

Tax News

Fourth quarter 1998

In Brief

Taxes and insurance

Under the GST/HST system, financial services constitute an exempt supply and are therefore not subject to tax. Since the provision of insurance is a financial service, registrants should note that insurance premiums are exempt from GST/HST. Under the QST system, however, the tax on insurance premiums applies to most types of insurance, although individual policies of insurance of persons are an exception. ITRs may not be claimed in respect of the tax on insurance premiums.

Corporation return

In conjunction with the implementation of its new computer system for processing the *Corporation Income Tax Return* (form CO-17-V), the Ministère du Revenu du Québec has prepared a new version of the return, identified as

CO-17-V (1998-12). While several earlier versions of the corporation return are still available, only the version marked 1998-12 is to be used from now on.

Reporting periods

GST/HST and QST registrants must determine their filing deadline on the basis of the reporting period indicated on their registration form rather than on the basis of the reporting period specified in the letter confirming their registration. Thus, if you are an individual and, according to your registration form, your reporting period is annual and ends on December 31, you must file your return by June 15 of the year following the year covered by the return. However, if you have net tax payable, the amount owing must be remitted on or before April 30.

Calculation of taxable benefits

The prescribed interest rates to be used in the calculation of taxable benefits for the 1998 taxation year are as follows:

First quarter: 4%

Second quarter: 5%

Third quarter: 5%

Fourth quarter: 5%

For the first quarter of 1999, the rate is 5%.

To file an objection

In the article "You Do Not Agree with Your Notice of Assessment," on page 12 of the third-quarter issue of *Tax News*, we stated that form TP-93.1.1-V was to be completed by persons wishing to file an objection respecting an assessment made under a Québec tax law. Please note that form **MR-93.1.1-V** is in fact the form to be filed for this purpose.

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Self-Employed Persons Paid on a Commission Basis: Should RL-1 Slips Be Filed in Their Name?

In the past, companies that paid commissions to self-employed persons often neglected to file RL-1 slips respecting these persons. The practice of not filing RL-1 slips is still too widespread today. Under section 1086R1 of the Regulation respecting the Taxation Act, an information return (in this case, an RL-1 slip) must be filed when amounts are paid to a person on a commission basis. There are no exceptions to this provision. Thus, regardless of the amount paid as a commission to a self-employed person, and regardless of whether source deductions were made respecting the amount, an RL-1 slip must be filed in the person's name for the calendar year in which the pay-

ment was made. (This applies, for example, to a real estate broker who pays a commission to a self-employed real estate agent.) As stated in the *Guide to Filing the RL-1 Slip*, the amount of commissions paid must be reported in box O, "Other income."

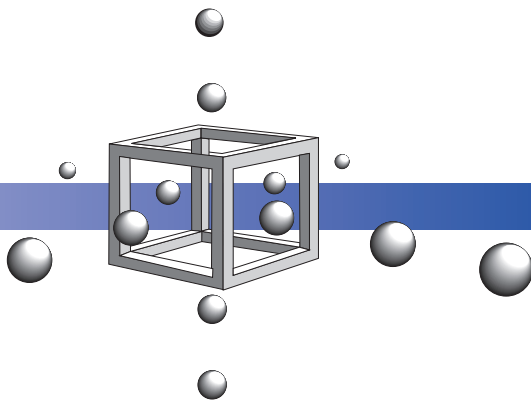
For further information, refer to the *Guide to Filing the RL-1 Slip*, or contact the office of the Ministère du Revenu in your area.



Electronic Payments Made Via the Internet

The Ministère du Revenu du Québec wishes to remind you that various payments may be made electronically through participating financial institutions: the National Bank of Canada, the Royal Bank, the Bank of Montreal, the Canadian Imperial Bank of Commerce, the Hongkong Bank of Canada and the Confédération des Caisses populaires et d'économie Desjardins. Several hundred companies remit source deductions, corporation and personal income tax instalments, QST and GST payable, and their employees' support payments electronically.

The Internet constitutes a new means of making these payments. Certain financial institutions offer or will soon offer their customers the possibility of making their payments via the Internet. The National Bank (www.cliccommerce.com), the Royal Bank (<https://royalbank.can-act.com/pfs>) and the Canadian Imperial Bank of Commerce (www.cibc.com) have been offering this service since December 1998.



For further information concerning electronic payment options available to your business, contact the account manager of your bank branch or a representative of the following group at the Ministère:

Groupe de promotion de l'EDI et d'acquisition des données électroniques

Telephone: (418) 652-5281

Toll-free: 1 888 830-7747 (ext. 5281)

Fax: (418) 646-0713

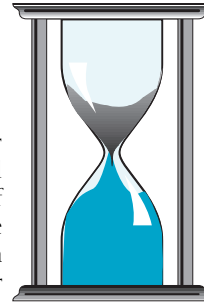
Internet: yvan-denis.veilleux@mrq.gouv.qc.ca

The Ministère du Revenu du Québec: Preparing for the Year 2000

The Millennium Bug (commonly referred to as Y2K) is a very real problem, with the potential to cause disruption in many sectors of activity on January 1, 2000. At the Ministère du Revenu du Québec, a specialized team has been at work since 1996 to guarantee a smooth transition to the year 2000. Computers, in-house and commercial software, and specialized equipment (elevators, air conditioning systems, telephones, automated access to buildings, lighting systems) are being checked and, if found inadequate to meet the Y2K challenge, are being corrected or replaced.

If you use computer technology or specialized equipment, you should probably be concerned about Y2K. If you are unsure how to prepare for the year 2000, you can request help from information technology specialists, or contact other persons or companies in the same field that have begun or already completed their preparations for Y2K.

The extent of the preparations required varies from case to case. To avoid unpleasant surprises, you should begin preparing right away, if you have not already done so.



Remember, the Y2K deadline is just around the corner!

To ensure government preparedness for Y2K, the Conseil du trésor

has created the Bureau de coordination de l'an 2000. The Bureau co-ordinates and monitors Y2K preparations by government departments and agencies, and evaluates these efforts on an ongoing basis. For further information, visit the Québec government's year 2000 Web site at the following address: <http://www.an2000.gouv.qc.ca/>.

The Ministère des Finances Releases Further Details on Certain Tax Measures

This article provides a summary of the principal tax measures announced in information bulletins 98-7 and 98-8, which were published by the Ministère des Finances du Québec on November 6 and December 22, 1998. These bulletins deal primarily with the application of measures included in the Budget Speech of March 31, 1998, as part of the reform of corporate taxation. However, they also contain information on changes made to other tax measures, including various measures affecting the financial sector and measures concerning information technology development centres and the Cité du multimédia, stock savings plans (QSSPs), Québec business investment companies (QBICs), and the tax treatment of clothing acquired by certain categories of workers.

Measures concerning corporate taxation

Reduction in the rate of the employer contribution to the health services fund

Further details were provided regarding the rate reduction applicable to employers whose total payroll is under

\$5 million per year. The reduction, which is to be implemented over a two-year period, took effect at the beginning of 1999 rather than in the middle of the year. Employers received an information sheet (PZ-764-V) describing this measure.

Full ITRs to be available to registrants with taxable supplies of up to \$10 million

Currently, QST registrants with taxable supplies exceeding \$6 million are not considered small or medium-sized businesses and are thus subject to certain restrictions with regard to the input tax refunds they may claim. Effective July 1, 1999, the threshold above which a registrant ceases to be a small or medium-sized business will be raised to \$10 million.

Since the measure takes effect on July 1, 1999, a registrant with a fiscal year that begins before July 1, 1999, and ends after June 30, 1999, may be considered a small or medium-sized business (for the purposes of the new \$10 million threshold) for the portion of the fiscal year that follows June 30. In that case, however, the registrant may include in

the ITR calculation only QST that becomes due after June 30, 1999, is not paid before July 1, 1999, and is related to the acquisition of property and services to which ITR restrictions apply.

Information technology development centre and the Cité du multimédia

A number of rules have been relaxed.

Qualified corporations under the Québec stock savings plan (QSSP)

The five-employee rule is rescinded for a corporation that, at the time the QSSP issue is made, has had a class of its capital stock listed on the Montréal Stock Exchange for at least 12 months.

Québec business investment companies (QBICs)

- Formerly, at least 75% of the wages paid by the company had to be paid to employees of an establishment in Québec. This percentage has been lowered to 50%. The 50% level must be maintained for 12 months after the investment is made (rather than for 24 months, as was previously the case).

- Retroactive regulatory powers have been added.
- The penalty applicable to QBICs has been raised to 40%.

Clarification concerning the calculation of the tax credit for film and television production

This credit is not reduced by the financing obtained under two assistance programs that have replaced, in part, a prescribed assistance program.

Application of the contribution rules respecting R&D contracts

- A restriction has been introduced with regard to the contribution rules for certain subcontracts granted by research entities after February 28, 1997.
- The Centre de géomatique du Québec inc. is now an eligible public research centre.

Additional allowance for the processing of mine tailings

A change has been made to the additional allowance granted with regard to assets acquired for the purpose of processing mine tailings. The assets must now be acquired during an operator's first 10 fiscal periods ending after the date on which the processing begins.

Elimination of the small business deduction

The elimination of the small business deduction, which increases the minimum income tax rate of corporations from 5.75% to 8.9%, applies to taxation years ending after June 30, 1999. For taxation years including this date, the measure applies on a pro rata basis. Only instalment payments made subsequent to June 30, 1999, need be increased.

Elimination of the refundable tax credit for losses

The refundable tax credit for losses has been eliminated with regard to non-capital losses sustained in a taxation year ending after June 30, 1999. The accumulated credits, which were not fully refundable because of the limits applicable to the credit for losses, are now fully refundable.

Improvement to the tax holiday for new corporations

The deduction in the calculation of paid-up capital will rise from \$2 million to \$3 million as of July 1, 1999. In addition, the payroll level at which employers are required to make contributions to the health services fund will be increased: currently \$300,000, it will rise to \$500,000 on July 1, 1999, and to \$700,000 on July 1, 2000.

In the case of a calendar year or a taxation year including the above dates, these measures will be applied on a pro rata basis.

Increase in the rate of the dividend tax credit

The dividend tax credit rate will be raised to 9.85% for dividends paid or deemed paid after December 31, 1998, but before January 1, 2000, and to 10.83% for dividends paid or deemed paid on or after January 1, 2000.

Guaranteed tax rates for companies that undertake major investment projects

As of July 1, 1999, the government is prepared to enter into contracts with businesses undertaking major investment projects, under which it will guarantee stable rates of income tax, tax on capital and payroll taxes for a period of up to 10 years.

The guarantee program is governed by strict guidelines and is limited to major investment projects such as

- a project involving an investment of at least \$300 million and resulting in an increase of at least \$4 million in the "production payroll";
- an investment project resulting in an increase of at least \$15 million in the "production payroll";
- a project that does not fall into either of the above categories but that would, in the opinion of the Minister of Finance, represent a significant contribution to the diversity and competitiveness of the Québec economy.

Introduction of a refundable tax credit for railway companies

Railway companies may claim a refundable tax credit corresponding to 75% of their real estate taxes. The credit, which applies to taxation years or fiscal periods ending after December 22, 1998, may be used to reduce instalment payments of income tax and tax on capital.

Interaction of the federal and Québec tax credits related to film production

In the calculation of the refundable tax credit for film and television production services, a credit applicable under the Québec tax system, labour costs are no longer reduced by the amount of the federal tax credit for Canadian films. This change applies to expenditures incurred after February 12, 1998.

Changes to measures concerning the financial sector

The definition of "eligible portfolio management corporation" has been clarified, so that it includes a corporation that is, at any time in a taxation year, a portfolio management corporation whose clientele is composed only of knowledgeable investors and that is exempt from registration as a securities adviser pursuant to section 157 of the Securities Act (Statutes of Québec). Changes have also been made to the definition of "eligible investment fund."

The eligibility periods with respect to start-up costs and with respect to the tax holiday have also been modified.

Adjustments to certain measures respecting the reporting of tips

Under the measures designed to improve and regularize the reporting of tips, the minimum percentage of tips (for the purposes of the tip-allocation mechanism) was previously set at 5%. However, the experience acquired since the coming into force of the measures has shown that the percentage of tips actually received by employees is under 5% in some cases (that is, in certain establishments, for certain types of sales or at certain periods of the year).

Accordingly, the Minister of Revenue may now determine the appropriate percentage—which may be under 5%—on a case-by-case basis. The fiscal legislation will also be amended to stipulate that the Minister of Revenue may determine a percentage under 8% with regard to a period of a calendar year.

These changes apply as of the first pay period of an employer that begins after December 31, 1997.

Relaxation of the rule respecting securities held on a short-term basis

Under a rule respecting the reduction for investments, a corporation must have held certain investments for a continuous period of at least 120 days that includes the end-date of its taxation year. The rule has been relaxed so that, for taxation years beginning after March 31, 1998, the aforementioned requirement does not apply to shares or to loans and advances (except commercial paper) to other corporations.

Measures concerning both corporate and personal taxation

Standardization of the rules regarding a taxable benefit resulting from the payment of training expenditures by an employer

The requirement that the training be undertaken at the request of the employer has been eliminated. As for the retroactive nature of the measure, Québec legislation will be harmonized with federal legislation.

Increase in the limit applicable to gifts with undeniable ecological value

The limit applicable to gifts with undeniable ecological value made to a government has been raised from 75% of the donor's annual income to 100% of the donor's annual income. This change applies to gifts made after March 31, 1998.

Possibility of making an assessment following an assessment under federal legislation

In order to take into account an assessment made by Revenue Canada, the Minister of Revenue of Québec may make an assessment after the three- or four-year limit. This measure, which previously covered only corporations and mutual fund trusts, now applies to all taxpayers.

Taxation of income earned by an "S" corporation

"S" corporations, which are established under United States law, do not have the same tax status and are not subject to the same tax treatment in Canada as in the U.S. Under U.S. tax law, the income of "S" corporations is taxed in the hands of shareholders as it is earned by the corporation whereas, under the Taxation Act (Statutes of Québec), the same shareholders become liable for income tax only when the income earned by the "S" corporation is distributed to them. This may result in the same income being taxed twice, but not necessarily in the same year; if this occurs, the shareholder cannot claim the foreign tax credit. To ensure that income from "S" corporations is not subject to double taxation, Québec legislation has been amended to allow "S" corporation shareholders to be taxed at the same time as they are in the U.S. The amendment applies to taxation years beginning after December 31, 1995.

Measures concerning personal taxation

Prescription drug insurance plan

- The deductions used in the calculation of the premium were raised for 1998.
- Since April 1, 1997, Indians registered with the federal Department of Indian Affairs and Northern Development and persons recognized as Inuit by the Department have been exempted from payment of the premium. The exemption now applies, as well, to the period from January 1 to March 31, 1997.

Division of the tax reduction for families between two individuals

It is possible for the tax reduction for families to be divided between two individuals who designate the same person as a dependant in their income tax return for a given year, but who are not spouses at the end of that year. However, in calculating the tax reduction for families to which they are respectively entitled, the two individuals must use as a basis for calculation the maximum amount applicable in their particular situation. This change is effective as of the 1998 taxation year.

Meaning of "total income" for the purposes of the calculation of the PWA benefit

Certain guidelines used in calculating the parental wage assistance (PWA) benefit make reference to net income (as calculated under the simplified tax system). Further to a change to the benefit calculation, applicable as of 1998, support payments are taken into account regardless of whether they are subject to the tax rules under which child support does not have to be included in income and is not deductible from income.

Tax treatment of last-resort assistance benefits

The non-taxable portion of last-resort assistance benefits now includes, in addition to amounts covering the basic needs of children, certain other amounts that are related to the presence of children in the family. This change applies as of the 1998 taxation year.

Calculation of the contribution to the health services fund

In determining the tax base for the purposes of the 1% contribution to the health services fund, it is now possible to distribute the amount of a retroactive payment over the years to which it applies. This change applies as of the 1998 taxation year.

Clarification regarding the tax treatment of clothing acquired by self-employed persons

The Tax Court of Canada recently ruled that the purchase of certain clothes by a lawyer gave entitlement to capital cost allowance. The legislation will be amended to specify the personal nature of such an expenditure. However, the changes do not apply to clothing acquired by performing artists who are self-employed.

Tax credit for child-care expenses

Under legislative changes to take effect as of the 1999 taxation year, the tax credit for child-care expenses may be claimed by either spouse. A single, refundable tax credit is determined on the basis of the total child-care expenses of the couple, and may be shared by the couple. (The rules governing the amount of expenses giving entitlement to the credit remain the same.) As a result, more families can take full advantage of the credit throughout the taxation year.

Harmonization with federal laws and regulations

Measures concerning income tax

In recent months, the federal government has proposed a number of amendments to the Income Tax Act and the Income Tax Regulations. The following is a brief summary of the measures:

- (a) proposed additions to the list of prescribed stock exchanges outside Canada;
- (b) revised legislative amendments concerning mortgage investment corporations and investment corporations;
- (c) changes to the tax rules concerning lease financing;
- (d) changes concerning emergency service volunteers and the tax credit for medical expenses;

- (e) the announcement that both the deduction limits for automobile expenses and the prescribed rates respecting benefits related to the use of an automobile would remain at their current levels for the 1999 taxation year.

Québec tax legislation will be amended, with the adaptations necessary to comply with its general principles, in order to incorporate the measures announced by the federal government.

Measures concerning retirement savings and pension adjustment reversals

Under the Québec tax system, the amount of RRSP contributions an individual may deduct is determined in accordance with the provisions of the federal tax system. Therefore, the Québec tax system will be adapted to incorporate the changes announced by the federal government on June 26 and October 2, 1998.

Measures concerning the GST and the HST

In keeping with the principle whereby the GST/HST and QST systems should be substantially the same, QST measures will be harmonized (taking into account the particularities of the QST system and the Québec context) with the measures recently announced by the federal Department of Finance, including those contained in the press releases listed below:

- News Release 98-072 (July 29, 1998)
- News Release 98-075 (August 7, 1998)
- News Release 98-103 (October 8, 1998)

Other tax measures

Changes concerning duties on transfers of immovables

Duties are no longer payable with respect to transfers of immovables that are included as part of a transfer of all or substantially all of the assets used in the operation of a telecommunications, gas or electricity distribution network. This change applies to transfers made after June 23, 1998.

Technical changes regarding the calculation of penalties for false statements or omissions

Certain corrections of a technical nature have been made to the method of calculating the penalties for false statements or omissions provided for in tax legislation. The corrections are applicable as of the 1998 taxation year.

Postponement of the reduction in the tax on ethanol

A previously announced fuel tax reduction, which was to apply to gasoline-ethanol blends, has been postponed. The effective date of the reduction will be announced later.



Measures respecting Employers

Contribution to the health services fund

In December 1998, the Ministère des Finances du Québec announced the rules governing the reduction in the employer contribution rate respecting the health services fund. Thus, an employer (other than a "public" employer) who has an establishment in Québec in 1999 and a total payroll¹ of less than \$5 million is entitled to a reduction in the contribution rate respecting the health services fund. The rate reduction came into effect on January 1, 1999.

Total payroll of \$1 million or less

A 4% contribution rate applies to employers whose total payroll for the 1999 calendar year is equal to or less than \$1 million.

Total payroll of more than \$1 million but less than \$5 million

The contribution rate applicable to employers whose total payroll for the 1999 calendar year is more than \$1 million but less than \$5 million is determined using the following formula:

$$T(\%) = 3.941 + [0.063 \times M]$$

Contribution rates determined in this way are expressed as a percentage and must be rounded off to the second decimal place. Where the number in the third decimal place is equal to or greater than five, the second decimal place must be rounded up.

1. An employer's total payroll for a given calendar year means the total salaries and wages paid during the year by the employer concerned and any employer with whom the former is associated at the end of the year. Special rules apply to corporate amalgamations and windings-up in order to take into account, where necessary, the attributes of the corporations replaced in the transaction.

Variable M represents the result obtained by dividing the employer's total payroll for the calendar year by \$1 million. For example, if the employer's total payroll is \$1,544,378, variable M corresponds to 1.544378; if it is \$1,500,000, variable M corresponds to 1.5. In both cases, the contribution rate is 4.04%.

Total payroll of \$5 million or more

In the case of an employer whose total payroll for the 1999 calendar year is \$5 million or more, the contribution rate of 4.26% continues to apply.

Québec Pension Plan contributions

The Québec Pension Plan (QPP) contribution rate has been raised from 6.4% to 7% (3.5% for employers and 3.5% for employees). The QPP source deduction tables (publication TP-1015.TR-V) that came into effect on January 1, 1999, are based on the new rate.

Contribution to the Fonds national de formation de la main-d'oeuvre

Employers who are subject to the Act to foster the development of manpower training and whose total payroll exceeds \$250,000 in 1999 are required to participate in the development of worker training for the year by allotting an amount representing at least 1% of their total payroll to eligible training expenditures. If you are such an employer, you must provide particulars of your participation in the development of worker training on or before the date on which you are required to file form RLZ-1.S-V, *Summary of Source Deductions and Employer Contributions*, for 1999.

See page 30 of the *Guide for Employers* (TP-1015.G-V) for a table indicating the types of income to be taken into account in the calculation of total payroll for the purpose of determining your participation in worker training.

Reminder

Employers whose training expenditures are less than the minimum amount provided for by the Act must make a contribution to the Fonds national de formation de la main-d'oeuvre equal to the difference between the amount representing 1% of their total payroll and the amount of their eligible training expenditures.

New Draft Amendments to GST/HST Legislation

On October 8 and December 10, 1998, and again on January 29, 1999, the federal Department of Finance announced certain proposed amendments to GST/HST legislation. The Ministère des Finances du Québec subsequently stated that the QST system would be brought into line with the amendments announced on October 8, 1998, subject to adjustments to be made on the basis of the particularities of the QST system and the Québec context. Decisions concerning harmonization with the measures announced on December 10, 1998, and January 29, 1999, will, for the most part, be made at a later date; however, the Ministère des Finances du Québec did announce that, under QST legislation, the exemption respecting speech therapy services would be extended to January 1, 2001. Below is a summary of the measures announced.

- GST/HST provisions relating to food, beverage, and entertainment expenses are to be brought more in line with the treatment of such expenses under the Income Tax Act. This amendment will apply in cases where, for example, the amount that a professional charges his or her client for a supply of services includes an amount that is attributable to meal expenses, or where meals are provided at a two-day seminar and are included in the total cost of the seminar.
- New rules have been established for determining whether a supply of property under a lease, licence, or similar arrangement is made in Canada or outside Canada. The supply of property under a lease, licence or similar arrangement is deemed to be a separate supply for each lease interval. As a rule, if the supply of tangible personal property for the first lease interval is deemed to be made in Canada (or outside Canada), it will be deemed to be made at the same location for all of the intervals under the arrangement. Consequently, the place of supply will be determined only once. The principle is the same in the case of ongoing services (other than telecommunication services), where the supply of the service for the first billing period is deemed to be made in Canada (or outside Canada).
- The election that may be made by specified members of a closely related group of corporations not to account for otherwise fully recoverable tax on certain intra-group transactions will be extended to groups that include "Canadian partnerships."
- GST/HST is to be applied to construction services provided in Canada under performance bonds in respect of such services relating to real property situated in Canada.
- Zero-rated supplies of precious metals are to be included in the total revenue from the supplies made by a refiner, for purposes of the *de minimis* test for financial institutions.
- New rules have been established for certain sale-leaseback arrangements where the lessor immediately leases the property back to the vendor. Where a lessor purchases tangible personal property from a person who is not required to collect GST/HST on the sale, and where the parties agree that the lessor will immediately lease the property back to that person, GST/HST will be charged only on the difference between the value of the lease and the consideration for the sale, calculated on a periodic basis. In general, the total consideration for the property sold to the lessor is to be divided by the total number of payments (or separate supplies deemed made) provided for under the initial terms of the arrangement, before being used to reduce the value of the lease.
- The administrator of a barter exchange network will be able to apply to have the network designated with respect to the transactions of network members involving barter units so that the network can benefit from the special GST/HST treatment of such transactions.
- Bad debt relief is to be available only to the registrant who made the supply resulting in the bad debt.
- Persons who have received a credit note, or issued a debit note, for an adjustment, refund, or credit of a GST/HST amount are to repay a portion of any rebate previously paid or applied to a debt of the person, to the extent that the rebate included that amount.
- Consideration attributed to the sale of the goodwill of a business is to be excluded from the calculation of a person's threshold amount for the purposes of establishing that person's reporting period.
- As a rule, the supply of tangible personal property delivered by a supplier to a common carrier for export, or mailed by the supplier for export, is to be zero-rated only if the supplier ships the property, or sends it by mail or courier, to a destination outside Canada on the supplier's own behalf, or if the supplier retains a public carrier or consignee on behalf of the recipient to ship the property to a destination outside Canada.
- Rules that apply to transactions involving provincial gaming authorities, and to the supplies made by their distributors, are also to apply to casino gaming and the operation of gaming machines (e.g., video lottery terminals).
- Amounts collected as or on account of GST/HST will be deemed to be held in trust for Her Majesty until they are remitted or withdrawn. As a rule, the Crown's claim to the amounts held in trust is to take precedence over any other security interest in the amounts. In addition, amounts held in trust will be deemed to be held separate and apart from other funds or assets.
- The purchaser or assignee of accounts receivable is to be relieved of any liability for the tax component of the accounts receivable. The obligation to remit the applicable GST/HST will rest with the vendor who made the original supply.
- The requirement to disclose tax on a taxable supply is not to apply if the supplier is not required to collect the tax on the supply.

- Purchasers of residential complexes situated on leased land and containing two units will be entitled to the new housing rebate if all other eligibility requirements are met.
- The expression “non-creditable tax charged” refers to amounts that a public service body is required to pay as GST/HST and that could give entitlement to a rebate. Any amount of tax that has been refunded, adjusted or credited and in respect of which a credit note has been received or a debit note has been issued is to be excluded from the non-creditable tax charged.
- Once it is filed or registered, a certificate, writ or other notification of a document registered using the procedures set out by the applicable provincial legislation for creating a lien, charge, priority or binding interest will bind land and property in the province. Moreover, a lien, charge, priority or binding interest will give rise to a secured claim in bankruptcy.
- Where real property is supplied to a person who holds the property for resupply, the supply of a lease, licence or similar arrangement in respect of the property, in addition to the resupply itself, will be exempt.
- The sale of a parking space to the purchaser of a detached single-unit condominium is to be exempt if the unit and parking space are described by the same condominium or strata lot plan. If the supply is made by way of lease, licence or similar arrangement, this rule is also to apply to the occupant, owner, or lessee of the unit.
- The supply of property or services by a condominium management corporation established by the registration of a condominium or strata lot plan is to be exempt if it is made to the owner or lessee of a residential condominium unit described by the plan. This measure will apply to a detached single-unit condominium, and pertain only to a property or service related to the occupancy or use of the unit.
- Speech therapy and osteopathic services are still included in the definition of “practitioner,” and will therefore remain exempt. The exemption for speech therapy services will be extended to January 1, 2001. Persons practising as psychologists will no longer be required to be registered with the Canadian Register of Health Service Providers in Psychology after April 30, 1999, in order for their services to be exempt.
- The exemption pertaining to French and English second-language courses is to be extended to courses offered by vocational schools.
- Suppliers of cemetery plots are to collect tax on such sales, regardless of whether the individual recipient is a registrant.
- Replacement property supplied under warranty and imported into Canada by a person who obtained it from a non-resident for no consideration will be zero-rated. The warranty may also apply to property that is already incorporated into real property.
- Three organizations have been added to the list of rebate recipients prescribed under the Federal Book Rebate (GST/HST) Regulations.
- Amendments have been made to the Games of Chance (GST/HST) Regulations.
- Amendments have been made to the Draft Place of Supply (GST/HST) Regulations with respect to railway rolling stock.
- Amendments have been made to the Artists’ Representatives (GST/HST) Regulations.



Membership Dues Paid on Behalf of an Employee, Partner or Volunteer

As a rule, membership dues payable to a professional or work-related association are invoiced to the individual who is required to pay the amount as a member of the association. Where an employer reimburses all or part of the membership dues of an employee, the employer is considered to have paid any GST/HST and QST included in the amount reimbursed, provided the dues relate to the employer’s commercial ac-

tivities. Accordingly, the employer may be entitled to an ITC in respect of the GST/HST deemed paid or payable, and an ITR respecting the QST.

However, instead of reimbursing employees for their membership dues, employers sometimes pay the dues directly to the association. In this case, the Ministère du Revenu du Québec allows employers to claim an ITC in respect of the GST/HST paid or payable on the

amount they remitted directly to the association, as well as an ITR respecting the QST.

Similar rules apply to membership dues paid on behalf of members of a partnership and volunteers of a charity or public institution.



GST/HST and QST on Sales to Indians and Indian Bands¹

The application of the GST/HST and the QST to sales and other supplies to Indians and Indian bands is consistent with the Indian Act, which exempts from taxation the personal property² of Indians or Indian bands situated on a reserve, as well as their interests in a reserve or in designated lands.

Goods

Goods supplied to an Indian or Indian band are not subject to GST/HST or QST if they are supplied on a reserve or, where supplied off the reserve, are delivered to the reserve by the vendor or the vendor's agent. If the goods are transported to the reserve by the purchaser, tax applies to the sale.

Services

Services supplied to an Indian are not subject to GST/HST or QST if the services are rendered entirely on the reserve, or if they relate to an interest in real property situated on the reserve. Services that are supplied to an Indian band for band management activities

or that relate to an interest in real property situated on the reserve are not subject to tax, even if rendered off the reserve. However, Indian bands must pay GST/HST and QST on all off-reserve purchases of transportation, short-term accommodation, meals and entertainment. The band may obtain a refund or rebate of tax paid on these services if they were supplied for band management activities or relate to an interest in real property situated on the reserve.

Documentation

In order to acquire goods or services without paying GST/HST or QST, an Indian must present proof of registration under the Indian Act to the vendor. For individuals, the Certificate of Indian Status card is accepted as proof of registration. This card displays the Canadian maple leaf logo, immediately followed by "Indian and Northern Affairs Canada." The certificate also bears the individual's photograph, description, registry number (nine or ten digits), family number, and the name of the band to which the individual belongs.

As proof of the purchaser's Indian status, the vendor must enter, on the sales invoice or other sales document, the registry number, or the band name and family number (commonly referred to as the "band number" or "treaty number").

A certificate provided by an Indian band attesting that the goods are being acquired by the band is adequate proof. In the case of services, the certificate must state that the services are being acquired for band management activities.

Where goods are delivered to a reserve, the vendor must also retain adequate proof of delivery.

For additional information, refer to Technical Information Bulletin B-059R, *GST Administrative Policy: Application of GST to Indians*.

Sales in the Yukon

Effective February 15, 1998, all sales and other supplies of goods and services to Indians and Indian bands in the Yukon became subject to GST/HST. In addition, goods purchased by a Yukon First Nation or a Yukon Indian resident in the Yukon is subject to GST/HST, even if the goods are delivered to a reserve outside the Yukon.

The rules described in this article do not take into account the agreements signed with the Mohawk Nation of Kahnawake on March 30, 1999. The Ministère du Revenu will keep you informed of developments respecting these agreements. In the meantime, the current rules continue to apply.



Vehicle Licence Registration

In the provinces where the licence plate on a new or used vehicle can be registered by a car dealership on behalf or in the name of the owner of the vehicle, the licence plate registration fee charged by the province is exempt from GST/HST (and QST, in Québec), even when that amount is included in the dealership's invoice.

Where a leasing company registers in the name of the lessee the portion of the permit pertaining to the plate, pays the province for the plate in its capacity

as the lessee's agent, and then bills that amount to the lessee, the licence plate fee is not subject to GST/HST (or QST).

However, where a leasing company registers in its own name the portion of the permit pertaining to the plate, pays the province for the plate, and requires reimbursement from the lessee for the registration, the lessee's payment to the leasing company for the licence plate is considered to be part of the payment for the lease of the vehicle. The licence plate fee is therefore subject to

GST/HST (and QST) in the same way as the lease of the vehicle, which constitutes a taxable supply.

Where a service charge is billed by the car dealership or leasing company in addition to the amount charged for the licence plate, the service charge is subject to GST/HST (and QST).

Note: Registration of a vehicle licence plate by a government body is an exempt transaction.



Employee Benefits

In general, the treatment of employee benefits under the GST/HST and the QST systems is linked to their treatment for income tax purposes.

Non-monetary compensation, commonly called "fringe benefits," may be taxable. Employers registered for the GST/HST and the QST must remit the taxes on employee benefits that are taxable for income tax purposes. Thus, under the GST/HST and the QST systems, taxable employee benefits include

- an automobile made available by the employer to an employee for personal use;
- board and lodging for fewer than 30 days;

- non-monetary incentives, such as taxable prizes, awards and holiday trips; and
- taxable non-cash gifts valued at more than \$100.

Registered employers are required to calculate the GST/HST and the QST payable on taxable employee benefits once a year (that is, at the end of February of the year following the year in which the benefits were provided to the employee), and to include the taxes in the total value of the benefits they report on the employee's RL slip. Registrants are required to remit the GST/HST and the QST payable on taxable employee benefits for the year by indicating the amount of the taxes in

boxes 105 (GST/HST collectible and adjustments) and 205 (QST collectible and adjustments) of their GST/HST – QST return for the year that includes the last day of February.

As a rule, the GST/HST and the QST do not apply to taxable employee benefits where, because the property or services constituting the benefits were used exclusively (90% or more) for the personal consumption, use or enjoyment of an employee, the employer is not entitled to an ITC or ITR respecting the GST/HST or QST otherwise payable on the benefits.



New Publications

In recent months, the Ministère du Revenu du Québec has made available or revised the following documents:

- **IN-105-V** *Instalment Payments of Income Tax*
- **IN-135-V** *Taxation and Persons with Disabilities*
- **IN-300-V** *Are You Self-Employed?*

Revenue Canada has made the following documents available:

- **IN-4080-V** *GST/HST Information for Freight Carriers*
- **IN-4081-V** *GST/HST Information for Non-Profit Organizations*
- **IN-4125-V** *Basic GST/HST Information for Taxi and Limousine Operators*



GST/HST Memorandums

- **ME-4.4-V** *Agriculture and Fishing*
- **ME-4.5.3-V** *Exports - Services and Intellectual Property*
- **ME-19.2.3-V** *Residential Real Property- Deemed Supplies*
- **ME-19.3.4-V** *Rebate for Owner-Built Homes*
- **ME-19.3.8-V** *New Housing Rebates and the HST*
- **ME-28.00-V** *Special Sectors: Transportation*
- **ME-28.2-V** *Freight Transportation Services*
- **ME-28.5-V** *Passenger Transportation Services*

You may order these publications from the office of the Ministère du Revenu du Québec in your area.

Vehicles That are Specially Equipped for Persons with Disabilities

In the issue of *Tax News* for the first quarter of 1998, we described a proposed change to the QST system, concerning the tax paid on motor vehicles adapted for the transportation of a person using a wheelchair. The change provided for a rebate of the tax paid on the portion of the price attributable to the property and services used to adapt the vehicle. Then, on April 3, 1998, the federal Minister of Finance proposed a change to the GST/HST system. Under the proposal, a person who purchases a new motor vehicle specially equipped or adapted for use by an individual requiring a wheelchair may claim a rebate of the GST/HST paid or payable on the portion of the purchase price that is reasonably attributable to the special features.

On August 7, 1998, a number of other changes were proposed. The rebate was broadened to include vehicles equipped with auxiliary driving controls that facilitate the operation of the vehicle by persons with disabilities, as well as used vehicles that have been newly modified with auxiliary driving controls or newly modified in order to accommodate the transportation of individuals using wheelchairs. In addition, special tax treatment was to apply to leases of qualifying vehicles.

Further to these changes, a supplier registered for the GST/HST and the QST may pay or credit the amount of the rebate to the purchaser of the vehicle, and claim an equivalent deduction when determining net tax. This means that the purchaser is no longer required to pay the taxes at the point of sale and subsequently claim a refund.



Under the measures respecting leases, where a first lease respecting a qualifying vehicle is entered into, the portion of the payment that is identified in writing as being reasonably attributable to the special features is not subject to the GST/HST or the QST. This tax treatment also applies to subsequent changes to the lease (provided the lease is between the same lessee and lessor). If the lessee exercises a purchase option, the purchase is subject to the same tax rules as the purchases discussed above.

Rebate claims must be filed with the Ministère du Revenu du Québec within four years after the date on which the tax on the sale of a vehicle becomes payable.

What Is a Mobile Home?

A mobile home is generally given the same treatment for GST/HST and QST purposes as a residential complex. The term "mobile home" is defined in order to differentiate between mobile homes (which are used for residential purposes) and travel trailers, motor homes, camper trailers and similar vehicles (which are used for recreational purposes).

The definition of "mobile home" was amended, effective April 24, 1996, to better reflect the mobile home industry. The term now encompasses single-section modular homes and mobile home units, as well as certain multi-section modular homes and mobile homes. Mobile homes must consist of three dimensional modules with three walls and a roof or ceiling. They must be as finished as possible before they leave the manufacturer's premises, taking into consideration that they must be transported.

Specifically, a mobile home is a building that

- comprises one or more components, where each component consists of at least one room or living area, and the manufacture and assembly of each component is completed or substantially completed before the component is moved to a site;
- is equipped with complete plumbing, electrical and heating facilities;
- is designed to be moved to a site for installation on a foundation and connection to service facilities; and
- is to be occupied as a place of residence.

Travel trailers, motor homes, camping trailers and other recreational trailers or vehicles continue to be excluded from the definition.

Consequently, sales of new multi-section mobile or modular homes will be treated in the same manner as sales of new single-section mobile or modular homes. Mobile or modular home dealers will be permitted to pay or credit purchasers of newly manufactured multi-section mobile or modular homes the amount of the GST/HST or QST new housing rebate, where the conditions for the rebate are satisfied (this is the case even if, at the time of the sale, the home has not been placed and affixed to land).



Charity Fund-Raising Activities

Charities often hold fund-raising events as a necessary part of their operations. To facilitate their efforts, major legislative amendments have been introduced, effective since January 1, 1997.

Sale of property and services as part of fund-raising activities

Most property and services sold by a charity as part of a fund-raising campaign are tax-exempt. This means that the charity need not charge GST/HST or QST on such goods and services. However, GST/HST and QST must be charged where

- the charity sells the property or service on a regular or continuous basis throughout the year or a significant portion of the year (this would be the case, for example, if the charity operated a retail outlet); or
- customers are entitled to receive the property or service on a regular or continuous basis throughout the year or a significant portion of the year (as in the case of a subscription to a magazine published by the charity, for example).

Example

A charity sells greeting cards during the Christmas season or chocolate bars during an eight-week fund-raising campaign. The charity should not charge consumption tax on these items.

Admission fees for fund-raising activities

Admission fees for fund-raising events such as dinners, dances, shows and concerts are **fully** tax-exempt if a **portion** of the fee constitutes a charitable donation that may be deducted in calculating income tax (or would be deductible if the person paying the admission fee were an individual).

Example

A charity sells tickets for a fund-raising dinner at \$100 each. Of that amount, \$75 represents a charitable donation for income tax purposes. In this case, the full cost of the ticket is tax-exempt, and no taxes should be charged.

What about the fund-raising activities of non-profit organizations?

Property (except alcoholic beverages and tobacco products) sold by a non-profit organization as part of a fund-raising activity is tax-exempt where

- the organization does not operate a business that sells similar property;
- all the salespeople are volunteers;
- the cost of the property to be sold does not exceed \$5; and
- the property is not sold at an event at which a business is also selling similar property.

Example

A non-profit organization sells clothing at a flea market. All the salespeople are volunteers. The organization must charge GST and QST, as businesses are selling similar items on the same premises.

Visitor Rebate Program: Information for Vendors

Are you aware that the Visitor Rebate Program allows your non-resident customers to obtain a refund of certain taxes paid in Canada with respect to eligible purchases of short-term accommodation and property that is exported within 60 days of delivery? The Visitor Rebate Program provides GST/HST rebates as well as refunds of the Québec and Manitoba provincial sales tax.

To qualify for a rebate or refund, the purchase amount (before taxes) of eligible accommodation and property on which non-resident visitors pay GST/

HST and the Québec and Manitoba sales tax must total at least CAN\$200, and each individual receipt for property must show a purchase amount (before taxes) of at least CAN\$50. As of February 1, 1999, enhanced verification of exported property is required only at land border crossings.

However, if you ship property directly to non-resident customers at a point outside Canada, do not charge the GST/HST or the Québec or Manitoba sales tax. In this situation, your non-resident customers do not need to claim the visitor's rebate.

For more information on the Visitor Rebate Program,

- access the Web page of the Visitor Rebate Program at the Revenue Canada Internet site, at the following address: <http://www.rc.gc.ca/visitors>; or
- call the Visitor Rebate Enquiries Line, toll-free, at 1 800 668-4748 (in Canada) or 1 902 432-5608 (from outside Canada).



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, 1998, to June 30, 1999, are listed below.

Period	Annualized interest rate* (%)	Penalty rate (%)
1998		
Jan. 1 – Mar. 31	3.6499	6
Apr. 1 – June 30	3.6098	6
July 1 – Sept. 30	4.7609	6
Oct. 1 – Dec. 31	4.7609	6
1999		
Jan. 1 – Mar. 31	4.8667	6
Apr. 1 – June 30	4.8132	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 respecting debts owed to the Ministère du Revenu du Québec 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 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, 1998, to June 30, 1999.

1998		
Jan. 1 – Mar. 31	Refunds	3.25%
	Debts	8%
Apr. 1 – June 30	Refunds	3.25%
	Debts	9%
July 1 – Sept. 30	Refunds	4%
	Debts	9%
Oct. 1 – Dec. 31	Refunds	4%
	Debts	9%
1999		
Jan. 1 – Mar. 31	Refunds	4.25%
	Debts	10%
Apr. 1 – June 30	Refunds	4.25%
	Debts	10%

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



Consultants' Invoices

Consultants who are registered for GST/HST and QST purposes are required to charge the taxes on their base contract amount. The treatment of additional expenses depends on the agreement between the consultant and the client.

As a rule, consultants are not agents of their clients. Thus, expenses incurred by a consultant that a client has agreed to reimburse are treated as additional consideration payable by the client for the consultant's services. The reimbursement of such expenses is treated in the same manner as the consultant's

base contract amount (that is, GST/HST and QST are payable on the amount reimbursed). As a registrant, the consultant may claim an ITC in respect of the GST/HST paid or payable on the expenses, as well as an ITR respecting the QST.

Even if consultants are agents of their clients, they do not necessarily incur all of their expenses as agents. Therefore, it is important to determine whether the expense reimbursed by the client was incurred by the consultant as the client's agent.

Where the consultant incurs an expense to acquire property or services as the client's agent, the client is considered to be the recipient of the property or services. In this case, the reimbursement of the expense is not treated as additional consideration. The consultant therefore cannot claim an ITC in respect of the GST/HST, or an ITR respecting the QST, paid or payable on the property or services acquired. Instead, the consultant must transfer the expense to the client, including any applicable GST/HST and QST. The client may then claim an ITC in respect of the

Of the 26 interpretation bulletins published by the Ministère du Revenu du Québec in July, August and September 1998, 12 deal with income tax and 14 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.39-1/R3** Volunteer firemen
- IMP.1029.8.22-2** Qualified corporation for the purposes of the training tax credit
- IMP.1029.8.22-5** Qualified "outside" training activity for the purposes of the training tax credit
- IMP.1151-1/R1** General considerations: tax liability
- IMP.1156-2/R2** Tax on capital: leasing and lease
- IMP.1156-6/R3** The terms "debt" and "secured payment"
- IMP.1156-9/R3** Provisions and reserves
- IMP.1156-19** Bank overdraft
- IMP.1141.2.2-1** Savings and credit unions: long-term debt
- LMR.28-1/R39** Interest rates
- LMR.39-1** Application of section 39 of the Act respecting the Ministère du Revenu with regard to requests for information

SPECIAL 116 Measures concerning the Cité du multimédia and information technology development centres, and other tax measures

Consumption taxes

- LMR.28-1/R39** Interest rates
- LMR.39-1** Application of section 39 of the Act respecting the Ministère du Revenu with regard to requests for information
- SPECIAL 99** Minister's statement concerning the replacement of the QST on tobacco products by a corresponding increase in the specific tax
- SPECIAL 100** Measures concerning the Cité du multimédia and information technology development centres, and other tax measures
- TVQ.16-9/R1** The zero-rating of certain hotel packages
- TVQ.16-15/R1** The zero-rating of certain hotel packages: application to stays in holiday camps
- TVQ.16-24** Reimbursement of expenses made by a broker driver to a principal carrier
- TVQ.127-2** Supply, by a vocational school, of an educational service respecting the operation of heavy equipment
- TVQ.127-3** Supply, by a vocational school, of an educational service in respect of truck driving
- TVQ.192.1-1** The zero-rating of certain hotel packages, and the elimination thereof on April 1, 1997
- TVQ.192.1-2** The zero-rating of certain hotel packages, and the elimination thereof: application to stays in holiday camps
- TVQ.211-3/R1** Input tax refunds respecting expense allowances
- TVQ.386-4/R1** QST rebate for health care institutions
- TVQ.541.23-1/R1** Introduction of the specific tax on lodging in certain prescribed regions: transitional rules

GST/HST, and an ITR respecting the QST, paid or payable on the consulting services and the expense incurred by the consultant as an agent, where the property or services are supplied in the client's commercial activities. However, if no tax was payable on the property or services (such as in the case of zero-rated or exempt property) at the time of acquisition by the consultant as the client's agent, the consultant must transfer the property or services to the client tax-free. In this case, no ITC or ITR may be claimed by the client.



Procedure for Cheques Made Out to the Ministère and an Agent

Sometimes, agents come to the Ministère du Revenu du Québec with cheques which have been made out to both the agent and the Ministère, in payment of GST or QST.

The Ministère will accept such a cheque, once it has been endorsed by the agent, and will then deposit the cheque in the agent's GST-QST account. The Ministère will not, under any circumstances, endorse the cheque and remit it to the agent.

Web Site

You may visit the Web site of the Ministère at the address below:

www.revenu.gouv.qc.ca/

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.

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

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If you are a QST or GST registrant, you receive *Tax News* at the address to which all correspondence concerning the administration of the taxes is sent. To make a change to your address, contact the office of the Ministère in your area.

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Legal deposit
Second quarter 1999
National Library of Canada
ISSN 1192-1750
IN-156.45-V