

# Tax News

First quarter 1998

This issue is primarily a summary of the measures concerning consumption taxes, corporation income tax and personal income tax, and other fiscal measures that were announced by Bernard Landry, Minister of State for the Economy and Finance, in his Budget Speech of March 31, 1998. Further details of some of these measures will be provided in upcoming issues.

## THE QUÉBEC BUDGET FOR 1998-1999

### Measures concerning consumption taxes

#### Québec sales tax (QST)

##### Services related to corporeal movable property ordinarily situated in Canada, outside Québec

The QST system provides for a rebate, on certain conditions, of the tax paid respecting a service, other than a transportation service, supplied with regard to corporeal movable property that is ordinarily situated in Canada, outside Québec, and that is brought temporarily into Québec for the sole purpose of performing the service. The rebate is granted only if, after the service is performed, the property is promptly taken or shipped to a location outside Québec (but in Canada). This rebate measure also applies to corporeal movable property supplied in the course of performing the service.

Further to changes announced in the Budget Speech, the rebate measure is replaced by a zero-rating measure where the recipient of such a service and of the property supplied in the course of performing the service is a GST registrant, and where the service is supplied after March 31, 1998.

##### 911 services

The tax legislation will be amended to specify that 911 (emergency call) services acquired by a municipality are exempt from the QST, if they are supplied by another municipality or by a commission or other body established by a municipality. In cases where the QST was charged on the supply of such services, the deadline for claiming a refund of QST paid in error does not apply. Moreover, a municipality that

charged the QST on such services must repay the amounts it received as ITRs respecting property and services acquired in order to supply the services.

This measure applies retroactively to July 1, 1992.

##### Rebate of the tax paid on a vehicle adapted for the transportation of a person with a disability



Under the QST system, the supply of a service that consists in adapting a motor vehicle for the transportation of a person who uses a wheelchair is zero-rated, as is the property supplied in the course of

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performing the service. However, the supply of a vehicle already adapted for the transportation of a person who uses a wheelchair is not zero-rated, even if a substantial portion of the price of the vehicle is attributable to the services and property used to adapt the vehicle.

Changes will be made to the QST system so that persons who acquire a motor vehicle already adapted for the transportation of a person using a wheelchair will be entitled to claim a rebate of the QST paid on the portion of the price attributable to the property and services used to adapt the vehicle. The rebate will apply only if the QST is not otherwise refundable.

In order to claim the QST rebate, the recipient of such a vehicle must file form VD-403.VA-V, *Application for a Rebate of the Québec Sales Tax (QST) Paid in Regard to Vehicles Adapted for the Transportation of Persons with Disabilities*, within four years after the date on which the QST is paid. The rebate application may be filed with the Ministère du Revenu du Québec or with the supplier of the vehicle. If the application is submitted to the supplier, the latter pays or credits the rebate to the recipient at the time of supply and forwards the application to the Ministère du Revenu when filing the QST return for the reporting period in which the rebate is paid or credited. All applications filed with the Ministère must be accompanied by a supporting document (provided by the supplier) that makes it possible to determine the amount of QST related to the adaptation of the vehicle.

This measure will apply to an adapted vehicle supplied after December 10, 1992, to an individual, and after April 23, 1996, to a person other than an individual. Given the retroactive nature of the measure, the four-year period within which a rebate must be claimed is considered to have begun on April 1, 1998, in the case of adapted vehicles supplied before that date. Rebate applications with regard to vehicles supplied before April 1, 1998, must be filed with the Ministère du Revenu du Québec.

### Reference books used to determine the value of used vehicles

The QST system provides certain rules for determining the market value of a

used road vehicle, so that the amount of tax payable on the vehicle can be calculated. The QST payable is generally calculated on the higher of the following amounts: the sales price agreed on by the parties to the transaction; or the average wholesale price indicated in the pertinent reference book, minus \$500.

The *Guide d'évaluation des automobiles* and the *Guide d'évaluation des camions légers*, published by Hebdo Mag inc., are the reference books used to determine the average wholesale price of used road vehicles. The prices given in these publications now cover a period of only seven years but, as of June 1, 1998, the number of years will be increased to nine.

### Restrictions on ITRs for large corporations

The paper entitled *Corporate Taxation Reform*, tabled with the Budget Speech, provides for an increase, to \$10 million, in the threshold respecting ITR restrictions for large corporations. The new threshold will take effect on July 1, 1999.

## Fuel tax

### Transfer of fuel to certain wholesale dealers

Collection officers under agreement with the Ministère du Revenu du Québec are no longer required to collect the fuel tax in advance when selling fuel to a non-resident wholesale dealer who does not hold a collection officer's permit, provided the fuel is delivered in Québec to a third party who is also under agreement with the Ministère. Moreover, under such circumstances, non-resident wholesale dealers are exempted from the requirement to hold a collection officer's permit. These changes took effect on April 1, 1998.

### Transfer of tax refunds

A person who purchases fuel for resale purposes, and who takes delivery in a designated region, a border region, a peripheral region, a specified region or a region bordering on a peripheral or specified region must generally remit to the collection officer who makes the sale an amount equal to the fuel tax, taking into account the fuel tax reduction ap-

plicable in the region concerned. However, if delivery is taken outside the above-mentioned regions, there has until now been no provision for a reduction in the amount the purchaser must remit to the collection officer; if the amount exceeds the amount of tax the purchaser subsequently collects on reselling the fuel, the purchaser must claim a refund of the excess amount.

Since April 1, 1998, persons to whom such a refund is payable have been entitled, under certain circumstances, to transfer the refund to the collection officer from whom the fuel is purchased (provided the collection officer has concluded an agreement with the Ministère). When the person concerned next purchases fuel from the collection officer, the latter credits to the person the amount of the refund, as an amount in lieu of tax.

This rule also applies to a refund payable to a person who purchases gasoline for resale purposes from a collection officer under agreement, takes delivery in the territory under the jurisdiction of the Agence métropolitaine de transport, and subsequently takes the gasoline (or causes it to be taken) outside this territory.

### Increase in working capital advances granted to wholesale dealers

Under an administrative policy of the Ministère du Revenu du Québec, wholesale dealers that have not concluded an agreement with the Ministère may under certain circumstances obtain a working capital advance, the amount of which is based on the wholesale fuel sales made during a reference period of 42 days.

In order to improve the competitive position of these wholesale dealers, the amount of the advances granted will henceforth be based not only on their wholesale sales but also on their retail sales. However, the reference period respecting retail sales will be 15 days for advances granted from April 1, 1998, to December 31, 1998, 30 days for advances granted in 1999, and 42 days for advances granted in subsequent years.

### Taxes and duties on alcoholic beverages

#### Elimination of the specific tax and duty on the first 1,500 hectolitres sold by a small-scale producer

The specific tax and duty applicable to the first 1,500 hectolitres of alcoholic beverages (except beer) sold by a small-scale producer were eliminated on April 1, 1998.

#### Tax exemption applicable to the diplomatic and consular corps and to international government organizations

As of July 1, 1998, members of the diplomatic and consular corps, as well as international government organizations and non-Canadian representatives of such organizations, will be able to purchase alcoholic beverages without paying the related QST and specific tax, provided the purchases are made at an SAQ outlet designated for this purpose by the Ministère des Relations internationales.

At the present time, persons to whom this privilege is granted pay the tax when purchasing alcoholic beverages and subsequently make a rebate claim.

#### Harmonization of reporting periods

Under the legislation currently in force, vendors who are required to remit to the Ministère du Revenu the specific tax and the licence duties applicable to alcoholic beverages must file a monthly return with regard to the tax and duties. However, under the QST system, these vendors may file monthly, quarterly or annual returns.

As of their first QST reporting period beginning after March 31, 1998, vendors of alcoholic beverages may file their returns respecting the specific tax and licence duties at the same frequency as their QST returns. Under this measure, which should simplify paperwork for small and medium-sized businesses,

vendors of alcoholic beverages will have the same reporting periods and deadlines for all the consumption taxes and duties they remit to the Ministère.

Vendors of alcoholic beverages who will henceforth have an annual reporting period must make instalment payments (according to the terms provided for under the QST system) if the specific tax and duties for the period are \$1,500 or over.

### Application of the specific tax on lodging: postponement in Lanaudière and Outaouais

On December 18, 1997, the Québec government announced that the specific tax on lodging (\$2 per overnight stay) would apply as of April 1, 1998, to each sleeping-accommodation unit rented in a sleeping-accommodation establishment located in the Lanaudière and Outaouais tourist regions. However, following an agreement between the tourist associations in these regions and the Québec government, the application of the tax was postponed until further notice.

### Harmonization with federal legislation

#### Notice of Ways and Means Motion of December 8, 1997

The Notice of Ways and Means Motion tabled by the federal Minister of Finance on December 8, 1997, concerned the income tax measures announced in the federal budget of February 1997, as well as certain other measures (many of which were contained in draft legislation tabled in 1997). Although some of the income tax measures provided for in this notice of motion were retained by the Québec government, the provisions pertaining to the Excise Tax Act were not retained.

### Federal Budget Speech of February 24, 1998

In keeping with the principle of substantial harmonization between the GST and QST systems, the QST system will be brought into line with the GST measures announced in the federal Budget Speech. Where necessary, adjustments will be made on the basis of the particularities of the Québec context.

The QST system will therefore incorporate, with the adaptations required in order to comply with its general principles, the federal measures respecting

- direct sellers;
- services provided to registrants by certain charities;
- charities operating bottle return depots;
- tax rebate programs for visitors;
- respite care for persons with an infirmity or a disability.

## Measures concerning the taxation of businesses

### Corporate taxation reform

The document entitled *Corporate Taxation Reform*, tabled with the Budget Speech, contains a number of measures to substantially reduce the tax burden on Québec businesses, particularly the payroll taxes of small and medium-sized businesses (SMBs). Changes allowing the government to partially finance these measures will also be made to the corporation income tax system. The principal changes are outlined below.

Details of all these changes, as well as any applicable transitional rules will be made public during the year, in a Ministère des Finances information bulletin.

#### Reduction in the payroll tax rate

The payroll tax rate will be reduced for all businesses with total payrolls of \$5 million or less. This reduction will be introduced in two stages, as shown in the following table. Starting July 1, 1999,

the rate for businesses with total payrolls of \$1 million or less will fall from 4.26% to 3.75% (the maximum rate reduction). The payroll tax rate for businesses with total payrolls between \$1 million and \$5 million will be between 3.75% and 4.26%.

A second payroll tax rate reduction will be introduced on July 1, 2000, when the rate will fall to 2.7% for businesses with total payrolls of \$1 million or less.

#### Reduction in the payroll tax rate (as a percentage of the total payroll)

Total payroll of business	Current rate	Rate in effect as of July 1, 1999	Rate in effect as of July 1, 2000
\$1M or less	4.26	3.75	2.70
\$2M\$	4.26	3.88	3.09
\$3M\$	4.26	4.01	3.48
\$4M\$	4.26	4.13	3.87
Over \$5M	4.26	4.26	4.26

**Note:** In the case of businesses with total payrolls of under \$5 million, the payroll tax rate will be gradually reduced from 4.26% to 3.75% starting July 1, 1999, and from 4.26% to 2.7% starting July 1, 2000.

#### Québec sales tax reduction for SMBs

The threshold at which restrictions apply to the obtention of input tax refunds (ITRs) by large businesses will be raised to \$10 million starting July 1, 1999.

#### Elimination of the small business deduction

Québec currently applies two tax rates to the active income of corporations: a general rate of 8.9% and a reduced rate of 5.75% applicable to the first \$200,000 in profits of small corporations. This reduced rate represents a tax benefit of up to \$6,300. Starting July 1, 1999, the reduced rate will be eliminated and a single rate of 8.9% will apply to all corporations.

#### Elimination of the refundable tax credit for losses

The refundable tax credit for losses will be eliminated as of July 1, 1999.

#### Enhancement of the tax holiday for new corporations

The table on the following page shows the modifications that will apply starting July 1, 1999.

Tax benefits and exemptions applicable to the five-year tax holiday for new corporations (in dollars)

	Income tax	Payroll tax	Tax on capital	Maximum annual value of tax holiday
<b>Existing tax holiday</b>				
• exemption	200,000	300,000	2,000,000	
• maximum value	11,500	12,780	12,800	37,080
<b>Proposed tax holiday starting July 1, 1999</b>				
• exemption	200,000	500,000/ 700,000 <sup>1</sup>	3,000,000	
• maximum value	17,800	18,750/18,900	19,200	55,900
<b>Gain for business</b>				
• exemption	–	400,000	1,000,000	
• maximum value	–	6,120	6,400	12,520

1. The total payroll exempted from the payroll tax will be \$500,000 starting July 1, 1999, and \$700,000 starting July 1, 2000.

## Enhancement of the dividend tax credit

The dividend tax credit rate will be increased from 8.87% to 10.83% starting January 1, 2000. The rate for 1999 will be 9.85%, as the elimination of the small business deduction applies to only half of the year.

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

### Extension of the period of application of the tax credit

The period of application of the tax credit for an on-the-job training period has been extended by three years. Accordingly, this tax credit may be claimed with regard to qualified expenditures made within the framework of a qualified training period beginning before January 1, 2002.

### Enhancement of the tax credit for the Apprenticeship Plan ("Régime d'apprentissage")

To compensate more of the actual costs incurred by businesses that accept apprentices under the Apprenticeship Plan, the following rules have been

established with regard to an expenditure incurred after March 31, 1998, in relation to a qualified training period beginning after that date:

- The cap on qualified expenditures has been increased from \$500 to \$625 per week per apprentice.
- The maximum amount of time devoted per week to the supervision of an apprentice has been increased from 10 hours to 20 hours.

### Clarifications with respect to post-secondary candidates

The following changes apply regarding an expenditure incurred after March 31, 1998, in relation to a qualified training period beginning after that date that is undertaken by a college-level student or university undergraduate:

- To be eligible, training periods must be remunerated, unless the exclusion respecting on-the-job training periods applies, as set forth in the Act respecting labour standards.
- For the purposes of calculating the tax credit, a taxpayer may not claim, with regard to a trainee, a credit for more than 20 weeks of training, regardless of the duration of the education program in which the trainee is enrolled. This restriction also applies, where the taxpayer is an individual,

to a person with whom the taxpayer does not deal at arm's length at any time during the year and, where the taxpayer is a corporation, to a corporation with which it is associated at any time during the year.

## Measures concerning scientific research and experimental development

### Tax benefits granted to certain post-doctoral trainees

#### Two-year tax holiday

To better enable Québec universities to recruit foreign post-doctoral trainees, the deduction for foreign researchers has been expanded to grant eligibility for the deduction to certain foreign post-doctoral trainees who enter into an employment contract with a new category of qualified employers consisting of eligible university entities and eligible public research centres already recognized for the purposes of the tax measures relating to R&D.

Accordingly, for the purposes of the deduction, a foreign researcher also includes an individual who, after March 31, 1998, assumes his or her

duties as an employee with this new category of qualified employers, under an employment contract entered into after that date, where the qualified employer has obtained a certificate from the Ministère de l'Éducation du Québec certifying that the individual is specialized in pure or applied sciences or in a related field and that he or she has a doctorate. Such an individual must also meet the conditions listed below:

- The individual must not be resident in Canada immediately before entering into the employment contract or assuming his or her duties.
- The individual must work continuously and almost exclusively for the qualified employer.
- The individual's duties must consist almost exclusively in carrying out, as an employee, R&D activities.

#### Exemption for certain scholarships

A fellowship awarded by the Ministère de l'Éducation to a foreign national under the Québec merit scholarships program gives entitlement, as of the 1998 taxation year, to a deduction in the calculation of the taxable income of the individual to whom it is awarded.

#### Designation of new eligible public research centres

A refundable tax credit of 40% is currently granted with respect to R&D activities carried out by an eligible public research centre under an eligible research contract entered into with the centre.

The following centres are now recognized as eligible public research centres with respect to R&D carried out after March 31, 1998, under an eligible research contract entered into after that date:

- the Institut de chimie et de pétrochimie du Collège Maisonneuve;
- the Centre de recherche et de développement en horticulture (CRDH);
- the Centre de recherche et de développement sur le bovin laitier et le porc;
- the Centre de recherche et de développement sur les sols et les grandes cultures;
- the Laboratoire d'hygiène vétérinaire et alimentaire;

- the Centre multifonctionnel de recherche en alimentation (CMRA) of the Institut de tourisme et d'hôtellerie du Québec.

#### Relaxation of rules relating to subcontracting

Occasionally when a taxpayer entrusts R&D work to a subcontractor, the subcontractor in turn entrusts to a third party all or part of the initial contract. In such a case, the taxpayer is not entitled to the tax credit regarding the portion thus entrusted to the third party. The subcontractor is also not entitled to the tax credit, as its R&D expenditure is reduced by the amount of the contractual payment it received from the taxpayer.

To prevent the loss of the refundable tax credit which would otherwise have been granted had the contract been entrusted directly to the third party by the taxpayer, a technical change has been made to the refundable tax credit for salaries and wages paid in respect of R&D, but only in the case where the taxpayer who has R&D work carried out on its behalf enters into an R&D contract with a person or partnership with which it does not deal at arm's length (hereinafter called the "first related subcontractor").

Accordingly, when all or part of the consideration the taxpayer pays to the first related subcontractor is paid again to one or more second-level subcontractors under one or more subcontracts, the taxpayer may claim the tax credit with regard to the other contract or contracts, according to the rules otherwise applicable for the purposes of the tax credit for salaries and wages paid in respect of R&D, as if the taxpayer had entered into the contracts directly as principal.

This change applies to R&D carried out after March 31, 1998, under a contract entered into after that date.

#### Introduction of a special tax

If a refundable tax credit respecting R&D is granted with regard to an amount pertaining to salaries and wages paid in respect of R&D, to consideration paid as part of a contract, to a qualified expenditure or to a qualified contribu-

tion (as the case may be), and if this amount is refunded to the eligible taxpayer or to the partnership of which the taxpayer is a member, the tax credit thus granted is recovered by means of a special tax. To that end, rules similar to those pertaining to the tax credit for an on-the-job training period are to be implemented. This measure applies to a refund received after March 31, 1998.

### Measures to assist business capitalization

#### Eligibility of a corporation for a Québec stock savings plan (QSSP)

Under the current terms and conditions of the QSSP, the assets of a corporation that intends to make a public share issue under the plan, including the assets of corporations with which it is associated during the 12 months preceding the date of the receipt for the final prospectus or the exemption from filing a prospectus respecting the share issue, must be less than \$250 million.

To help more growth corporations obtain access to the QSSP, this limit will be raised to \$300 million for any public share issue for which the receipt for the final prospectus or the exemption from filing a prospectus is granted after March 31, 1998.

#### Tax assistance relating to Québec business investment companies (QBICs)

To simplify the QBIC program and increase its impact, changes have been made regarding investments by a QBIC after March 31, 1998. Accordingly, the concepts of employee QBIC and designated region, as well as the possibility for a venture capital corporation of being a QBIC shareholder, have been eliminated.

In addition, to provide the same amount of assistance to all QBIC investments, regardless of the region where they are made, the rate of the deduction granted to QBIC shareholders for investments made by the QBIC after March 31, 1998, is, in all cases, 150%.

### Measures to support the growth of Québec's financial sector

Several of the measures set forth in the Budget Speech target the growth of Québec's financial sector. These include improved tax benefits relating to international financial centres, the introduction of a refundable tax credit relating to the training period of young portfolio managers, and the implementation of measures to foster the creation of investment funds.

### Film and television productions

#### Introduction of a refundable tax credit for film or television production services

An 11% refundable tax credit for film or television production services applies with regard to Québec labour expenditures incurred after February 12, 1998, as part of the shooting of a foreign production. This measure may also apply with regard to a production that does not satisfy the Québec content criteria giving entitlement to the tax credit for film or television production. In general, the terms and conditions of this new tax credit are similar to those of the federal tax credit for film or video production services announced on October 29, 1997, by the Minister of Finance of Canada, subject to specific features. These features concern eligible corporations, eligible productions, qualified labour expenditures, the accumulation of tax credits and SODEC's role.

#### Tax assistance for computer animation and special effects

The rates of the tax credits applicable to certain expenditures incurred to produce computer animation and special effects, for the purposes of calculating the current tax credit for Québec film or television production and the new tax credit for production services, have been increased.

The labour expenditures covered by this measure are salaries and wages that are paid to the employees of a corporation with an establishment in Québec and that are directly attributable to eligible activities relating to computer

animation and special effects carried out by these employees as part of an eligible production. Eligible salaries and wages include both the salaries and wages paid to employees of the corporation that produces the film and those paid to the employees of a technical services firm that acts as subcontractor for part of the production work.

### Production of multimedia titles

The refundable tax credit for a multimedia production now comprises two components:

- a new component created for businesses that are devoted exclusively or almost exclusively to the production of multimedia titles and, as the case may be, the related R&D. The particular feature of this new component is that SODEC may issue a certificate regarding a corporation whose activities essentially consist in producing eligible multimedia titles; a separate certificate for each title is therefore no longer required;
- the existing component, which is maintained for other taxpayers, with improvements.

### Refundable tax credit for the creation of jobs in the clothing and footwear industry

A refundable tax credit has been introduced, for calendar years 1998 to 2001, regarding the increase in payroll attributable to production employees of an employer operating in the clothing and footwear industry. The tax assistance is available to corporations, individuals and taxpayers that are members of a partnership.

More specifically, the gross income of a taxpayer or of a partnership of which the taxpayer is a member, as the case may be, for the taxation year in which the calendar year ends must be derived principally from the operation in Québec of a clothing- or footwear-making or -manufacturing business.

However, the following taxpayers are not eligible for the tax credit for a calendar year:

- a corporation that derives more than 10% of its gross income for the taxation year in which the calendar year ends from a source other than the operation of an eligible business;
- a person exempt from income tax for the taxation year in which the calendar year ends;
- a Crown corporation or a wholly-controlled subsidiary of such a corporation;
- a trust of which one of the capital or income beneficiaries is a person described in any of the preceding subparagraphs.

In the case of an eligible taxpayer that is a member of a partnership, eligibility for the tax credit is determined with reference to the partnership, but the tax credit is granted to each member of the partnership for the taxation year in which ends the partnership's fiscal period in which the calendar year ends, on the basis of the member's share of the income or loss of the partnership for that fiscal period. If the partnership's income or loss for that fiscal period is nil, the income of the partnership for the fiscal period is deemed to be equal to \$1,000,000 for the purposes of determining the share of each member of the partnership.

### Clothing- or footwear-making or -manufacturing business

For the purposes of this tax credit, a "clothing- or footwear-making or -manufacturing business" means a business whose activities consist in making or manufacturing, in whole or in part, clothing or footwear, with the exception of jewellery and other accessories.

#### Calculation of the tax credit

The tax credit an eligible taxpayer may claim for a calendar year is calculated by multiplying the tax credit rate applicable to the taxpayer by the amount of the increase in payroll attributable to the taxpayer's eligible employees, or by the amount of the taxpayer's share of the increase in payroll attributable to the eligible employees of the partnership of which the taxpayer is a member, as the case may be, for that year.

The rate of the tax credit for a calendar year is equal to 20% of the amount of the increase in payroll attributable to eligible employees for that year.

The increase in payroll attributable to eligible employees for a calendar year is calculated by comparing the total amount of salaries and wages paid to eligible employees for that year with the total amount of salaries and wages paid to eligible employees for the 1997 calendar year. The salaries and wages to be considered for this purpose are those constituting the employment income of an eligible employee, excluding director's fees, incentives and other bonuses, overtime pay, commissions and taxable benefits that must be included in the calculation of the employee's employment income.

In addition, in the case of an eligible taxpayer or a partnership of which the taxpayer is a member, as the case may be, that has not carried on a business in Québec throughout the entire 1997 calendar year, the total amount of salaries and wages paid to eligible employees for that year is determined in accordance with the following formula:

Salaries and wages actually paid to eligible employees in 1997	X	$\frac{365 \text{ days}}{\text{Number of days in 1997 that a business was carried on in Québec}}$
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In the case of an eligible taxpayer or a partnership of which the taxpayer is a member, as the case may be, that begins to carry on a business in Québec during a calendar year subsequent to 1997, the total amount of salaries and wages paid to eligible employees for that year will be determined in accordance with a formula similar to the one described in the preceding paragraph. In addition, the increase in payroll attributable to eligible employees for a calendar year subsequent to 1997 will be determined by comparing the total amount of salaries and wages paid to eligible employees for that subsequent year with the total amount of salaries and wages paid to eligible employees for the calendar year during which the business began to be carried on.

**Eligible employee**

An "eligible employee" of an eligible taxpayer or a partnership, as the case may be, means an individual who is an employee of an establishment operated in Québec by the taxpayer or partnership and who is neither, where he or she is an eligible employee of a partnership, an employee who does not deal at arm's length with a member of the partnership, nor, where he or she is an eligible employee of a corporation, a specified shareholder of the corporation. In addition, at least 90% of the duties of such an individual with the eligible taxpayer or partnership of which he or she is an employee, as the case may be, must be devoted directly to the making or manufacturing of clothing or footwear, with the exception of jewellery and other accessories.

More specifically, the duties considered to be devoted directly to the making or manufacturing of clothing or footwear include the duties of creaser, sorter, sewer, cutter, assembler, presser, maker, stacker, spreader, examiner, baster, finisher, operator, separator, turner and labourer.

**Reduction in the amount of salaries and wages paid to eligible employees**

The total amount of salaries and wages paid for a calendar year to eligible employees by an eligible taxpayer or a partnership of which the taxpayer is a member, as the case may be, must be reduced by the amount of any government assistance, any non-government assistance, any contractual payment and any benefit or advantage, according to rules similar to those applicable for the purposes of the tax credit for salaries and wages paid in respect of R&D. In addition, this amount must be reduced by the amount of salaries and wages respecting which another refundable tax credit is granted, unless the tax credit for job creation is one of the credits claimed, in which case an eligible taxpayer may claim both tax credits. Moreover, this amount must be reduced by the amount of salaries and wages paid to an eligible employee for a week regarding which a tax credit for an

on-the-job training period has been or will be granted with respect to the employee.

**Other conditions**

If a wage expenditure respecting which a tax credit is granted is refunded to the eligible taxpayer or the partnership of which the taxpayer is a member, the tax credit granted will be recovered according to rules similar to those applicable for the purposes of the tax credit for an on-the-job training period. Moreover, the tax credit cannot be applied to an eligible taxpayer's instalment payments of income tax or tax on capital (if any).

In order to claim a tax credit respecting a wage expenditure for a calendar year, an eligible taxpayer must include a copy of the form prescribed by the Minister of Revenue with the income tax return for the taxation year in which the calendar year ends. Lastly, the salaries and wages regarding which a tax credit is claimed by an eligible taxpayer must have been paid at the time the tax credit is claimed.

**Integrity of the tax credit**

To protect the integrity of the tax credit, special rules have been established concerning associated taxpayers, mergers, winding-ups, and the acquisition of a taxpayer's business by another taxpayer. In general, these rules are similar to those applicable for the purposes of the tax credit for job creation.

In brief, the increase in payroll attributable to eligible employees, for a calendar year, is determined on a consolidated basis, taking into account the attributes of each of the taxpayers that are associated at the end of that calendar year. In addition, the associated taxpayers are required to share the amount of the increase in payroll attributable to the eligible employees, by filing an agreement to that effect with the Ministère du Revenu du Québec. However, the amount thus allocated to one taxpayer may not exceed the amount of the increase in payroll attributable to the taxpayer's eligible employees, or the amount of the taxpayer's share of the increase in payroll attributable to the eligible employees of the partnership of which the taxpayer is a member, as the case may be.



Moreover, the tax credit to which an eligible taxpayer may be entitled is not increased or reduced, as the case may be, simply because of a merger, a winding-up or the acquisition of a taxpayer's business by another taxpayer.

### Elimination of the tax credit for job creation

The tax credit for job creation has been eliminated for 1999 and subsequent calendar years.

### Increased support for exploration in Québec's Mid-North and Far North

The Taxation Act allows operators to deduct from their income for a taxation year an amount corresponding to the exploration expenses incurred during

the year. If these exploration expenses are financed by means of flow-through shares and an operator waives the expenses in favour of investors, the investors may, for the purposes of the Act, claim the deduction. In addition, where the investors in question are individuals, they may claim deductions equal to 125% or 175% (as applicable) of exploration expenses incurred in Québec.

The Taxation Act will be amended to increase the deduction for exploration expenses by an amount equal to 25% of expenses incurred in the Mid-North and Far North. In addition, where such exploration expenses are financed by means of flow-through shares and the operator waives the expenses in favour of investors that are corporations, the investors will be able to claim this increase.

These improvements apply regarding exploration expenses incurred after March 31, 1998, over the territory covered by the Mid-North mining exploration program of the Ministère des Ressources naturelles, that is, the territory located north of the towns of Matagami and Chibougamau, between 50°30' and 54°00' north latitude and bordered to the east by the Grenville Front, as well as a portion of the territory of the Basse Côte-Nord located between Baie-Johan-Beetz and the Petit Mécatina river. They also apply to exploration expenses incurred in the Far North, namely, the territory north of the 54th parallel.

## Measures concerning individuals

### Tax credit respecting interest paid on a student loan

As of the 1998 taxation year, interest paid on a loan reimbursed in accordance with the terms and conditions determined under the Act respecting financial assistance for students or the Canada Student Loans Act gives entitlement to a non-refundable tax credit under the general tax system. This credit is equal to 23% of the interest paid in the year concerned. Moreover, interest that is paid in a given year but not included in the calculation of the credit for that year may be carried forward to a subsequent year.

### Tax reduction for families

As of the 1998 taxation year, the maximum amount of the tax reduction for families is \$1,195 (up from \$970) in the case of a single-parent family that shares a dwelling. The new maximum is thus the same as the maximum applicable to single-parent families that do not share a dwelling.

### Tax treatment of gifts and donations

As a rule, for taxation years beginning after 1997, the ceiling applicable to charitable donations is 75% of the donor's income for the year (the ceiling may be increased in the case of gifts of property related to the recipient's mission). The ceiling applicable to gifts to a government is also 75% of the donor's income. However, in the case of gifts to a government or charitable donations made in the year of an individual's death or the preceding year, as well as gifts to a government made on or before March 31, 1998, the ceiling is 100% of the donor's income.

### Inclusion of certain training expenditures in eligible medical expenses

As of the 1998 taxation year, an individual who takes training courses in order to be able to give the appropriate care and instruction to his or her spouse or to a dependant, because of the spouse's or dependant's physical or mental

disability, may include the cost of the courses in eligible medical expenses (that is, expenses giving entitlement to the tax credit for medical expenses). However, a qualified person must certify that the individual requires the training.

### Tax relief for inhabitants of northern villages

A refundable tax credit will be made available to inhabitants of northern villages. The credit, based on the number of months an individual lives in a northern village in a given year, will be \$35 per month for an adult (or \$35 for each spouse, in the case of a couple) and \$15 per month for each dependant. For the purposes of the credit, a portion of a month is considered a month.

The refundable tax credit for individuals living in northern villages will work in much the same way as the refundable QST credit. The amount of the new credit will be based on the net family income for the previous year, subject to a reduction equal to 15% of the net family income in excess of \$26,000.

The first instalment of the new credit will be paid in August 1999; two equal instalments will be paid each year, one in August and one in December.

For the purposes of the credit, a northern village means a territory that constitutes a northern village municipality under the Act respecting northern villages and the Kativik Regional Government.

Under a related tax relief measure, financial assistance that is provided respecting transportation costs to students from northern villages who must live away from home (and that is paid in accordance with the budgetary rules established by the Ministère des Transports under the Education Act for Cree, Inuit and Naskapi Native Persons) is no longer considered a bursary and is therefore exempt from income tax. This measure applies retroactively to amounts received after December 31, 1992.

### Tax treatment of certain reimbursements of wages or salary insurance benefits

As of the 1998 taxation year, a refundable tax credit (similar to the tax credit respecting benefits repaid) may be claimed with regard to amounts paid by an individual or on an individual's behalf, pursuant to an agreement under which the individual must reimburse amounts received in a previous year respecting a period throughout which he or she did not perform the duties of his or her office or employment. This tax credit is granted in lieu of a deduction in the calculation of income.

### Payment of the QST credit in 1998

The basic amount payable as a refundable QST credit has been increased for 1998. To reduce administration costs, the amount of the increase will be paid in a single instalment, in August 1998 (rather than in two instalments, as originally announced).

### Amount respecting a dependant with a physical or mental infirmity who is not resident in Canada

As of the 1998 taxation year, the tax credit respecting other dependants cannot be claimed with regard to a dependant who has a physical or mental infirmity if the dependant is not resident in Canada at any time during the year concerned. This rule does not apply to a dependant who is the taxpayer's child or grandchild.

### Tax treatment of last-resort assistance

As of the 1998 taxation year, individuals are not required to include in their income the portion of last-resort assistance benefits relating to

- the increase to remedy deprivation;
- the transitional increase respecting children who are minors;
- the increase respecting children of full age who are full-time students;
- the increase respecting dependent children of persons claiming refugee status.

## Other tax measures

### Rules applicable to associated corporations

As a rule, if a taxpayer acquires land but does not use the land in the course of carrying on a business or hold the land primarily in order to earn income therefrom, the taxpayer may, in computing income for a taxation year, deduct the property taxes respecting the land and the interest on a debt relating to the acquisition of the land; the deduction is limited, however, to the amount by which the gross income for the year from the land exceeds the expenses incurred to earn the income. Where the taxpayer is a corporation whose principal business is the lease, rental or sale of immovable property to persons with whom it is dealing at arm's length, this limit is increased by the

corporation's base-level deduction. (The base-level deduction, for a given year, is equal to the amount represented by the interest for the year, calculated at the prescribed rate, on a loan of \$1 million outstanding throughout the year.) In the case of a corporation associated with one or more other corporations during the year, the corporations must file with the Ministère du Revenu du Québec an agreement under which a portion of the base-level deduction is allocated to each corporation.

A corporation that, in the course of R&D activities, incurs wage expenditures respecting an employee who is a specified shareholder of the corporation or an employee not dealing at arm's length with such a shareholder can treat as an R&D expenditure only the portion of

the wage expenditures that does not exceed a limit corresponding to five times the maximum pensionable earnings (determined in accordance with the Act respecting the Québec Pension Plan) for the calendar year in which the corporation's taxation year ends. Associated corporations, as in the situation described in the previous paragraph, must file with the Ministère an agreement allocating a portion of this expenditure limit to each corporation.

As of the 1998 taxation year, the apportionment of the base-level deduction or the expenditure limit among the members of a group of associated corporations, one of which has an establishment in a province other than Québec, is deemed for the purposes of Québec income tax to be identical to

the apportionment agreed on for the purposes of federal income tax. It is thus no longer necessary for such associated corporations to file a separate agreement for Québec income tax purposes. However, a copy of the agreement filed with Revenue Canada must be submitted to the Ministère du Revenu du Québec.

### Centralized payroll systems

An anti-avoidance rule announced in the Budget Speech of March 25, 1997, provided that, for the purposes of determining the proportion of business a corporation does in Québec, the amount that can reasonably be considered wages earned by an employee for rendering services in Québec to a corporation is deemed to be the wages paid by the corporation to an employee of an establishment of the corporation situated in Québec, for the taxation year of the corporation in which the wages are paid by the employer to the employee concerned. However, the Minister of Revenue has the discretionary power to decide that this presumption does not apply to a corporation for a particular year.

Further to a change made in the 1998-1999 Budget Speech, the factors that can be taken into account by the Minister in exercising this discretionary power now include any transaction, arrangement or event that, in the Minister's opinion, is specifically intended to reduce the total amount of income tax and other taxes payable to Québec either by the corporation or by the corporation and the employer. This change applies to a taxation year or a fiscal period (as applicable) ending after March 31, 1998.

### Tax treatment of allowances previously paid further to an order in council

The total remuneration paid by an employer for services rendered by an employee is taxable in the year in which the employee receives the remuneration. Remuneration includes any allowances paid by the employer, unless tax laws or regulations expressly state that a

particular allowance does not have to be included in income from an office or employment. Under Québec tax regulations, allowances covering travel expenses, personal expenses, living expenses or entertainment expenses, if determined by an order in council of the Québec government or a decision of the Conseil du trésor, are non-taxable.

Because of changes to the legal framework governing the payment of certain allowances determined by order in council, the allowances concerned are no longer covered by the provisions rendering them non-taxable. In order to ensure that the allowances remain non-taxable, the tax regulations will be amended to provide for the exclusion from employment income, as of the 1998 taxation year, of allowances for travel expenses, personal expenses, living expenses or entertainment expenses determined in a collective agreement concluded under the Act respecting labour relations, vocational training and manpower management in the construction industry.

### The status of certain Indian associations

For the purposes of the application of Québec tax legislation, the Société de développement de Oujé-Bougoumou and the Oujé-Bougoumou Eenuch Association are now considered to be Indian bands. This change applies retroactively to the 1992 taxation year.

### Financial assistance for home-care services

In order to simplify the administration of the financial assistance program intended for households that use home-care services provided by businesses in the "social economy" sector, and in order to facilitate access to the program, the Ministère du Revenu will be authorized to transmit to the program administrator any information necessary for determining the amount of assistance. The Act respecting the Ministère du Revenu will be amended to incorporate this measure.

### New rule regarding contributions to the Québec Pension Plan

Effective March 31, 1998, an employer who immediately succeeds another employer, without there being any interruption in the employment of workers, may take into account the amounts the previous employer paid as employer QPP contributions or deducted at source as employee QPP contributions, as of the beginning of the year concerned. The Act respecting the Québec Pension Plan will be amended to incorporate this measure.



# New Mathematical Factors Applicable to ITRs and Rebates Claimed by Employers with Respect to Allowances and Reimbursements

Under the GST system and the QST system, travel allowances and other types of allowances and reimbursements granted to employees may entitle an employer that is a registrant to claim ITCs and ITRs. In many cases, these allowances and reimbursements are justified by expenses the employees incur for items such as food, beverages and entertainment. Employers should pay careful attention to the rules for ITCs and ITRs claimed with respect to such expenses, since the expenses are subject to restrictions under both tax systems.

## What is the difference between an allowance and a reimbursement?

An “allowance” is any amount that is paid to an employee by an employer and that the employee may spend without having to justify how it is used. To qualify as an allowance, the amount must be determined in advance and must be provided in order to enable the employee to pay certain types of expenses; moreover, the employee must be free to use the amount as he or she wishes. An allowance may be paid either at regular intervals or on an occasional basis.

A “reimbursement” is any amount that an employer pays to an employee as compensation for expenses incurred by the employee in the course of the employer’s activities. The employee is required to have actually paid the expenses for which he or she is claiming a reimbursement, and must submit receipts or other supporting documents as proof before any compensation is paid.

The distinction between an allowance and a reimbursement is important because the rules respecting ITCs and ITRs differ in the two cases. Furthermore, for reimbursements and certain types of allowances, the GST and QST systems provide for the application of mathematical factors. Further explanations are provided on the following page, in the section concerning reimbursements.

## Allowances

Under the GST system, when an employer that is a registrant pays an allowance to an employee for expenses on which the GST has been paid, the employer may claim an ITC and recover the GST paid by the employee with respect to expenses which would have been recoverable in the form of an ITC, had they been incurred directly by the employer. However, the allowance

- must be deductible in the calculation of the registrant’s income under the Income Tax Act (or would be deductible if the employer were a taxpayer under the Act);
- must be reasonable; and
- must be paid for taxable (other than zero-rated) expenses all or substantially all of which (90% or more) are incurred in Canada in connection with the employer’s activities, or for expenses related to the use of a motor vehicle in Canada in connection with the employer’s activities.

The amount of the ITC that the registrant may claim is 7/107 of the amount of the allowance paid, taking into account the restrictions concerning expenses for food, beverages and entertainment. The registrant is not required to keep on file all the invoices corresponding to expenses for which an allowance is paid. However, the registrant must keep adequate registers and books of account, containing

- the name and registration number of the employer that paid the reasonable allowance;
- the name of the employee who received the reasonable allowance;
- the total amount of the allowance paid to each employee;
- the total GST deemed paid with respect to the allowance (7/107 of the allowance);
- the reporting period during which the allowance was paid; and
- the type of supply.

Under the QST system, an ITR equal to 7.5/107.5 of the allowance paid to an employee may be claimed. The aforementioned conditions must also be met, taking into account the necessary adjustments. However, large businesses<sup>1</sup> must respect certain restrictions on ITRs. For example, if the allowance is used in part for property and services for which ITRs may not be claimed, the employer may not use the full amount of the allowance to calculate the amount of the ITR. This rule applies, for example, to an allowance for travel expenses intended to compensate an employee for accommodation (which gives entitlement to ITRs) and meals (which do not give entitlement to ITRs).

### Example

A company specialized in repairing heating systems pays an allowance of \$375 per week to its employees who travel outside the city where the company is located (but within Québec) to perform repair work. The allowance is intended to pay solely for accommodation and meals, since the employees travel in a company truck.

First of all, the company must determine what share of the allowance covers accommodation and what share covers meals. In this example, \$200 is for accommodation and \$175 for meals. The company, which is registered for the GST and the QST, is not a large business.

It is entitled to an ITC equal to

$$\$200 \times 7/107 = \$13.08$$

$$\$175 \times 50\% \times 7/107 = \$5.72$$

It is entitled to an ITR equal to

$$\$200 \times 7.5/107.5 = \$13.95$$

$$\$175 \times 50\% \times 7.5/107.5 = \$6.10$$

Consequently, for every \$375 allowance paid, the company may claim an ITC of \$18.80 and an ITR of \$20.05. The ITC for meal and entertainment expenses may be determined using either of the methods outlined on the following page, in the section “Meal and entertainment expenses.”

1. Refer to the issue of *Tax News* for the second quarter of 1997 for further information concerning the restrictions on ITRs that continue to apply to large businesses.

## Expense accounts

An "expense account" is a type of allowance which is similar to a reimbursement, in that the employee is required to provide the same type of statement as that submitted to claim a reimbursement of expenses incurred in the course of the employer's commercial activities. For example, a kilometre allowance based solely on distance travelled and a per diem meal allowance both constitute an expense account, provided the employee is required to supply the employer with certain information in order to claim these allowances, such as the number of kilometres travelled and the number of days spent travelling while on the job.

Under the QST system, employers may use the simplified calculation method, described below in the section entitled "Reimbursements," in order to determine the ITR they may claim with respect to expense accounts, regardless of the size of the business. Employers must, however, meet the conditions given on the previous page. They may not use the simplified calculation method for any type of allowance that should not be claimed by means of an expense account, such as an allowance paid under the Act respecting the remuneration of elected municipal officers or under the Construction Decree.

## Reimbursements

An employer that is a registrant and that pays a reimbursement to an employee with respect to activities the employer carries on may claim an ITC and an ITR corresponding, respectively, to the GST and the QST paid by the employee. Either of the following methods may be used to calculate the ITC and the ITR that the employer may claim with regard to a reimbursement of expenses incurred in Canada (under the GST system) or incurred in Québec (under the QST system):

- Using the simplified calculation method, the employer may claim an ITC equal to 6/106 and an ITR<sup>2</sup> equal to 7/107 of the total amount reimbursed, provided at least 90% of the expenses reimbursed were taxable (but not zero-rated) and were incurred, as applicable, in Canada or in Québec. Please note that, under the QST system, the applicable rate for large businesses is 4.1%.<sup>3</sup>
- The employer may use the exact calculation method, which consists in

calculating the actual amount of GST or QST paid with respect to expenses that were incurred, as applicable, in Canada or in Québec during the reporting period in question and that were subsequently reimbursed to the employee. The GST and QST are calculated by using the formula  $A \times B$ , where A is the tax (GST or QST) paid by the employee and B is the lower of the following amounts:

- the percentage of the cost that is reimbursed (that is, the reimbursement divided by the cost); or
- the percentage representing the proportion in which the property or services in question are used or consumed in the course of the employer's commercial activities.

### Example

Danielle incurs \$575.13 in expenses that are related exclusively to commercial activities (\$500 plus \$35 in GST and \$40.13 in QST). After reimbursing her for the taxes paid, the employer may claim an ITC equal to the lower of the following amounts:

$$\$35 \times \frac{\$75.13}{\$575.13} = \$4.57$$

$$\$35 \times 100\% = \$35$$

The employer may therefore claim an ITC of \$4.57.

The employer may also claim an ITR equal to the lower of the following amounts:

$$\$40.13 \times \frac{\$75.13}{\$575.13} = \$5.24$$

$$\$40.13 \times 100\% = \$40.13$$

The employer may therefore claim an ITR of \$5.24.

Whichever calculation method is chosen, it must be used for each category of expenses, and registrants must take into account the restrictions concerning meal and entertainment expenses. Registrants that elect to use the exact calculation method must keep on file the documents and information they need to apply for an ITC and an ITR.

For ITCs and ITRs related to meal and entertainment expenses, registrants may use either of the methods described opposite in the section "Meal and entertainment expenses."

## Meal and entertainment expenses

Registrants may recover the GST and QST paid with respect to their meal and entertainment expenses by claiming an ITC and an ITR. The method of calculating ITCs and ITRs related to such expenses is subject to the restrictions set forth in the Income Tax Act and the Taxation Act.

Since, as a rule, meal and entertainment expenses are deductible at the rate of 50%, ITCs and ITRs may be claimed with respect to only one-half of the GST and the QST paid on such expenses. Registrants may use either of the following calculation methods to make the necessary adjustment:

- The registrant may claim a rebate of the total GST and QST paid on these expenses throughout a given fiscal year. Registrants that file an annual return must add, as an adjustment in the calculation of the net tax payable for the year, 50% of the ITC and ITR claimed. Registrants that file monthly or quarterly returns must add 50% of the ITC and ITR claimed, based on the calculation of the net tax payable for the first reporting period following the end of the fiscal year.
- The registrant may claim a rebate of one-half of the GST and QST actually paid on expenses incurred during the reporting period. Consequently, there is no need to make the 50% adjustment at the end of the fiscal year.

Registrants may claim an ITC and an ITR with regard to the GST and QST reimbursed to their employees (or their partners, in the case of a partnership) for meal and entertainment expenses incurred in Canada. However, these expenses are subject to the 50% limit. A charity that is a registrant may claim an ITC and an ITR on the total GST and QST paid for meal and entertainment expenses related to its commercial activities. This special rule also applies to public institutions with respect to meal and entertainment expenses that were incurred after December 31, 1996, or for which compensation is paid after that date.

The rules set forth in this article also apply, with the necessary adjustments, to allowances and reimbursements paid by a partnership to its members or by a charity to its volunteer workers.

2. Before January 1, 1998, the ITR factor was 6/106.

3. Before January 1, 1998, the applicable rate for large businesses was 3.5%.



## 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, 1997, to June 30, 1998, are listed below.

Period	Annualized interest rate * (%)	Penalty rate (%)
<b>1997</b>		
Jan. 1 – Mar. 31	3.6499	6
Apr. 1 – June 30	2.4066	6
July 1 – Sept. 30	3.5707	6
Oct. 1 – Dec. 31	3.5707	6
<b>1998</b>		
Jan. 1 – Mar. 31	3.6499	6
Apr. 1 – June 30	3.6098	6

\* To calculate interest for the purposes of the GST, find the daily rate by dividing the annualized rate applicable to a quarterly period in 1997 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 respecting 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. The result is rounded to the nearest whole number (one-half being rounded down), and increased by 3%.

The interest rate with respect to refunds made by the Ministère du Revenu du Québec is the rate for Québec savings bonds that is in effect on the first day of the third month of the preceding quarter, as published in the *Gazette officielle du Québec*.

The following is a list of interest rates respecting debts owed to and refunds made by the Ministère, for the quarterly periods from January 1, 1997, to June 30, 1998.

<b>1997</b>			
Jan. 1 – Mar. 31	Refunds	4.5%	
	Debts	8%	
Apr. 1 – June 30	Refunds	4.5%	
	Debts	8%	
July 1 – Sept. 30	Refunds	3.25%	
	Debts	8%	
Oct. 1 – Dec. 31	Refunds	3.25%	
	Debts	8%	
<b>1998</b>			
Jan. 1 – Mar. 31	Refunds	3.25%	
	Debts	8%	
Apr. 1 – June 30	Refunds	3.25%	
	Debts	9%	

The interest rates respecting penalties are indicated below:

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



## Salads — Fine Distinctions for Tax Purposes

With the arrival of warmer weather, our thoughts will inevitably turn to cool crisp salads generously doused with our favourite dressing. Some of us may neglect, however, to give due consideration to the question of how the GST and QST apply to the various types of salad that grace the summer table.

For tax purposes, a salad is considered to be food containing ingredients with which a dressing or seasoning is supplied. The ingredients may be vegetables, meat, fish, eggs, or another food. They may be chopped, shredded, diced, sliced or pureed—and mixed together or not.

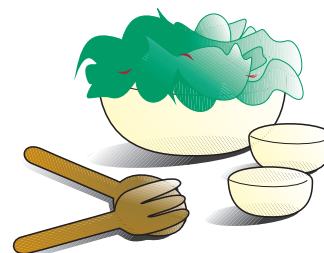
As a general rule, all supplies of salads are taxable, whether the dressing or seasoning is mixed with the other ingredients or packaged separately. Supplies of fruit salads and gelatin salads are also taxable, despite the fact that they do not generally contain a dressing.

### Zero-rated salads

Salads sold in cans or vacuum-sealed containers are zero-rated, and the GST and QST should therefore not be collected. The same applies to packaged salads, as long as no dressing or seasoning is added to the ingredients or supplied

with the ingredients in separate packaging.

Supplies of mixed, cut vegetables that are packaged and advertised as “stir-fry” or “chop suey” mixes are also zero-rated, as they are not considered to be salads.





## Interpretation Bulletins

Of the 23 interpretation bulletins published by the Ministère du Revenu du Québec in October, November and December 1997, 11 deal with income tax and 12 deal 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 are sold individually (price varies according to the number of pages) or on a subscription basis, through Les Publications du Québec. For information about subscriptions or the availability of bulletins, call (418) 643-5150 or 1 800 463-2100.

### Income tax

**IMP. 80-12** Involuntary dissolution of a corporation

**IMP. 1037-1** Computation of the interest payable by a taxpayer for a period after the date of an assessment

**IMP. 1045-1/R2** Penalty for failure to file a tax return

**IMP. 1130-1** Taxation year

**IMP. 1136-12/R2** Tax on capital and deferred taxes

**IMP. 1132-2** Change in the type of corporation

**LMR. 25-1** The power to assess

**LMR. 28-1/R36** Interest rates

**LMR. 59.2-1/R3** Penalty for failure to deduct, withhold, collect, pay or remit an amount under a fiscal law

**SPECIAL 105** Eligibility of large businesses for input tax refunds regarding trucks, and other tax measures

**SPECIAL 107** Bill 161 — An Act to again amend the Taxation Act, the Act respecting the Québec sales tax and other legislative provisions

### Consumption taxes

**LIC. 4/R2** The fiscal provisions respecting consumption taxes and licence duties that apply to the holders of a small-scale production permit, a permit for the small-scale production of beer and an industrial brewer's permit

**LMR. 25-1** The power to assess

**LMR. 59.2-1/R3** Penalty for failure to deduct, withhold, collect, pay or remit an amount under a fiscal law

**SPECIAL 89** Eligibility of large businesses for input tax refunds regarding trucks, and other tax measures

**SPECIAL 90** Bill 161 — An Act to again amend the Taxation Act, the Act respecting the Québec sales tax and other legislative provisions

**TAB. 12** Non-retroactivity of the coming into force of the registration certificate and the permit issued respectively under sections 3 and 6 of the Tobacco Tax Act

**TVQ. 42.7-1** Supply of a financial service

**TVQ. 127-1** Supply of massotherapy courses

**TVQ. 138-1** Professional legal aid services

**TVQ. 207-1** Input tax refund for new registrants under section 207 of the Act respecting the Québec sales tax

**TVQ. 386-3/R1** Elimination of the Québec sales tax rebate granted to municipalities

**TVQ. 487-1** Specific tax on alcoholic beverages



## Book Sales in Provinces Where the HST Applies

The harmonized sales tax (HST) has been in effect since April 1, 1997, in New Brunswick, Nova Scotia and Newfoundland. These provinces (called the "participating provinces") offer a point-of-sale rebate equal to the full 8% provincial component of the HST on supplies of qualifying printed books, updates of such books, audio recordings (where all or substantially all of the recording is a spoken reading of a printed book), and bound or unbound printed scriptures of any religion.

The rebate is available at any point in the distribution chain and is not limited to sales made through retail establish-

ments in the participating provinces. For example, if a publisher in Montréal ships qualifying books to a store in one of the three participating provinces, the publisher collects only a net amount of 7% (equal to the federal component of the HST). For further information about the rebate, refer to *The Point-of-Sale Rebate on Books* (Technical Information Bulletin B-085).

Certain persons, such as municipalities, school authorities, public colleges, and universities, may claim a rebate of the GST or the federal component of the HST, as applicable, with respect to the aforementioned printed matter and

audio recordings. Charities, public institutions and qualifying non-profit organizations that operate a public lending library, and prescribed charities whose primary purpose is the promotion of literacy may also claim this rebate. For further information about qualifying goods and the persons who are entitled to the federal rebate, refer to *Rebate for Printed Books, Audio Recordings of Printed Books, and Religious Scriptures under the GST/HST* (Technical Information Bulletin B-076).



## Special Rules for Returnable Containers

Special rules apply to supplies of beverages in returnable containers. The rules apply to businesses in the later stages of the distribution chain, such as wholesalers, retailers and restaurants, if the deposit they charge their customers does not exceed the deposit they pay to or collect from their suppliers.

As a general rule, these businesses are not entitled to claim input tax credits (ITCs) or input tax refunds (ITRs) regarding the GST and QST paid with respect to deposits on the bottles or cans when they purchase taxable beverages, such as soft drinks. However, this restriction is offset by the fact that, when these businesses calculate their net tax on their GST and QST returns, they are not required to remit the tax collected from their customers with respect to the deposits.

The special rules do not apply to beverage manufacturers, such as soft drink bottlers or breweries. These businesses collect and report the GST and QST with respect to the deposits they charge their customers, and claim ITCs and ITRs regarding the GST and QST they pay when they purchase empty bottles and cans.

If the supply of a beverage is zero-rated, the container is not considered a returnable container for the purposes of these special rules.



## Tax News Changes Its Look

As you may have noticed, we have updated the visual presentation of *Tax News* by means of a new typographic grid, more readable type, an improved layout and colour printing. The contents, however, remain largely the same as before, consisting of articles dealing with consumption taxes, personal and corporation income tax, and any fiscal measures likely to be of interest to you. All of these changes have been made, at no additional cost, in an effort to make *Tax News* easier for you to read. We hope you enjoy the results.

*Tax News* is published four times a year by the Direction générale 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 Revenue Canada. All articles dealing with federal taxes have been approved by Revenue Canada and are identified by a maple leaf. *Tax News* also provides information on the administration of the QST, Québec consumption taxes and 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 amendments or draft 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.

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