données électroniques at (418) 652-5281 or toll-free, at 1 888 830-7747 (extension 5281).

The Ministère would like to remind you that, under a measure that took effect in the 2000 taxation year, you are required to file your RL-1, RL-2 and RL-25 slip data on magnetic media (diskette, CD-ROM, 3480 cartridge, or 3490 cartridge) if you issue more than 500 RL slips. However, you must first submit a test file and obtain authorization before filing your 2001 RL-slip data on magnetic media.

For further information, consult the Web site of the Ministère at www.revenu.gouv.qc.ca. Once you have accessed the home page, click on "Electronic services," then on "Transmission of RL-slip data."

Do You Receive More Than One Copy of Tax News?

It has come to our attention that some people receive more than one copy of *Tax News* each time an issue is published. Please note that we will begin to correct the problem, starting with our first issue of 2002.

Accountants often receive copies of *Tax News* for clients who have indicated (on registration form LM-1-V) that correspondence from the Ministère should be sent directly to their accountant. The accountant therefore receives as many copies as he or she has clients making such a request.

Persons that operate more than one business sometimes receive, at the same mailing address, a copy of *Tax News* for each business. The businesses are registered separately, but the same contact person and mailing address appear on each registration form.

Starting with the first issue of 2002, all identical entries will be deleted from our mailing list. However, each time there is a slight difference in the way your name or address is entered in our files, you will receive an additional copy of *Tax News*. We therefore ask you to notify us by fax ((418) 646-0167) of any such discrepancies. We will then make the necessary corrections and delete the corresponding entries from our mailing list.

Tax News is a quarterly information bulletin with a circulation of nearly 500,000. We will make every effort to eliminate the inconvenience of multiple mailings. However, given the volume of our mailings, the corrective measures undertaken in 2002 will extend over several months. We thank you for your understanding and patience.

REMINDER

Each issue of *Tax News* appears on our Web site as soon as it is published. We invite you to consult the various issues at www.revenu.gouv.qc.ca.



New Telephone Numbers

More numbers. Better service.

Each office of the Ministère in the **Montréal area** now has its own local number and its own toll-free number. By adding new telephone numbers, the Ministère can better respond to the many requests for tax-related information it receives, and thereby improve the service it provides to the public and to businesses.

Below is a list of the offices concerned, along with their new telephone numbers.

Laval

4, Place-Laval, bureau RC-150
Laval (Québec) G7S 2A9
(450) 972-3320 or 1 866 540-2500

705, chemin du Trait-Carré
Laval (Québec) H7N 1B3
(514) 873-6120 or 1 866 570-2500

Longueuil

Place-Longueuil
825, rue Saint-Laurent Ouest
Longueuil (Québec) J4K 5K5
(450) 928-8820 or 1 866 490-2500

Montréal

Complexe Desjardins
C.P. 3000, succursale Desjardins
Montréal (Québec) H5B 1A4
(514) 873-2600 or 1 866 440-2500

Village Olympique, pyramide Est
5199, rue Sherbrooke Est, bureau 4000
Montréal (Québec) H1T 4C2
(514) 873-2610 or 1 866 460-2500

Saint-Jean-sur-Richelieu

855, boulevard Industriel
Saint-Jean-sur-Richelieu (Québec) J3B 7Y7
(450) 349-1120 or 1 866 470-2500

Sorel-Tracy

101, rue du Roi
Sorel-Tracy (Québec) J3P 4N1
(450) 928-8820 or 1 866 490-2500



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, 2001, to December 31, 2001, are listed below.

Period	Annualized interest rate* %	Penalty rate %
2001		
Jan. 1 – Mar. 31	6.0833	6
Apr. 1 – June 30	4.8132	6
July 1 – Sept. 30	4.7609	6
Oct. 1 – Dec. 31	4.7609	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 January 1, 2001, to December 31, 2001.

2001		Interest rate %
Jan. 1 – Mar. 31	Refunds	4.85
	Debts	10
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

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.



If You Are Filing the Corporation Return...

The 2001-12 version of the corporation return (form CO-17-V) is now available. You can obtain a copy from the nearest office of the Ministère du Revenu, or from our Web site at www.revenu.gouv.qc.ca.

Please use this latest version of the form (the 2000-06 version will continue to be accepted, but **the 1998 version should not be used**).

Interpretation Bulletins

Between August and October 2001, the Ministère du Revenu du Québec published 22 interpretation bulletins, of which 13 deal with income tax and 9 with consumption taxes. The numbers and subjects of the bulletins are listed below (the letter R in a number indicates that the bulletin has been revised). Interpretation bulletins can be purchased from Les Publications du Québec, either individually (price varies according to the number of pages) or by subscription. For information about subscriptions or the availability of bulletins, call (418) 643-5150 or 1 800 463-2100.

Income tax

IMP. 996-3 Syndicate of co-owners

LMR. 28-1/R51 Interest rates

RRQ. 50-2/R1 Amount paid under a profit sharing plan or an employee benefit plan

SPECIAL 150 Broadening to three RCMs of tax measures for the resource regions

SPECIAL 151 Operation of an international financial centre by a partnership

IMP.37-1/R11 The value of certain taxable benefits that a hotel or restaurant employee receives or benefits from by reason of his office or employment

RIE.2-1/R1 Meaning of the expression "with whom he lives" - spouses temporarily not cohabitating

RRQ. 52-1/R2 Amalgamation of companies

SPECIAL 152 Tax benefits relating to flow-through shares extended for two years

SPECIAL 153 Deferral of instalments for the month of October 2001 for corporations whose paid-up capital is no more than \$15 million

SPECIAL 154 Tax holiday for major investment projects broadened and clarification concerning Bulletin d'information 2001-10

LMR.28-1/R52 Interest rates

LMR.34-1/R1 Retention and destruction of registers and supporting documents

Consumption taxes

LMR. 28-1/R51 Interest rates

TVQ. 16-3/R1 Private forest development support program

TVQ. 176-2/R2 Supplies of glasses and contact lenses

TVQ. 176-4 Supply of orthodontic appliances and services for an all-inclusive lump-sum fee

TVQ. 176-5 Supply of breast implants and external breast protheses

LMR.28-1/R52 Interest rates

LMR.34-1/R1 Retention and destruction of registers and supporting documents

TVQ.125-1/R1 Supplies of pilot-training courses

TVQ.127-4 Supplies of pilot-training courses

New Publications

The Ministère du Revenu recently published

- *Promoting Healthy Competition in the Garment Industry* (IN-262-V); and
- three documents on NetFile Québec, a "net" advantage (IN-104-V, IN-104.A-V and IN-104.B-V).

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

- *Tax Refund for Business Travel to Canada* (IN-4117)
- *Tax Refund for Visitors to Canada* (IN-4031)
- *General Application for GST/HST Rebates* (IN-4035)

GST/HST Memoranda Series

- *GST/HST Treatment of Insurance Claims* (ME-17-16)
- *Products and Services of Investment Dealers* (ME-17-1-1)
- *Land and Associated Real Property* (ME-19-5)

GST/HST Technical Information Bulletins

- *GST/HST New Residential Rental Property Rebate* (B-087)
- *Export Distribution Centre Program* (B-088)





Tax News on the Internet

An electronic version of *Tax News* is available on the Web site of the Ministère du Revenu du Québec at www.revenu.gouv.qc.ca. Simply click on the heading "Forms and publications," and then on "Tax News."

www.revenu.gouv.qc.ca

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 Fergues
Carole Lafond
Ginette Landry
Nicole Plourde
Claire Thibault

Marie-Paule Guilbault
(agente de liaison, ADRC)

Writers

Marie Godbout
Nathalie L'Italien
Francine Loiselle

Translators

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

Graphics

Christine Bleau

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