

GENERAL INFORMATION CONCERNING THE QST AND THE GST/HST

Guide for Registrants



This guide is provided for information purposes only. The information it contains does not replace any statutes or regulations (or administrative documents referred to therein) or any proposed legislative amendments; nor does it constitute a legal interpretation of the Excise Tax Act, the Act respecting the Québec sales tax or any other Québec or federal statute. Certain proposed amendments to the Excise Tax Act, the Act respecting the Québec sales tax, and attendant regulations have been taken into account in this guide. However, publication of this information should not be regarded as a statement by the Minister to the effect that the amendments will have force of law in their current form.

This publication may not deal with all aspects of your commercial activities; you may obtain further information by consulting the appropriate statutes and regulations, or by contacting the office of the Ministère du Revenu du Québec in your area.

ISBN 2-550-32605-9

Legal deposit – Bibliothèque nationale du Québec, 1998
Legal deposit – National Library of Canada, 1998



IMPORTANT MESSAGES

Is this guide intended for you?

This guide provides basic information regarding the administration in Québec of the goods and services tax (GST), the harmonized sales tax (HST) and the Québec sales tax (QST). The guide contains general information on how to calculate, record, collect and remit the taxes owed. It also treats other subjects such as the application of the GST/HST and the QST to various transactions, the use of coupons, meals and entertainment expenses, supplies to diplomats and to the government, and refunds of the GST/HST and QST. In addition, the guide contains a list of publications by Revenue Canada and the Ministère du Revenu du Québec.

If you carry on a business in Québec, you must be well-informed about the GST/HST and the QST. Registrants have certain obligations, in particular, the collection and remittance of taxes. The guide will provide you with the information you need.

This guide is intended to be as specific as possible. We have, however, chosen not to treat exceptions that are of concern to only a small number of persons. If you have any questions, do not hesitate to contact the office of the Ministère du Revenu in your area. The addresses and telephone numbers of the offices are listed on the last page of the guide.

The guide is designed for easy reference. To find information quickly, consult the table of contents.

Administering the GST/HST in Québec

Under an agreement concluded between the federal and Québec governments, the Ministère du Revenu du Québec administers the GST/HST in Québec.

Accordingly, the Ministère receives and processes applications for registration under the GST/HST system from persons carrying on commercial activities in Québec. Once registered, the persons must continue to deal with the Ministère concerning all GST- and HST-related matters (for example, returns, remittances, rebate applications, audits, investigations, interpretation of laws and regulations, notices of objection and matters related to failure to make payments or file returns).

The federal-provincial agreement does not relieve the federal government of any responsibility regarding the GST/HST. Revenue Canada has established certain policies and procedures to ensure uniform application of the GST/HST across Canada. The Ministère du Revenu du Québec is fully responsible for administering the GST/HST in Québec in accordance with the rules defined by the federal government.

Special telephone lines set up by the Ministère du Revenu du Québec are available to any person—registrant or non-registrant—that needs explanations regarding the GST/HST and the QST. For further information on this service, see the section entitled “Assistance” in this guide.

Send any comments or suggestions for improvements to the guide to the following address:

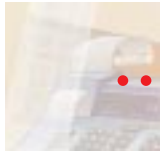
Direction générale des communications
Ministère du Revenu du Québec
3800, rue de Marly
Sainte-Foy (Québec) G1X 4A5



CONTENTS

INTRODUCTION	7
The GST/HST and QST systems	7
Principal definitions	8
Types of supplies	9
1. Keeping registers and books of account	11
Obligations	11
Preparing invoices	12
2. Collecting the GST and QST on taxable property and services	13
Indicating and calculating the taxes	13
When should the GST and QST be collected?	14
3. Calculating your input tax credits (ITCs) and input tax refunds (ITRs)	15
General rules	15
Restrictions on ITRs for large businesses	16
How to apply for ITCs and ITRs	17
Operating expenses	18
Capital property	18
Home office expenses	20
New registrants	20
4. Calculating the GST and QST to be remitted or refunded	21
Determining the GST and QST payable	21
5. How to file GST and QST returns and remit the tax payable	22
Returns	22
Reporting periods	24
Applying a tax refund to the payment of tax owing	25
Tax remittances or refunds	25
• Where should tax remittances be made and refund applications be filed?	25
• When will you receive your refund cheque or notice of assessment?	26
APPENDIXES	
1. Special cases	27
Early-payment discounts and late-payment charges	27
Volume discounts	27
Deposits and returned goods	28
Promotional gifts and free samples	29
Gift certificates	29
Coupons	29
• Reimbursable coupons	29
• Non-reimbursable coupons	30
• Other coupons	31
Manufacturers' rebates	31
Used property	32
• Sales of used property	32
• Purchases or trade-ins of used property	32
Trade-ins of road vehicles	33

Sales to persons residing in a province in which the HST applies	33
• Place of the sale	33
Sales to the federal government	35
Sales to the Québec government	35
Sales to Indians	36
Sales to diplomats	37
Sales of businesses	37
Mandataries (agents)	38
Exports	38
• Corporeal movable property	38
• Services	39
Imports	40
• Corporeal movable property	40
• Services and incorporeal movable property	40
Returnable containers	41
• Deposits on bottles and cans	41
• Deposits on other returnable containers	41
Vending machines	42
Bad debts	43
Sales of immovables	43
Employee benefits	44
Expenses incurred by employees, partners and volunteers	45
• Allowances	45
• Reimbursements	46
GST and QST rebates payable to employees and partners	47
Meal and entertainment expenses	47
2. Simplified method for calculating ITCs and ITRs	48
3. The Quick Method: a simplified accounting method	51
Who may use the Quick Method?	51
What are the Quick Method rates?	51
Election to use the Quick Method	52
ITC and ITR applications	52
Other considerations	53
Special quick method for public service bodies	53
4. Cancelling your registration	54
5. Elections and applications	55
Elections	55
Applications	55
Elections and applications for which no form has to be completed	55
List of possible applications and elections	56
General applications and elections	57
6. Assistance	61
Tax information services	61
Specialized GST and QST publications	61
Interpretation service	62
Confidentiality measures	62
Recourse in the event of a disagreement with the Ministère	63
• Administrative recourse	63
• Legal recourse	63



INTRODUCTION

The GST/HST and QST systems

Most property and services are subject to GST and QST. The majority of transactions conducted in Canada are GST-taxable at the rate of 7%. Transactions conducted in Québec are subject not only to GST, but also to 7.5% QST.¹ Certain goods such as prescription drugs and basic groceries are zero-rated (that is, subject to GST and QST at the rate of 0%). A small number of goods and services are exempt from both taxes.

The HST has been in effect since April 1, 1997, in three of the Atlantic provinces: New Brunswick, Nova Scotia and Newfoundland. The basic rules applicable to the GST apply as well to the HST; the same goods and services that are taxable at 7% under the GST system are taxable at 15% under the HST system (7% federal component and 8% provincial component). Businesses registered for the GST are automatically registered for the HST; they must collect and remit 15% HST on all taxable sales² (except zero-rated sales) that are made in participating provinces. If you do business with the residents of one of these provinces, the HST applies to you. Consult the section “Sales to persons residing in a province in which the HST applies.”

The federal government refers to this tax as the GST/HST. However, most businesses in Québec that are registered for the GST/HST are not required to collect HST. Therefore, unless stated otherwise, we have used the term GST in this guide to refer to the GST/HST.

The GST and QST are generally collected at each stage in the production and marketing of goods and services. Persons that carry on commercial activities are, for the most part, required to register for both the GST and the QST. Registrants must collect GST and QST on all taxable (other than zero-rated) sales they make in the course of their commercial activities, and must remit the taxes to the Ministère du Revenu du Québec.

As a registrant,³ you must collect GST and QST, at their respective rates, when you make taxable sales. You may, however, recover the GST and QST paid (or payable) on property or services acquired for use in your commercial activities. This is done by claiming an **input tax credit (ITC)** under the GST system and an **input tax refund (ITR)** under the QST system. For example, if you purchase office supplies for use in your commercial activities, you may claim an ITC and an ITR to recover the GST and QST you paid.

You must also report the tax you collect and pay by filling out GST returns and QST returns on a regular basis and sending them to the Ministère du Revenu du Québec. A reporting period is assigned by the Ministère at the time of registration, usually on the basis of the registrant's total annual taxable sales (and those of associates) made in Canada. The reporting period, whether monthly, quarterly or annual, is generally the same for the GST and the QST. You may, however, choose a different reporting period from the one assigned, provided you meet certain requirements.

1. This rate came into effect on January 1, 1998. From May 13, 1994, to December 31, 1997, the QST rate was 6.5%.
2. In this guide we normally use the term “sale” instead of “supply” because sales account for most supplies. See the definition of “supply” on page 8.
3. A “registrant” is a person who is registered or who is required to be registered for the GST and the QST.

When completing your returns, you may subtract your ITCs from the GST collected and your ITRs from the QST collected. Tax that you should have collected on a supply but that has not yet been paid to you by the customer is also considered to have been

collected. If you collected (or should have collected) more tax than you paid, you must remit the difference to the Ministère. On the other hand, if you paid (or should have paid) more tax than you collected, you are entitled to a refund.

Summary

GST or QST you collected or should have collected from your customers during the reporting period	-	GST or QST that was paid or that became payable during the reporting period on property or services related to your commercial activities	=	GST or QST to be remitted or GST or QST refundable
---	---	---	---	---

As a rule, if you are a small supplier (see the definition below), you do not have to register, or collect and remit the taxes, even if you make taxable sales, and you may not claim

ITCs or ITRs. If you decide to register, you must be registered both for the GST and for the QST.

Principal definitions¹

The term “commercial activity” generally refers to any activity carried on in order to make taxable or zero-rated supplies. The making of exempt supplies does not constitute a commercial activity.

“Supply” means the provision of property or a service in any manner whatsoever, including by way of sale, transfer, barter, exchange, licence, lease, gift or disposition. In this guide, we normally use the term “sale” instead of “supply” because sales account for most supplies.

“Consideration” is that which is given in exchange for the supply of a property or service, and corresponds to an amount of money or to the fair market value of the property or service. The GST must be included in the consideration for the purposes of calculating the QST; however, the QST is not included in the consideration for the purposes of calculating the GST.

“Property” includes movable property (called “personal property” for GST purposes, immovables (called “real property” for GST purposes), corporeal movable property (called “tangible personal property” for GST

purposes) and incorporeal movable property (called “intangible personal property” for GST purposes). “Property” includes an interest, rights or shares in a corporation, but does not include money.

“Service” means all supplies other than supplies of property or money, or services rendered to an employer by a person that is (or that agrees to become) his or her employee, respecting the person’s office or employment.

A person is generally considered to be a “small supplier” for a given calendar quarter and the month following the quarter if the total taxable supplies (including most zero-rated supplies) made worldwide by the person and the person’s associates in the four calendar quarters that immediately precede the given calendar quarter do not exceed \$30,000 (\$50,000 for public service bodies). Furthermore, the total taxable supplies (including most zero-rated supplies) made by the person and the person’s associates must not at any time during a given calendar quarter exceed \$30,000 (\$50,000 for public service bodies). For further information, consult the brochure *Should I Register?* (IN-204-V).

1. These definitions are largely based on the definitions provided in the Excise Tax Act and the Act respecting the Québec sales tax.

Types of supplies

There are three types of supplies—taxable, zero-rated and exempt—that apply to both the GST and QST systems. When you carry out a transaction, it is important to determine what type of supply you are making so that you will know whether you must collect GST and QST and if you are entitled to ITCs and ITRs.

Taxable supplies are supplies of property and services that are made in the course of commercial activities and that are subject to GST or QST. Registrants that acquire taxable supplies of property or services in the course of their commercial activities may be entitled to an ITC or an ITR.

Taxable supplies include the following:

- tools sold to a business specialized in the repair of small motors, as well as lawnmowers sold by the business;
- baking moulds sold to a bakery, as well as chocolates sold by the business;
- computers sold to a law firm, as well as legal services provided by the firm;
- sales of commercial buildings and newly constructed residential complexes;
- rentals of commercial buildings;
- automobile sales and rentals;
- sales of gasoline and automobile repair services;
- sales of soft drinks, candy and potato chips;
- sales of clothing and footwear;
- the rental of hotel accommodations;
- the provision of barber and hairstylist services.

If you make **zero-rated supplies**, you are not required to collect GST or QST because such supplies are taxable at 0%. However, you may be entitled to an ITC or ITR with respect to taxable supplies acquired to make zero-rated supplies. Recipients of a zero-rated supply of property or a service are not entitled to an ITC or ITR, because they did not pay GST or QST on the supply.

Zero-rated supplies include the following:

- sales of prescription drugs;
- sales of medical devices;
- sales of basic groceries;
- sales of certain property in the farming and fishing sectors;
- sales of certain property or services exported outside Canada (or shipped outside Québec, for QST purposes);
- the provision of certain passenger or freight transportation services;
- the provision of financial services and sales of printed books (under the QST system only).

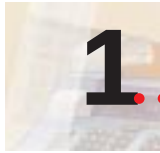
You do not collect or pay GST or QST on **exempt supplies** of property and services because such supplies are not subject to the taxes. Accordingly, you may not claim ITCs or ITRs with respect to purchases made in order to make exempt supplies. However, certain public service bodies may, regardless of whether they are GST and QST registrants, claim rebates (partial refunds) under both the GST and the QST systems with respect to their exempt supplies.

Exempt supplies include the following:

- sales of residential complexes that are not new;
- the provision of most health, education, child-care and legal-aid services;
- the provision of certain services provided by public sector bodies such as governments, non-profit organizations, charities municipalities, hospital and school authorities, public colleges and universities;
- the provision of financial services (under the GST system only).

Summary			
TAXABLE	ZERO-RATED	EXEMPT	
SUPPLIES	SUPPLIES	SUPPLIES	
7% (GST)	0% (GST)	No GST or QST	
7.5% (QST)	0% (QST)	is collected.	
15% (HST)	0% (HST)		
ITCs and ITRs may be claimed.	ITCs and ITRs may be claimed.	Neither ITCs nor ITRs may be claimed. As a rule, rebates (partial refunds) may be claimed by public service bodies.	





KEEPING REGISTERS AND BOOKS OF ACCOUNT

If you are required to register for the GST and the QST, you must immediately begin keeping track of the GST and QST you collect as a supplier, and of the GST and QST you pay on purchases made in the course of your commercial activities.

Obligations

Under the Excise Tax Act and the Act respecting the Ministère du Revenu, persons that carry on a business or that are required to deduct, withhold or collect an amount under a fiscal law must keep adequate registers and books of account, including (for QST purposes only) an annual inventory.

Your registers and books of account must show the amounts of GST and QST that you charged and the amounts that you paid or must pay. This will enable you to determine the amount of your remittance or refund when you file your return, and will assist the Ministère in its verifications. You are required to keep all supporting documents respecting the information contained in your registers and books of account. Invoices must indicate your supplier's name or firm name, the billing date and any other information required to justify claiming ITCs and ITRs (see the table on page 12). All documents must be kept at your place of business, your residence, or another place designated by the Minister.

Registers, books of account and supporting documents may be on paper, magnetic media or microfilm.¹

For auditing purposes, you must generally keep registers and books of account for six years after the end of the last year to which they apply, or longer if you have filed a notice of objection or if you are involved in litigation with the Ministère. Failure to comply with this requirement is a penal offence. Taxpayers that wish to dispose of documents

before the date prescribed by law or regulation must obtain written authorization from the Ministère.

An authorized representative of the Ministère du Revenu du Québec may, in the course of applying a fiscal law, enter, at any reasonable time, the premises or places in which a business is carried on or property is kept, or in which certain business activities are carried on or registers and books of account are or should be kept pursuant to a fiscal law. The representative may examine the registers and books of account, as well as the accounts, supporting documents, letters and any other documents pertaining to information that is contained or should be contained in the registers and books of account, or pertaining to an amount that should be paid, deducted, withheld or collected under a fiscal law.

The authorized representative of the Ministère may also require the owner or manager of the business or the premises at which the property is kept, or any other person present on the premises, to provide all reasonable assistance necessary to carry out the audit or inspection. Moreover, the representative may oblige the owner or manager to accompany him or her on the premises. If asked, the representative must state his or her name and present the document, signed by the Deputy Minister, attesting that he or she is duly authorized to represent the Ministère.

1. Documents submitted on magnetic media or on microfilm must conform to the standards of the Ministère and to the Canadian standard: CAN/CGSB-72.11.93, *Microfilm and Electronic Images as Documentary Evidence*.

Preparing invoices

Although no special invoices are required under the GST and QST systems and no special rules apply, both systems specify (based on the total value of the property or services acquired) the information to be provided by registrants when they apply for ITCs or ITRs. As a registrant, you may ask your supplier to provide you with information you

need to justify your application for an ITC or ITR. Similarly, those of your customers that are registrants may request such information from you.

The table below summarizes the information required on the invoice, according to the total amount of the sale.

Information required on invoice to justify ITCs and ITRs			
Information required	Total sale of less than \$30	Total sale of \$30 to \$149.99	Total sale equal to or greater than \$150
Name of supplier ¹ or firm name of supplier	X	X	X
Date of invoice	X	X	X
Total amount paid or payable	X	X	X
Amount of tax paid or payable ²		X	X
Supplier's ¹ GST account number and identification number (for QST purposes)		X	X
Name of purchaser or firm name of purchaser			X
Terms of payment			X
Adequate description allowing the property or service to be identified ³			X
1. In certain cases, the name of an intermediary (that is, a registrant that enables or helps a person to make a sale) may be entered. 2. The information required is the total amount of GST, HST or QST charged, or a statement indicating that the GST, HST or QST are included at the applicable rate (7% for the GST, 15% for the HST and 7.5% for the QST) in the amount payable. 3. If the supporting document does not include a satisfactory description of the property or service for which an ITC or ITR is claimed.			

COLLECTING THE GST AND QST ON TAXABLE PROPERTY AND SERVICES

As a registrant, you are responsible for collecting GST (or HST, where applicable) and QST on your taxable sales other than zero-rated sales. As a rule, vendors of taxable property or services are responsible, if they are registrants, for billing and collecting the GST and QST and for remitting the taxes to the Ministère du Revenu du Québec. Accordingly, if you have chosen not to register for the GST or the QST because you are a small supplier, you are generally not required to collect the taxes (you are however required to collect the tax on sales of taxable immovables, “real property” for GST purposes). Please note that small suppliers that operate a taxi business or non-resident performers that collect admissions are required to register.

Indicating and calculating the taxes

Rates for the GST and the QST are 7% and 7.5% respectively. HST is charged at the rate of 15%. QST is calculated on the sum of the selling price and the GST.

The rate to be used for calculating the taxes¹ depends on the type of cash register you use.

- You must use the 7.5% rate to calculate the QST if your cash register calculates the GST and QST in three stages, that is, it calculates the GST on the selling price of the property or service, adds the GST to the selling price, and then applies the QST to the subtotal obtained.
- You must use the 8.025% rate to calculate the QST if your cash register calculates the GST and QST in two stages, first calculating the GST on the selling price of the property or service, then calculating the QST directly on the selling price. However, this percentage may be rounded off to 8.02% if your cash register cannot process three-decimal figures. The 8.02% rate may be used only in this situation.
- You must use the 15.025% rate to calculate the GST and QST if your cash register calculates the GST and QST in one stage, that is, it uses a single rate to calculate the GST and QST on the selling price of the property or service. However, the rate may be rounded off to 15.02% if your cash register is unable to process three-decimal figures. The 15.02% rate may be used only in this situation.

The rates of 8.02%, 8.025%, 15.02% and 15.025% must not appear on the document attesting to the sale.

When you make a taxable sale, you must advise the recipient of the property or service that the sale is subject to GST and QST. You may do so by indicating the amount of the taxes on the cash register receipt, bill or sales contract given to the recipient, or by posting signs clearly stating that the taxes are included in your prices. Whatever the manner in which you choose to advise the recipient, you must ensure that the price of the property or service supplied is indicated clearly and separately from the GST and QST, or you must include the taxes in the price indicated for the property or service.

In calculating the tax payable, only fractions of at least one-half cent are counted as a whole cent (\$0.01) of sales tax. If more than one property or service is purchased, you may calculate the GST and QST on the total price of all property or services purchased before rounding off the fractions.

1. Contrary to what was stated on page 7, GST does not mean GST/HST in the next three paragraphs.

When should the GST and QST be collected?

The GST and QST must generally be collected on the date the recipient pays for the property or service or on the date payment is due, whichever comes first. As a rule, payment is considered to be due when an invoice is submitted to the recipient. The following specific rules stem from this general rule.

Vending machine operators

The taxes are deemed to have been collected on the date the money is withdrawn from the machine.

Rental property

The taxes are payable no later than the date on which the lessee is required to pay the rent under the written contract.

Sales of taxable property

In general, the GST and QST are payable on the first of the following dates: the date on which the agreed amount for the property or service is paid, or the date on which it falls due. The amount is deemed **paid** when the supplier receives the money or any other property or service given in respect of the sale. The amount is deemed to be **due**, in whole or in part, on the first of the following dates: the date on which an invoice is first issued, the date indicated on the invoice, the date on which an invoice would have been issued had it not been for an unjustified delay, or the date on which the amount is due under a written agreement. However, if the amount is paid in several instalments, the GST and QST on each of the instalments must generally be paid on the date on which the instalment is paid or on the due date of the instalment, whichever comes first.

Construction contracts

If, in accordance with a federal or provincial law or a written agreement concerning the construction, renovation, transformation or repair of a building, or of a boat or other seagoing vessel, part of the payment respecting a construction contract is withheld as security until the supply has been fully made, the GST and QST must be collected at the time payment of this amount is made or at the time it becomes due, whichever comes first.

Conditional sales and instalment sales

Conditional sales are sales that are subject to one or more conditions. Sales made on a trial basis (that is, sales made to recipients that take ownership of the property only after possession on a trial basis has yielded conclusive results) are the most common type of conditional sale. Instalment sales, in which ownership of the property is transferred only after all instalments have been paid, represent another type of conditional sale. In the case of conditional sales, the GST and QST are payable, on any amount that has not already been paid or become payable, on the last day of the month following the month in which ownership or possession of the property is transferred to the recipient.

Printed books bearing an International Standard Book Number (ISBN)

Under the GST system, the sale of such books is taxable: GST must be collected at the time of sale and remitted to the Ministère du Revenu du Québec. Under the QST system, the sale of such books is zero-rated; consequently, neither the supplier nor the purchaser is required to pay QST.

Since October 24, 1996, certain persons that manage a public lending library or whose principal role is the promotion of literacy have been able to claim a GST refund respecting the books they purchase.

You will find additional information pertaining to the collection of the GST and the QST in the appendix entitled “Special cases.”

CALCULATING YOUR INPUT TAX CREDITS (ITCS) AND INPUT TAX REFUNDS (ITRS)

General rules

If you are a registrant, you may recover the GST and QST paid or payable respecting taxable property and services by claiming ITCs and ITRs. Only purchases made in the course of your commercial activities give entitlement to such credits or refunds. If your activities consist in making exempt supplies, for example, long-term accommodation leasing, you are not considered to be carrying on a commercial activity. Consequently, you may not recover the GST and QST paid on the property and services acquired in the course of this activity. To be entitled to ITCs or ITRs, you must have been a registrant during the reporting period in which the tax on the property or services acquired was paid or became payable.

The term “inputs” generally refers to office furniture, computer systems, accountants’ fees, taxi fares, machine-repair costs, promotional items, tools, and other property or services used or consumed in the course of commercial activities. Inputs generally entitle registrants to ITCs and ITRs.

However, the following items, which are not subject to GST or QST, do not give entitlement to ITCs or ITRs:

- salaries and wages;
- interest and dividends;
- federal taxes other than the GST, as well as provincial and municipal taxes;
- most expenses, fines and contributions.

In addition, you may not claim ITCs or ITRs in respect of property and services acquired for personal use. Nor may you claim them with respect to membership fees or dues paid to an association whose main purpose is to provide recreational, dining or sporting facilities (including fitness clubs, golf clubs, and hunting and fishing clubs), unless you pay the fees or dues for the purpose of reselling them because your commercial activities consist in supplying such memberships or rights.

To determine whether the property or services you acquired entitle you to ITCs and ITRs, ask yourself the following questions.

- **What type of supply is being made?** If no tax was paid on the supply, you may not claim an ITC or an ITR.
- **Is the property or service intended for consumption, use or supply in a commercial activity?** If the answer is no, you may not claim an ITC or ITR. If you make taxable or zero-rated supplies, you are considered to carry out a commercial activity. Property or services that are consumed, used or supplied in part in the course of a commercial activity generally give entitlement to an ITC or ITR in proportion to their use in the commercial activity.
- **Was I a registrant during the reporting period in which I acquired the property or service?** If you were not a registrant, you may not, as a rule, claim an ITC or ITR.

Property and services that are acquired by certain public service bodies¹ and that do not give entitlement to ITCs or ITRs may, however, give entitlement to GST or QST rebates (partial refunds). The table below shows the rebate rates applicable to certain organizations

Further information is provided in the brochure *The QST and GST: How They Apply to Charities and Non-Profit Organizations* (IN-214-V), which may be obtained from any office of the Ministère du Revenu du Québec.

Type of organization	Rebate rate	
	GST	QST
Municipalities	57.14%	0.00% ¹
School authorities	68.00%	47.00%
Universities and public colleges	67.00%	47.00%
Hospital authorities	83.00%	66.00% ²
Charities or qualifying non-profit organizations (other than selected public service bodies)	50.00%	50.00%

1. The 43% QST rebate that applied to municipalities was eliminated on January 1, 1997.

2. This rate has been in effect since April 1, 1997. It will be 60% as of April 1, 2000.

Restrictions on ITRs for large businesses

A registrant is generally considered to be a **large business** for a given fiscal year if the value of the taxable sales, other than sales of financial services, made in Canada by the registrant and the registrant's associates exceeded **\$6 million** during the last fiscal year that ended before the given fiscal year. If the last fiscal year is less than 365 days long, the value of the taxable sales of the last fiscal year must be adjusted on an annual basis. The value of the taxable sales made in Canada includes the value of all exports, including sales deemed to have been made outside Canada. It also includes the value of sales deemed to have been made for nil consideration pursuant to an election made jointly by corporations that are specified members of a group of closely related corporations. However, it excludes GST and the value attributable to the sale of immovables that are capital property, or the goodwill of a business sold (where no QST is payable on the goodwill).

The following financial institutions are considered large businesses regardless of the value of their taxable sales:

- banks;
- trust companies;
- credit unions;
- insurers;
- the segregated funds of insurers;
- the Régie de l'assurance-dépôts du Québec and the Canada Deposit Insurance Corporation;
- investment plans.

The following property and services acquired by a large business do not give entitlement to ITRs:

- road vehicles² that must be registered under the Highway Safety Code to be driven on public roads;
- the fuel³ used in such vehicles;
- electricity, gas, steam or combustibles, except when used to produce movable property intended for sale;

1. Qualifying non-profit organizations, charities, hospital authorities, school authorities, universities and public colleges established and administered other than for profit, and municipalities.

2. Since October 17, 1997, large businesses have been able to claim ITRs for road vehicles weighing 3,000 kilograms or more.

3. Since May 17, 1997, large businesses have been entitled to ITRs on purchases of non-coloured fuel oil (also called clear diesel fuel).

- telephone services and other telecommunications services, with the exception of “1 800” services and “1 888” services;
- food, beverages and entertainment that are 50% deductible under the Taxation Act.

A new registrant is required to determine whether the value of taxable sales made during the last fiscal year exceeded \$6 million, **only if**

- the business is a corporation resulting from an amalgamation, in which case the value of the taxable sales made by each predecessor corporation will be taken into account;
- the business is carried on by a person that does not reside in Québec, in which case the value of the taxable sales that it makes elsewhere in Canada will be taken into account.

Registrants must determine the status of their business for each of their fiscal years.

Under a measure that has been in effect since March 26, 1997, where a large business acquires control of a small or medium-sized business at any time during the fiscal year of the small or medium-sized business, the latter (and any other corporation to which it is related) ceases to be considered a small or medium-sized business at the time of the acquisition of control by the large business.

Since March 26, 1997, it has been stipulated under the QST system that a member of a partnership (other than an individual) is deemed to constitute a small or medium-sized business or a large business depending on whether the partnership itself is a small or medium-sized business or a large business. This has an effect on whether a member of a partnership may claim an ITR in respect of property and services acquired in the name of the member but related to the operations of the partnership.

How to apply for ITCs and ITRs

Most registrants claim their ITCs and ITRs when they file their GST and QST returns for the reporting period during which the purchases were made. However, as a rule, you have four years in which to claim the ITCs or ITRs to which you are entitled for a given period. In other words, you must make your claim by the deadline for filing the return for the last reporting period ending within four years after the first reporting period for which the ITCs or ITRs could have been claimed.

• Example

- A registrant that reports on a quarterly basis under both the QST and the GST systems has until January 31, 2001 (deadline for the return pertaining to the period from October 1, 2000, to December 31, 2000), to claim ITCs and ITRs respecting purchases that were made during December 1996.

The deadline for claiming ITRs and ITCs is two years rather than four years for listed financial institutions and for persons whose taxable supplies during each of the last two fiscal years preceding the fiscal year in question exceeded \$6 million. This does not apply, however, to charities and businesses if 90% or more of their sales (other than sales of financial services) made during one of the fiscal years prior to the fiscal year in question were taxable sales.

If you elected to use the Quick Method of accounting, you may not claim ITCs or ITRs respecting most of the purchases made in the course of your commercial activities. Refer to the section in this guide entitled “The Quick Method: a simplified accounting method.”

If you are a new registrant and you were considered a small supplier prior to your registration, you may claim ITCs and ITRs in respect of certain property (such as capital property and stocks) in your possession at the time of registration (see the section entitled “New registrants”).

Operating expenses

The term “operating expenses” refers to purchases made by registrants to ensure the normal operation of their business. Operating expenses include fixed costs, management expenses, and expenses related to other support functions, as well as expenses incurred respecting office supplies such as computer diskettes, paper and pencils, expenses incurred for the rental of an office or commercial premises, expenses incurred to rent equipment and expenses related to the use of utilities. If at least 90% of your operating expenses are incurred in the course of your commercial activities, you are entitled to an ITC and an ITR equal to the full amount of GST and QST paid on the expenses. However, under the GST system, financial institutions may claim ITCs in respect of their operating expenses only if 100% of the expenses are incurred in the course of their commercial activities.

You do not have to keep track of the use of each property or service; rather, you must evaluate the percentage of operating expenses attributable to your commercial activities. The

method you use to determine this percentage is applied to expenses such as heating and fixed costs, which cannot be attributed to a specific use. Once you have chosen a method, you must use it for at least one fiscal year.

• Example

• You own the building in which your store is located and you rent out a residential apartment (exempt supply) on the upper floor. The cost of utilities is included in the rent charged for the apartment. You are entitled to an ITC and an ITR only with respect to the GST and QST paid on the portion of the utilities bill that pertains to the store. You must therefore determine this portion using any method that is reasonable given your particular situation (for example, the number of square metres of commercial space, as compared to the total floor space in the building).

Capital property

The term “capital property” includes a person's depreciable property, in respect of which capital cost allowance may be claimed, as well as a person's non-depreciable property, which would result in a capital gain or capital loss for the person were the property to be disposed of.

Capital property includes

- immovables (called “real property” for GST purposes) such as land or a building; and
- movable property (called “personal property” for GST purposes) such as machinery used by a business in its commercial activities. Movable property includes, for example, refrigerators, ovens and other household appliances; photocopy machines, computers and cash registers; chairs, tables, sofas, beds and television sets used to furnish hotel rooms; waiting rooms and convention facilities.

With respect to the GST, property included in class 12 (chinaware, cutlery or other tableware costing less than \$200), class 14 (a patent,

franchise, concession or licence for a limited period) or class 44 (a patent) of Schedule II of the Income Tax Regulations is not considered to be capital property. You may claim ITCs for such property following the rules applicable to operating expenses. With respect to the QST, the same rule applies to property included in class 12 or class 14 of Schedule B of the Regulation respecting the Taxation Act.

If you use capital property that is an immovable (called “capital real property” for GST purposes) at least 90% of the time in your commercial activities, or capital property that is movable property (called “capital personal property” for GST purposes) more than 50% of the time in your commercial activities, you may generally claim an ITC and an ITR equal to the full amount of GST and QST paid on the acquisition of the property. The table on the following page provides a checklist of the rules for claiming ITCs and ITRs on capital property. Please note that special rules apply to passenger vehicles and aircraft owned by registrants that are individuals.

If you increase the percentage of commercial use of an immovable or of movable property, you may be entitled to an additional ITC or ITR. On the other hand, if you reduce the percentage of commercial use, you may be required to refund a portion of the ITC or ITR already claimed.

For further information, contact the office of the Ministère du Revenu du Québec in your area.

ITCs and ITRs respecting capital property

	Percentage of use in commercial activities	All registrants ¹	Individuals who are registrants ²	Public sector bodies
Corporeal movable property	$\leq 50\%$	None	None	None
	$> 50\%$	100%	100%	100%
Immovables	$\leq 10\%$	None	None	None
	$> 10\%$ to $\leq 50\%$	% of use	% of use ⁵	None ⁶
	$> 50\%$ to $< 90\%$	% of use	% of use	100% ⁶
	$\geq 90\%$	100%	100%	100%
Passenger vehicles and aircraft³	$\leq 10\%$	None	None	None
	$> 10\%$ to $\leq 50\%$	None	Based on CCA ⁴	None
	$> 50\%$ to $< 90\%$	100%	Based on CCA ⁴	100%
	$\geq 90\%$	100%	100%	100%

1. Under the GST system, financial institutions may claim ITCs based on the extent of the property's use in commercial activities. Under the QST system, the rules respecting all registrants apply.
2. With respect to purchases of passenger vehicles and aircraft, partnerships follow the rules that apply to individuals.
3. The portion of the cost of passenger vehicles and aircraft giving entitlement to an input tax credit is limited to the capital cost threshold for income tax purposes.
4. $ITC = CCA \times 7/107$
 $ITR = CCA \times 7.5/107.5$
5. Individuals may not claim ITCs or ITRs if the percentage of use of the capital property for personal purposes is higher than 50%.
6. A public service body may elect to have the rules respecting all registrants apply.

Examples

You purchase a building. You intend to use 60% of the building in your commercial activities. You may therefore claim an ITC equal to 60% of the GST paid and an ITR equal to 60% of the QST paid.

Cost of building	\$500,000
GST (7% x \$500,000)	\$35,000
QST (7.5% x \$535,000)	\$40,125
ITC claimed (\$35,000 x 60%)	\$21,000
ITR claimed (\$40,125 x 60%)	\$24,075

You purchase a computer for your business that you intend to use 60% of the time in your commercial activities. You may therefore claim an ITC equal to 100% of the GST paid and an ITR equal to 100% of the QST paid.

Cost of computer	\$4,000
GST (7% x \$4,000)	\$280
QST (7.5% x \$4,280)	\$321
ITC claimed	\$280
ITR claimed	\$321

Home office expenses

You may claim ITCs or ITRs for home office expenses only if the work space in your home is either your principal place of business or is used exclusively (90% or more) to earn income from your business, and it is used on a regular and continuous basis for meeting your clients,

customers, or patients in respect of your business. Individuals who are registered may claim ITCs or ITRs with respect to such expenses only if the expenses are deductible for income tax purposes.

New registrants

Small suppliers who decide to register may claim ITCs and ITRs in respect of all the goods they had on hand, immediately prior to registration, for consumption or use in their commercial activities. As a rule, the ITCs or ITRs a person may claim at the time of registration is equal to the amount of GST or QST that the person was required to pay on the property and any improvements thereto, after the deduction of any amounts (other than ITCs or ITRs) that the person was entitled to recover by rebate, remission or otherwise, and taking into account any depreciation in the value of the property.¹ The depreciation factor is generally calculated by dividing the fair market value of the property at the time the ITC or ITR is determined by the value on which the GST or QST was originally calculated.

As a new registrant, you may also claim an ITC and ITR in respect of any GST and QST payable, prior to registration, on services provided subsequent to your registration, or on rent, royalties or similar amounts paid, in the course of your commercial activities, with respect to a period subsequent to your registration. You may claim your ITC and ITR on the first return you file after registration.

• Example

- You prepay 18 months' rent for office space for the period from January 1, 1996, to June 30, 1997. You register on March 15, 1996, and may claim an ITC and an ITR respecting the GST and QST paid on rent for a period subsequent to that date.
- However, you are not entitled to an ITC and an ITR respecting the GST and QST paid on rent from January 1, 1996, to March 15, 1996, because the tax relates to the period prior to your registration.

You will find information pertaining to ITCs and ITRs in the appendix entitled "Special cases." See the table of contents.

For information on the simplified method for calculating ITCs and ITRs, consult the section "Simplified method for calculating ITCs and ITRs."

1. In the Excise Tax Act, reference is made to the basic tax content.

4

CALCULATING THE GST AND QST TO BE REMITTED OR REFUNDED

Under the GST and QST systems, you are required to calculate, for each reporting period,

- the tax that you collected or should have collected during the reporting period; and
- the tax that you paid or that became payable during the reporting period and in respect of which you were entitled to ITCs or ITRs.

If the difference (plus or minus adjustments) between these two amounts is positive, it represents the amount of tax you are required to remit; if the difference is negative, it represents the amount of the refund to which you are entitled.

If you are a small business, you may use the Quick Method of accounting to determine the GST and QST that you must pay.

Determining the GST and QST payable

You may use the method you prefer to determine the amounts of GST and QST you are required to remit and respecting which you are entitled to ITCs and ITRs.

Most registrants use the following method: Use two columns in your sales books to enter the GST and QST billed on taxable sales for the reporting period concerned. Similarly, use two columns in your purchase books to enter the GST and QST for which you have been billed during the same reporting period and for which you are entitled to ITCs and ITRs.

Taxes may be included in the total price. Therefore, you must ensure that the method you use allows you to identify the amount of tax. As well, certain sales made to Indians, governments and government corporations and agencies referred to under the reciprocal taxation agreement are not subject to tax.

See page 14 to find out when the tax is considered to have been paid and when the amount charged for the property or service is deemed to be due (respecting, for example, leases, vending machines, partial payments and conditional sales).

In addition, when calculating the net tax on your return for a given period, you must take into account all ITCs and ITRs claimed for the period (including those applicable to previous periods), as well as all amounts that may be deducted, following an adjustment, in the calculation of your net tax for the period. The latter amounts generally correspond to the GST and QST that you paid or should have paid.

You will find information pertaining to the Quick Method of accounting and the special quick method of accounting for public service bodies in the appendix entitled “The Quick Method: a simplified accounting method.”

HOW TO FILE GST AND QST RETURNS AND REMIT THE TAX PAYABLE

The GST you collected or should have collected on your taxable sales and the ITCs to which you are entitled for GST paid or payable on your purchases for a given period are reported on the GST return. The equivalent amounts of QST (and ITRs) are reported on the QST return.

If the total of your ITCs (or ITRs) exceeds the total GST (or QST) you collected (or should have collected) on property and services you supplied during the reporting period, you are entitled to a refund of the difference.

However, if the total of the GST (or QST) you collected (or should have collected) on property and services you supplied during the reporting period exceeds the total of your ITCs (or ITRs), you must remit the difference to the Ministère du Revenu du Québec by the deadline for filing the GST and QST returns. Any adjustments must be taken into account in the calculation of the amount to be remitted to the Ministère.

Returns

One of the advantages of the administration of the GST in Québec is that registrants in Québec may use form FPZ-500-V to file a combined GST–QST return. Furthermore, they may add the amounts of GST and QST payable and make their payment using a single detachable remittance slip and a single cheque. Businesses that cannot use the GST–QST return (form FPZ-500-V) must file the GST return (form FPZ-34-V) or the QST return (form VDZ-471-V), as applicable. If you are a registrant, you must file a GST return and a QST return even if you are not entitled to a refund or you have no amount payable. Please use the personalized return sent to you by the Ministère.

If you do not receive a personalized return within 15 working days prior to the end of your reporting period, or if you lose the one sent to you, contact the office of the Ministère du Revenu du Québec in your area to obtain a return so that you can file on time.

Your return must reach the Ministère **no later than one month after the last day of the period covered** if you file monthly or quarterly. However, if you file annually, the return must, as a rule, reach the

Ministère **no later than three months following the end of the period covered**. Individuals who are registrants and who for a given year have business income for income tax purposes and a fiscal year for GST–QST purposes that ends on December 31, have until June 15 of the following year to file their GST and QST returns, if they file on an annual basis. Any GST or QST payable must be remitted, however, by April 30. Registrants that file annually and whose fiscal year for income tax purposes as well as for the GST and the QST ends on a date other than December 31 must file their GST and QST returns and make their payments, if applicable, no later than three months following the end of their fiscal year.

The date of receipt of a payment is the date on which it is received at an office of the Ministère du Revenu du Québec (regardless of whether it is mailed or delivered in person), or the date on which it is received at a financial institution.

Special forms are used for instalment payments, rebate applications and elections under the GST and QST. For further information, consult the section “Elections and applications.”

Certain businesses and organizations that have branches or divisions may request that the branches or divisions file separate GST and QST returns. They must submit form FP-594-V, *Application to File Separate Returns for Branches or Divisions*, or form FP-530-V, *Application by a Public Service Body to Have Its Branches or Divisions File Separate Rebate Applications*.

Under the GST and QST systems, registrants may request that certain reporting periods in a fiscal year be designated reporting periods for which they are not required to file returns, provided the tax they collected or should have collected and the adjustments in their net tax calculation total \$1,000 or less for the reporting period or periods concerned. Furthermore, in order to be eligible to use designated reporting periods, a registrant must have fulfilled all fiscal obligations to Revenue Canada and the Ministère du Revenu du Québec. This measure can be advantageous for persons that operate a seasonal or part-time business, or for non-residents that carry on commercial activities in Canada (or in Québec) for a short period of time each year. Registrants that designate a reporting period must report the tax that was or should have been collected during that period on the return for the following period.

The option concerning designated reporting periods is available to businesses and organizations regardless of the amount of their receipts or the nature of their commercial activities. However, registrants that file returns on an annual basis may not take advantage of this option; nor may the branches or divisions of a registrant, unless the registrant requests one or more designated reporting periods for the entire business. You must submit a letter to the Ministère du Revenu du Québec, at the time you register or prior to the beginning of the first designated period, specifying the date on which each designated period is to begin and end, your legal name, and the names of any branches or divisions that file separate returns. The letter must be signed by an authorized person.

Registrants must harmonize their reporting periods under the GST and QST systems; the fiscal year and fiscal quarters must be the same under both systems. Usually a registrant's fiscal year for GST–QST purposes corresponds to the taxation year for income tax purposes.

Reporting periods may be chosen at the time of registration on form LM-1-V, *Application for Registration*. They may be subsequently changed by filing form FP-620-V, *Election respecting GST and QST Reporting Periods*, at the appropriate time, as provided for under the law.

Reporting periods

Under the GST and QST systems, reporting periods are assigned on the basis of the registrant's total annual taxable sales (including the sales of associates) in Canada. The frequency assigned is indicated on the registrant's confirmation of registration. GST and QST returns may be filed monthly, quarterly or annually. Registrants that file monthly or quarterly must remit the amount of net GST and QST payable or may claim a refund when they file their return. Registrants that file annually are usually required to pay in four instalments each year and file form FPZ-558-V, *Tax Instalment Form*. A copy of the form is sent to the registrant prior to the due date for each instalment. Instalments must be paid no later than one month after the last day of each quarter in a registrant's fiscal year. Any necessary adjustments of the total amount of the instalments on the basis of the GST (or QST) actually payable are done on the return to be completed at the end of the year.

Instalments are not necessary if the net amount of GST or QST payable for the current year or previous year is less than \$1,500. Registrants simply file their return and remit the net amount of GST or QST payable or claim a refund, as applicable. It should be noted that the \$1,500 limit corresponds to a business's total net GST or QST, rather than to the amounts collected by each branch or division (even if the branches or divisions file separate GST and QST returns).

The table below provides a summary of the assigned reporting periods and the elections possible. Certain particularities exist in the case of charities and listed financial institutions.

Annual taxable sales	Assigned reporting period	Other possibility
Over \$6,000,000	monthly	none
From \$500,001 to \$6,000,000	quarterly	monthly
\$500,000 or less	annual (with or without instalments)	monthly or quarterly

Form FP-620-V, *Election respecting GST and QST Reporting Periods*, must be filed to change the frequency of the GST and QST reporting periods assigned by the Ministère du Revenu du Québec. For further information, refer to the section "Elections and applications." You may also make an election respecting your

reportings period on form LM-1-V, when you register. If you think that you will be claiming refunds often, you should choose to file returns on a frequent basis. Once an election has been made with respect to the frequency of reporting periods, the registrant must normally file on that basis for at least one year.

Applying a tax refund to the payment of tax owing

If you wish to use a GST refund or rebate to which you are entitled for a given period to offset the net GST payable for the same period, you must enclose the appropriate rebate application (usually form FP-189-V, *General Application for Rebate of Goods and Services Tax*).

The offset measure also exists under the QST system. Accordingly, if your QST return shows that you have net QST payable, and if you claim a QST refund by enclosing with your return form VD-403-V, *General Application for a Québec Sales Tax (QST) Refund*, you may deduct the amount of the refund from the amount owing and remit or claim only the difference between the two amounts.

If you use the GST–QST return (form FPZ-500-V), you may offset an amount owing under the Excise Tax Act by a refund to which you are entitled under the Act respecting the Québec sales tax (or vice versa) and, if applicable, remit only the difference to the Ministère du Revenu du Québec. If the amount of the refund is greater than the amount owing, you may claim the difference from the Ministère. However, you may not, as a rule,

use the offset measure in respect of GST or QST if you have other debts to the federal or Québec government (even if a fiscal debt agreement exists), or if you have not filed a return that should have been filed for a previous reporting period.

• • • Example		
• GST collected		\$1,600
• ITC	-	<u>\$1,750</u>
• Refund of net tax		\$150
• QST collected		\$1,800
• ITR	-	<u>\$150</u>
• Net tax payable		\$1,650
• Amount of remittance		
• $\$1,650 - \$150 = \$1,500$		

If you have branches or divisions that file separate GST and QST returns, you may elect to offset an amount owed by one of your branches or divisions under one of the above-mentioned laws with a refund to which another of your branches or divisions is entitled under the other law.

Tax remittances or refunds

• Where should tax remittances be made and refund applications be filed?

Under the agreement reached between the Minister of National Revenue and the Minister of Revenue of Québec, and by virtue of the fact that your GST account is administered by the Ministère du Revenu du Québec, you are required to make all of your GST and QST payments to the Ministère du Revenu. You may make your payment in person at a financial institution or an office of the Ministère du Revenu du Québec. In this case, simply present your remittance slip with your payment. You may also mail your remittance slip in the return envelope, enclosing a cheque or money order payable to the Minister of Revenue of Québec. Be sure to indicate your GST account number and your identification number (for the purposes of the QST) on the cheque or money order.

GST and QST payments of \$50,000 or more must be remitted at a financial institution.

You may, if you wish, file your GST and QST returns and remittances electronically. For further information, contact the Groupe de promotion de l'EDI et d'acquisition des données électroniques at the Ministère. Ask your financial institution if it offers this service.

The Ministère must receive your remittance slip, and your payment (if applicable), by the filing deadline for your return. The date of receipt of a payment is the date on which it is received at an office of the Ministère (regardless of whether it is mailed or delivered in person), or the date on which it is received at a financial institution.

If you are not making a remittance or if you are claiming a refund, you may not present your return or refund application (as applicable) at a financial institution. Instead, you must mail the return or refund application, or deliver it in person, to an office of the Ministère du Revenu du Québec.

Whether you are making a remittance or claiming a refund, you must always sign and return Part 2 (remittance slip) of your QST or GST form, which constitutes your official return.

Never send cash by mail.

- **When will you receive your refund cheque or notice of assessment?**

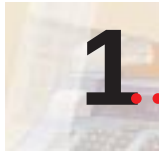
The Excise Tax Act and the Act respecting the Québec sales tax state that the Minister must be diligent in refunding any net tax that a registrant claims on the required return.

If you do not receive your GST rebate within 20 days after the day on which you file your return, you will be paid interest calculated as of the 21st day after the receipt of your return, provided you filed the return after the end of the reporting period, and provided you have filed all required returns for the reporting period and previous reporting periods. Accordingly, you may not receive the refund you expect if you have a debt to Revenue Canada.

If you do not receive your QST refund within 45 days after the Ministère receives your return, you will be paid interest calculated as of the 46th day. However, you may not obtain the refund claimed if you have a debt to the Ministère du Revenu du Québec under one of the laws it administers.

Persons that neglect to pay or remit an amount within the prescribed time period are liable to a penalty. The rate of the penalty is 7% of the outstanding amount for remittances that are 1 to 7 days late; 11% for remittances that are 8 to 14 days late; and 15% for remittances that are 15 or more days late. Furthermore, persons that neglect to collect an amount, that obtain a refund to which they are not entitled or that obtain a refund that exceeds the amount to which they are entitled are liable to a penalty of 15% of the amount. Under the Excise Tax Act, persons that neglect to pay or remit an amount respecting the GST within the prescribed time period are liable to a penalty calculated at the annual rate of 6% on the amount. Amounts that are not paid or remitted within the prescribed time periods are subject to interest at the rates prescribed by regulation. The rate is revised quarterly. It was 3.5707% for the quarter ending December 31, 1997

Please note that filing a false return is a serious offence.



SPECIAL CASES

Early-payment discounts and late-payment charges

Suppliers that offer early-payment discounts respecting sales on credit must collect GST and QST on the total amount indicated on the invoice, regardless of whether the customer takes advantage of the discount.

Example

- The invoice you give your customer shows a purchase price of \$100 plus \$7 GST and \$8.03 QST; a discount of 2% is offered if the customer pays within 10 days of the billing. The GST and QST charged will still be \$7 and \$8.03 respectively, even if your customer takes advantage of the discount. Consequently, the total price paid by your customer will be \$113.03, that is, \$98 (\$100 – \$2) plus \$7 GST and \$8.03 QST.

If you charge an amount for a bill that is paid late, the GST and QST must be calculated on the amount shown on the invoice before the addition of the late-payment charge.

Example

- You charge \$5 for late payment of a bill of \$100. GST and QST must be collected only on the amount of \$100, even if your customer actually paid \$105 for the supply.

When the amount you bill the customer is already net of the early-payment discount, charge GST and QST on the invoiced amount.

Example

- You send a customer an invoice with instructions to pay \$108 if payment is made by March 23, or \$118 if payment is made after March 23. You charge GST and QST on the amount of \$108, even if the customer makes the payment after March 23.

Volume discounts

Registrants that offer their customers volume discounts (for example, registrants that reduce the price of goods if a certain quantity is purchased) may adjust the GST and QST payable by the customers. The type of adjustment depends on when the discount is offered.

If you offer a discount at the time of sale, you must collect GST and QST on the net amount (that is, on the selling price minus the discount).

Example

10 tables at \$150.00 each		\$1,500.00
Reduction (10%)	-	\$150.00
40 chairs at \$50.00 each		\$2,000.00
Reduction (10%)	-	<u>\$200.00</u>
Subtotal		\$3,150.00
GST (7% x \$3,150)	+	\$220.50
QST (7.5% x \$3,370.50)	+	<u>\$252.79</u>
Total		\$3,623.29

Certain discounts are granted after the sale is made and the GST and QST are collected. This type of reduction is granted to the customer at the end of a certain period (for example, at the end of a year). In such a case, you may adjust, refund or credit the GST and QST relative to the reduction during the reporting period in which the reduction was granted or within four years after the end of the period. If you choose any of these options, you must generally issue a credit note to your customer specifying the amount of the discount and the tax refunded, adjusted or credited (unless your customer provides you with a debit note containing this information). The treatment of a credit or debit note for this purpose is the same as the treatment described in “Deposits and returned goods,” in the following section.

The amount of GST and QST collected will be affected, as will the amount of the ITC and ITR claimed if the purchaser is a registrant. You may, however, choose not to adjust the amounts of GST and QST collected if, for example, a registered purchaser has already claimed an ITC and an ITR respecting the amounts. If you decide not to make the adjustment, the GST and QST are not to be included in the discount granted and a credit or debit note need not be provided.

Deposits and returned goods

The GST and QST must be collected on a deposit only if the deposit is considered to be a partial payment of the property or service. If your customer forfeits the deposit because he or she does not purchase the item or service on which the deposit was made, both taxes must be charged on the deposit. To determine the GST to be remitted on the forfeited amount, multiply the amount of the deposit by 7/107 or 0.0654 (15/115 for the HST). To determine the QST to be remitted, multiply the total amount of the deposit by 7.5/107.5 or 0.0697. Under certain conditions, a registrant may claim an ITC and an ITR in respect of the taxes deemed to have been paid on the forfeited deposit.

• Example

- One of your customers puts down a deposit of \$50 on the purchase of a television set. He later decides not to make the purchase and forfeits the deposit. You are considered to have collected GST and QST equal to 7/107 and 7.5/107.5 respectively of the forfeited deposit. As a result, you are required to remit to the Ministère \$3.27 in GST ($\$50 \times 7/107$) and \$3.49 in QST ($\$50 \times 7.5/107.5$). If your customer is a registrant, he or she may claim, under certain conditions, an ITC of \$3.27 and an ITR of \$3.49.

If you give a customer a refund or credit for goods returned, the GST and QST collected or collectible on the goods may be either refunded or credited to the customer.

In this case, you must prepare a credit note and give it to your customer. The note should contain the following information:

- a statement to the effect that the document is a credit note;
- your name or commercial name and your GST account number and identification number for the purposes of the QST;
- the customer's name or commercial name;
- the date on which the credit note was issued;
- an indication as to whether the credit note relates to an adjustment, credit or refund;
- the date on the invoice covered by the credit note;
- a brief description of the goods.

A debit note prepared by your customer and containing the information specified above is also acceptable.

You may deduct the GST and QST you refunded or credited to the customer from the net tax for the reporting period during which the credit or debit note was prepared, provided you have already taken the tax into account in the calculation of net tax for the reporting period concerned or a previous reporting period. Furthermore, if the customer is a registrant and claimed an ITC and ITR for the tax initially paid, the customer may be obliged to add, in the calculation of net tax, the tax refunded by you.

If you refund only a percentage of the purchase price (for example, 85%) and keep the balance to cover repackaging or other expenses, you may refund only 85% of the tax initially collected. You must then prepare a credit note (or request a debit note) for that amount.

Promotional gifts and free samples

In general, you are not required to collect GST or QST on promotional gifts distributed free of charge to customers or as a bonus on the purchase of another item, as long as the gifts are reasonable under the circumstances.

However, you may claim ITCs and ITRs with respect to the GST and QST you paid (or should have paid) on purchases related to such gifts if the gifts are offered in relation to your taxable sales.

Gift certificates

The sale of a gift certificate is not subject to GST or QST. When a customer pays for an item with a gift certificate, the latter is considered to constitute a portion of the amount paid for the item; accordingly, GST and QST must be calculated on the full price of the item as if cash were being paid. The retailer is not eligible for any form of compensation.

Example

Price of item		\$10.00
GST	+	<u>\$0.70</u>
Subtotal		\$10.70
QST	+	<u>\$0.80</u>
Subtotal		\$11.50
Value of gift certificate	-	<u>\$2.00</u>
Total		\$9.50

Coupons

Coupons are generally receipts or tickets whose monetary value has not necessarily been determined. Coupons entitle consumers to a discount on the purchase price of specific goods or services.

Coupon reimbursements, as well as related handling fees and postage, are not taxed. However, coupon clearing houses must charge GST and QST on brokerage fees.

The following section outlines how to calculate the GST and QST on various types of coupons.

Reimbursable coupons

These are generally referred to as manufacturers' coupons and are treated in the same way as cash given by the customer at the time of the transaction. The GST and QST payable are deemed to be included in the face value of the coupons.

Reimbursable coupons

- are remitted by the retailer to a third party (for example, a coupon clearing house or the manufacturer) for redemption;
- entitle the purchaser to a specific discount (set amount) on his or her purchase;
- apply only to taxable (other than zero-rated) property and services.

When a customer presents a merchant with this type of coupon and the merchant's prices do not include the GST or QST, the merchant must total the value of all items purchased and add the GST and QST payable before deducting the value of the coupon or coupons from the total amount charged. If the GST and QST are included in the vendor's prices, the vendor must total the sale first and then deduct the value of the coupon or coupons.

Example

		GST and QST not included	GST and QST included
Price of item		\$25.00	\$28.76
GST paid on item (\$25 x 7%)	+	\$1.75	—
QST paid on item (\$26.75 x 7.5%)	+	<u>\$2.01</u>	—
Subtotal		\$28.76	\$28.76
Value of coupon (GST and QST included)	-	<u>\$10.00</u>	<u>\$10.00</u>
Amount paid by the customer		\$18.76	\$18.76

The **retailer** must account for the GST collected (\$1.75 in the example) on the GST return, **without taking the face value of the coupon into account**. The QST collected (\$2.01 in the example) must be taken into account in the same manner on the QST return. When the retailer sends the coupon to the manufacturer for redemption, the retailer will be reimbursed for its full face value (including GST and QST) and any related handling fees and postage.

The **manufacturer** must reimburse the full face value of the coupon to the retailer, and may then claim an ITC and an ITR in respect of the GST and QST that were reimbursed and deemed to have been included in the value of the coupon. The manufacturer may claim an ITC equal to $7/107^1$ of the value of the coupon (in the example, $7/107$ of \$10, or \$0.65) and an ITR equal to $7.5/107.5$ of the value of the coupon (in the example, $7.5/107.5$ of \$10, or \$0.70).

Registrants that use such coupons to make purchases for their business must keep in mind that the value of the coupon is subtracted after calculation of the GST and QST, thereby reducing the amount of GST and QST actually paid on the purchases. The amount claimed as an ITC must therefore be reduced by $7/107$ of the face value of the coupon. Similarly, the amount claimed as an ITR must be reduced by $7.5/107.5$ of the face value of the coupon. In the example, the registrant would claim an ITC of \$1.10 (\$1.75 minus $7/107$ of \$10) and an ITR of \$1.31 (\$2.01 minus $7.5/107.5$ of \$10).

• Non-reimbursable coupons

Non-reimbursable coupons are normally issued by retailers. They usually have the following characteristics:

- they are not remitted for reimbursement by a third party;
- they entitle the customer to a specific discount (amount or set percentage) at the time of the purchase;
- they apply only to taxable (other than zero-rated) property or services.

Such coupons may be treated as reimbursable coupons (see the previous point), or be used to reduce the price of property or services before the calculation of GST and QST. Retailers who treat their non-reimbursable coupons as reimbursable coupons simplify their accounting because all of their coupons can be treated in the same way. Accordingly, they must follow the rules set forth in the previous section. Retailers who use their non-reimbursable coupons to reduce the price of property or services before the calculation of the GST and QST must deduct the face value of the coupon from the selling price of the item before calculating the GST and QST payable by the purchaser.

• Example		
• Total price of item		\$25.00
• Face value of coupon	-	<u>\$10.00</u>
• Subtotal		\$15.00
• GST	+	\$1.05
• QST	+	<u>\$1.20</u>
• Amount paid by the customer		\$17.25

When filling out their GST and QST returns, retailers must deduct the face value of the coupon from the selling price of the item before calculating the amount of GST and QST collected (\$1.05 and \$1.20 in the above example). Unlike manufacturers who issue reimbursable coupons, retailers cannot adjust their ITCs and ITRs if the value of the coupons is subtracted prior to the calculation of the taxes.

1. 15/115 when the coupon is accepted for a sale made in a province in which the HST applies.

• Other coupons

Coupons that are not for a specific discount are treated in the same way as non-reimbursable coupons whose value is deducted from the selling price of an item before calculation of the taxes (as shown in the example on the previous page). Such coupons reduce the selling price of the property or service before the GST and QST are calculated. Accordingly, the retailer must subtract the value of the coupons from the selling price before calculating the GST and QST payable, and must not make ITC or ITR adjustments. (As the issuer of the coupons, the manufacturer may make ITC and ITR adjustments, provided the coupons are reimbursable.)

Coupons that are not for a specific discount may

- entitle the customer to a certain percentage off the price of an item (for example, coupons offering a 10% reduction on the next purchase);
- offer an item for no charge if another item is purchased (for example, two-for-one coupons);
- entitle the customer to more than one monetary discount (for example, \$0.10 off a 750 ml bottle of a soft drink, or \$0.20 off a 1.5 L bottle);
- be used for taxable, zero-rated or exempt property and services.

Manufacturers' rebates

Rebates may be offered by manufacturers on their sales of property. The GST and QST rules for manufacturers' rebates apply when, for example,

- a manufacturer sells taxable (other than zero rated) property to a customer entitled to a rebate;
- the sale is made either directly by the manufacturer or by another person (such as a retailer);
- the customer receives a rebate respecting the property from the manufacturer, accompanied by a note specifying that a portion of the rebate represents the GST and QST.

Some manufacturers provide a rebate application form with the property. In this instance, the customer, after purchasing the item from the retailer, completes the rebate application and mails it directly to the manufacturer. Since the payment of the rebate is a separate transaction between the manufacturer and the customer, the retailer must take into account the GST and QST on the full selling price of the item, without deducting the value of the manufacturers' rebate.

• Example

- A customer purchases a package of batteries from a hardware store for \$5 plus \$0.35 GST and \$0.40 QST. The package contains a form to be completed and mailed to the manufacturer so that the customer may obtain a \$2 rebate. The manufacturer receives the rebate application and sends the customer a cheque for \$2.

Some manufacturers' rebates are given to customers through the retailer at the time the goods are purchased. Even if the amount of the rebate is applied to the retail price of the goods, the retailer must collect GST and QST on the retail price before deducting the amount of the rebate.

• Example

- An automobile dealership sells an automobile for \$10,000. The dealer informs the customer that the manufacturer is providing a \$500 rebate on the automobile.

• Selling price		\$10,000.00
• GST (7% x \$10,000)	+	\$700.00
• QST (7.5% x \$10,700)	+	<u>\$802.50</u>
• Subtotal		\$11,502.50
• Rebate	-	<u>\$500.00</u>

• **Amount paid by the customer \$11,002.50**

- The customer must pay the automobile dealer \$11,002.50.

Manufacturers that grant a rebate are entitled to an ITC equal to $7/107^1$ of the value of the rebate for the period during which the rebate was granted. They are also entitled to an ITR equal to $7.5/107.5$ of the value of the rebate. Special rules apply if the customer is a registrant entitled to an ITC or an ITR, or to a GST or QST rebate. For further information, contact the office of the Ministère du Revenu du Québec in your area.

1. 15/115 when the HST rate applies.

Used property

- **Sales of used property**

Used property (including property seized or repossessed by a creditor) is taxable under both the GST and QST systems, unless the supply is made by a person that is not engaged in commercial activities. Consequently, an antique dealer that is a registrant must generally collect the taxes on furniture and other property sold. However, under the QST system, road vehicles that must be registered under the Highway Safety Code are QST-taxable even if the person that sells them is not engaged in commercial activities. In such cases, the QST is collected upon registration of the vehicle.

Under the QST system, persons that occupy a space at a flea market are subject to the same rules as most other business people, regardless of whether the merchandise they sell is new or used. As well, persons that make space available to other persons that wish to sell new or used merchandise, or to provide services at a flea market or a similar enterprise, must submit a list of the occupants (containing certain prescribed information) to the Ministère. The list must be updated and filed each month, no later than the 15th day of the month following the month to which it applies. Occupants that fail to provide the required information to the supplier of the space, or that provide false information, are liable to a penalty of \$100 for each day the space is occupied. Suppliers of flea-market spaces that fail to file the required list are liable to the same penalty of \$100.

- **Purchases or trade-ins of used property**

If you accept used property as a trade-in for property you sell, special rules apply to the transaction, depending on whether the person trading in the property (the vendor) is a registrant.

Vendors registered for the GST and the QST must collect the taxes on the value of the property traded in from the person accepting the property as a trade-in. The person accepting the used property as a trade-in must collect the GST and QST from the vendor on the full selling price of the property sold. There are therefore two separate transactions.

- **Example**

- The ABC company sells machinery to the XYZ company for \$50,000 and offers XYZ a \$20,000 trade-in for its old machinery.
- Both companies are registrants.

Invoice made out by the ABC company		
Selling price		\$50,000.00
GST (7% x \$50,000)	+	\$3,500.00
QST (7.5% x \$53,500)	+	<u>\$4,012.50</u>
Total		\$57,512.50
Trade-in (including taxes)	-	<u>\$23,005.00</u>
Net amount charged to XYZ		\$34,507.50

Invoice made out by the XYZ company		
Selling price		\$20,000.00
GST (7% x \$20,000)	+	\$1,400.00
QST (7.5% x \$21,400)	+	<u>\$1,605.00</u>
Total		\$23,005.00

Both the vendor and the person accepting the property traded in may claim an ITC and an ITR with respect to the GST and QST paid because they acquired the property in the course of their commercial activities. The amount of GST and QST collected and the GST account number and identification number (for the purposes of the QST) of the person supplying the property must be indicated on the invoice (see the table on page 12).

Vendors that are non-registrants do not collect GST and QST on the value of the property traded in. (Under the QST system, there is an exception with respect to road vehicles. For further information, consult the following section.) The person that accepts the property traded in must calculate the GST and the QST on the net amount of the sale (the amount obtained by subtracting the value of the trade-in from the selling price of the property sold). This rule applies to transactions carried out after April 23, 1996.

• Example

• Green Grass Inc. sells a lawnmower to Bob for \$500 and offers Bob \$100 as a trade-in for his old lawnmower. Green Grass Inc. is a registrant.

• New lawnmower		\$500.00
• Lawnmower traded in	-	<u>\$100.00</u>
• Total		\$400.00
• GST (7% x \$400)	+	\$28.00
• QST (7.5% x \$428)	+	<u>\$32.10</u>
• Total net amount		\$460.10

Green Grass Inc. is not entitled to an ITC or an ITR. Under a rule that has applied since April 24, 1996, registrants may not claim notional ITCs or notional ITRs when they acquire used corporeal movable property for which they are not required to pay GST or QST. Prior to that date, registrants could as a rule claim notional ITCs or notional ITRs if they were purchasing used property (excepting road vehicles) not subject to the GST or the QST. Notional ITCs were equal to 7/107 of the price paid and notional ITRs were equal to 6.5/106.5 of the price.

Trade-ins of road vehicles

Under the GST system, trade-ins of road vehicles are subject to the previously mentioned rules respecting the sale, purchase or trade-in of used property. The same is generally true under the QST system. As well, the QST applies to the estimated value of the vehicle. The tax is collected by the Société de l'assurance automobile du Québec.

For more information on this subject, particularly with respect to sales of used road vehicles and trade-ins accepted in sales to third parties or in the leasing of a road vehicle, consult the bulletin *The QST, the GST and Road Vehicles* (IN-624-V), published by the Ministère du Revenu du Québec.

Sales to persons residing in a province in which the HST applies

The harmonized sales tax (HST) has been in effect in New Brunswick, Nova Scotia and Newfoundland (the “participating provinces”) since April 1, 1997. The HST covers the same base of goods and services as the GST and applies at a rate of 15% (7% federal component and 8% provincial component).

Businesses registered for the GST are automatically registered for the HST. They must collect and remit 15% HST on all taxable (other than zero-rated) sales they make in a participating province.

Québec registrants are not required to account separately for the tax collected at the GST rate of 7% and that collected at the HST rate of 15%. They may continue using the GST return (form FPZ-34-V) or the GST–QST return (form FPZ-500-V) to calculate their net tax. Such registrants must, however, continue to account separately for the QST.

For information on transitional provisions, consult technical information bulletin B-077, *Transitional Provisions under the HST*.

• Place of the sale

The following rules apply for the purpose of determining whether a supply is made in or outside a participating province. Québec registrants must take these rules into account in order to decide if they must collect the GST or the HST on sales made to residents of these provinces.

SALES OF CORPOREAL MOVABLE PROPERTY

Sales of corporeal movable property are considered to have been made in a participating province if the property is delivered by the vendor or made available in a participating province to the recipient (for example, by mail, courier service or a common carrier retained by the vendor on behalf of the purchaser).

Example

A sawmill in Rivière-du-Loup is registered for the GST. It sells lumber to a furniture manufacturer in Fredericton, New Brunswick. The sales contract specifies that the delivery is “FOB purchaser’s plant.” The sawmill must collect HST because the sale is considered to have been made in New Brunswick. The same is true if the sawmill retains a common carrier on behalf of the purchaser to deliver the lumber to Fredericton.

A sawmill in Rivière-du-Loup is registered for the GST. It sells lumber to a furniture manufacturer in Halifax, Nova Scotia. The sales contract specifies that the delivery is “FOB vendor’s plant.” The furniture manufacturer comes to pick up the lumber or retains a common carrier to deliver the lumber to Halifax. The sawmill must collect 7% GST.

A mail-order business located in Montréal sells compact discs to customers throughout Canada. It must collect 15% HST on orders mailed to residents of participating provinces and 7% GST on orders mailed elsewhere in Canada.

LEASING CORPOREAL MOVABLE PROPERTY

Where corporeal movable property is leased for a period of no more than three months, the transaction is considered to have been carried out in a participating province if the property is delivered or made available to the recipient in a participating province.

A supply of corporeal movable property by way of lease, licence or similar arrangement, for a period of more than three months, is treated as a series of separate supplies for each period (“lease interval”) to which a particular payment is attributable. Each such supply is considered to have been made in a particular participating province if the ordinary location of the corporeal movable property, as determined at the beginning of the lease interval, is in that province. The property is deemed to have been supplied (for the lease interval) on the earliest of the following dates:

- the first day of the period;
- the day on which the amount attributable to the period becomes payable;
- the day on which the amount attributable to the period is paid.

Example

A national leasing company leases a generator for a four-year period to a construction company operating in Nova Scotia. The generator is usually stored and maintained at the construction company’s facilities in Nova Scotia. During the second month of the lease, the company expands its operations to Québec and the generator is relocated to the company’s new facilities in Québec. In this case, the first two lease payments are subject to 15% HST; the lease payment attributable to the third month is subject to 7% GST.

SERVICES

Generally, a service is considered to have been provided in a participating province if all or substantially all (i.e. 90% or more) of the service is provided in that province.

SPECIAL RULES PERTAINING TO SALES OF ROAD VEHICLES

If a motor vehicle is acquired from a GST registrant in a non-participating province (for example, Québec) and the GST is paid, and if the vehicle is then taken into a participating province, the purchaser will be required to pay the 8% provincial component of the HST at a provincial licensing office when registering the vehicle in the participating province. On the other hand, if a road vehicle is acquired in a non-participating province from a vendor that is not a GST registrant and the vehicle is taken into a participating province, the

purchaser will be required to pay a special provincial levy (currently 15%) when registering the vehicle in the participating province. As well, the purchaser will not be entitled to an ITC.

OTHER SALES

If you are a GST registrant resident in Québec and you sold any of the property or services listed opposite to residents of a participating province, please contact the office of the Ministère du Revenu du Québec in your area

to find out about the rules pertaining to

- incorporeal movable property;
- immovables and services related to an immovable;
- passenger and freight transportation services;
- telecommunications services.

Transportation businesses that have signed international fuel tax agreements or interprovincial sales tax agreements should also contact the Ministère for information on this subject.

Sales to the federal government

Federal government departments, corporations and agencies are required to pay GST when they acquire taxable property or services, and to collect and remit GST when they make taxable supplies of property or services. Consequently, you must collect GST on your taxable sales to the federal government. As a rule, under a reciprocal tax agreement, the federal government, its corporations and agencies are not required to pay QST.

Organizations not covered by the agreement must pay QST. However, the federal government and its agencies are required to collect QST and remit it to the Ministère du Revenu du Québec. A list of the organizations required to pay QST is provided in interpretation bulletin TVQ.16-1, *The Government of Canada and Québec's Consumption Taxes*.

Sales to the Québec government

Québec government corporations and organizations listed in the reciprocal taxation agreement with the federal government are not required to pay GST on the property and services they acquire. Such corporations and organizations are also exempt from the QST. However, the Québec government, its corporations, agencies and agents are all required, without exception, to collect GST and QST on their taxable sales and to remit the taxes to the Ministère du Revenu du Québec.

A list of Québec government departments and organizations that are not required to pay QST is provided in interpretation bulletin TVQ. 678-1, *The Government of Québec and Québec's Consumption Taxes*.

Persons in charge of acquisitions for the Québec government, its departments, agencies or agents must provide their suppliers with confirmation that they are not required to pay QST on their acquisitions. Such confirmation must be provided at the time of the sale. An exemption certificate, that is, a signed declaration certifying that the property and

services are not subject to QST because they are acquired by the Québec government, its departments, agencies or agents, may be used as confirmation. Such a declaration can be an integral part of the acquisition contract or order form, or a separate document to be remitted to the supplier. The declaration opposite is an example of the type of text that may be used to certify that the Québec government, its departments, agencies and agents are exempt from the QST and the GST.

Registrants that make supplies to the government of Québec in the course of their commercial activities may claim ITCs and ITRs in respect of the tax paid on purchases made respecting such supplies.

Declaration of exemption from the Québec sales tax and the goods and services tax

This certifies that the property or services in question are being ordered or purchased with public funds by a Québec government department or agency for the use of that department or agency, and are therefore not subject to the Québec sales tax or the goods and services tax.

Signature of authorized person

Sales to Indians

Special rules apply to supplies made to Indians, Indian bands and band-empowered entities. In general, GST and QST are not charged if appropriate documentation is presented and one of the following five conditions is met:

- Property was purchased on a reserve or delivered to a reserve by the vendor or the vendor's agent (and, in the case of a band-empowered entity, the property was for band management activities).
- Services were provided entirely on a reserve, to an Indian, in respect of property located on the reserve at that time.
- Services were provided entirely on a reserve to an Indian who was on the reserve at that time.
- Transportation services between locations on a reserve were provided to an Indian.
- Services were acquired on or off a reserve by an Indian band or band-empowered entity for band management activities. Transportation services, short-term accommodation, and meals and entertainment are subject to GST and QST if they are acquired outside a reserve. However, these supplies may give entitlement to a refund if they were acquired for band management activities or for use with respect to buildings located on the reserve.

When the purchaser is an individual who is an Indian, the vendor must keep adequate evidence that the sale was made to an Indian registered under the Indian Act. The vendor may simply indicate, on the invoice or other document attesting to the sale, the registration number (nine- or ten-digit number) of the purchaser or the name of the band and the registration number of the family to which the purchaser belongs (commonly known as the "band number").

When property is purchased outside a reserve by an Indian band or band-empowered entity, the purchaser must provide the vendor with a document certifying that the property is being acquired by an Indian band or a band-empowered entity for band management activities and the vendor must keep the certificate. When property is purchased on a reserve by an Indian band or band-empowered entity, the document must certify only that the person acquired the property on a reserve.

When services are acquired, the document must certify that the services are being acquired by an Indian band or band-empowered entity for management activities or for use with respect to buildings located on the reserve.

You are entitled to ITCs and ITRs in respect of purchases made in the course of your commercial activities in order to sell, to Indians, Indian bands or band-empowered entities, taxable property or services on which you are not required to collect GST or QST. Sales made to Indians are entered in your registers and books of account separately from sales on which you collected GST and QST.

You are required to collect GST and QST on off-reserve sales of taxable property to individuals who are Indians, to Indian bands, or to band-empowered entities situated on a reserve, unless you (or your agent) deliver the property to the reserve (and, in the case of a band-empowered entity, the property was for band management activities). Indians are required to pay GST and QST on all taxable services that are purchased off-reserve, or that are not provided entirely on a reserve, unless the services are supplied with respect to buildings located on the reserve. Similarly, the GST and QST are to be collected on sales of taxable property and services to non-Indians on a reserve.

Certain vendors whose place of business is not located on a reserve do business primarily with Indians, Indian bands or band-empowered entities. In some cases, the reserve is not close to their place of business. High delivery costs or the absence of public transit can therefore make delivery of supplies to the reserve difficult. Under certain conditions, vendors who find themselves in this situation are not required to meet the requirements respecting delivery to a reserve of property purchased by an Indian, Indian band or band-empowered entity. Further information is contained in technical information bulletin B-039.R, *GST Administrative Policy: Application of GST to Indians*, the brochure IN-3310, *Tax Relief for Indians and Bands on Certain Settlements*, and interpretation bulletin TVQ.16-17/R1, *Rules relating to Indians*. All of these publications may be obtained from the Ministère du Revenu du Québec.

Sales to diplomats

GST and QST must be charged and collected on taxable sales to diplomatic missions, consular posts or international organizations, diplomatic agents, consular officers and designated officials of international organizations, whether they make purchases on their own behalf or on behalf of their organization.

Representatives of foreign governments and their dependants cannot avoid paying GST and QST simply by showing the vendor their diplomatic identification cards issued by the federal or Québec government. They may,

however, file form FP-189-V, *General Rebate Application*, and form LM-120-V, *Tax Rebate Application for Use by Diplomatic Missions, Consular Posts or International Organizations, or by Members Thereof*, with the Ministère du Revenu du Québec to obtain a rebate of the GST and QST respectively. These applications must be filed within two years after the date on which a purchase is made.

Sales of businesses

If you sell all or a part of a business, you and the purchaser may make a joint election not to have the GST and the QST apply to the transaction. In addition, to be eligible to make the election, the purchaser must acquire at least 90% of the property required to carry on the business. The election may not be

made in the following cases:

- Taxable services are sold to the purchaser.
- Taxable property is supplied by lease, licence or similar agreement (for example, franchise fees).
- Taxable immovables are sold to a non-registrant.

Mandataries (agents)

A mandate is a contract by which a person (called a “mandatary” for QST purposes and an “agent” for GST purposes) is empowered to represent another person (called the “mandator” for QST purposes and “principal” for GST purposes) in the performance of a judicial act with a third party. When the mandatary transacts with a third party in the course of a mandate, the mandatary is

considered to be acting on behalf of the mandator.

Different rules apply depending on whether the mandator is obliged to collect and remit GST and QST. For further information concerning sales carried out by intermediaries, see the issue of *Tax News* published for the second quarter of 1997 or contact the office of the Ministère du Revenu du Québec in your area.

Exports

- **Corporeal movable property**

As a rule, corporeal movable property (“tangible personal property” for the purposes of the GST) is zero-rated under the GST and QST when it is shipped outside Canada (or outside Québec, as applicable). You are therefore not required to collect GST on tangible personal property sold to a person that intends to export it from Canada. Similarly, you are not required to collect QST on corporeal movable property sold to a person that intends to ship it outside Québec. However, you may claim ITCs in respect of the GST paid on goods and services acquired to make or sell goods that will be exported from Canada, and ITRs in respect of the QST paid on property and services acquired to make or sell property that will be shipped outside Québec.

Property shipped out of Canada (or out of Québec, for QST purposes) must meet the following conditions to qualify as zero-rated:

- The purchaser must not be a consumer.
- Once the property has been delivered to the recipient in Canada (or in Québec), it must be taken out of Canada or Québec, as applicable, within a reasonable length of time.
- The property must not have been acquired for consumption, use or sale in Canada (or in Québec) before being exported from Canada or shipped outside Québec, as applicable.
- The property must not be further processed, transformed or altered in Canada (or in Québec), except to the extent necessary or incidental to its transportation, prior to being exported from Canada or shipped outside Québec, as applicable, by the purchaser.
- The purchaser must provide proof that the property will be exported from Canada (or shipped outside Québec). You must keep this proof for auditing purposes.

- The property must be under warranty and sold in Canada (or in Québec) to a person that is not a resident and not registered for the GST (or the QST).

A person not resident in Canada that purchases property for export outside Canada but does not meet the criteria for zero-rating given previously may be entitled to a refund of the GST paid. As well, a person not resident in Québec that purchases property for shipment outside Québec but does not meet the criteria given previously may be entitled to a refund of the QST paid on the property. The purchaser must ship the property outside Canada (or outside Québec) within 60 days after delivery without using it and must comply with the other conditions. To obtain a GST rebate, the purchaser must complete and file form GST 189E, *General Application for Rebate of Goods and Services Tax (GST)/Harmonized Sales Tax (HST)*. To obtain a QST rebate, the purchaser must complete and file form VD-403-V, *General Application for a Québec Sales Tax (QST) Refund*.

In general, you must collect GST on property purchased by consumers that are not resident in Canada. Similarly you must collect QST on property purchased by consumers that are not resident in Québec. These consumers may, however, claim a GST rebate by completing form GST176E, *Visitor Application for Refund of Goods and Services Tax (GST)/Harmonized Sales Tax (HST), Manitoba Provincial Sales Tax (PST) and Quebec Sales Tax (TVQ)*. Form GST176E is contained in the brochure IN-4031E, *Tax Refund for Visitors*. Persons that reside in Canada, outside Québec, may apply for a QST rebate on form VD-352-V, *Rebate of the Québec Sales Tax (QST) Paid by a Canadian Visiting Québec on Property Purchased in Québec*.

- **Services**

Services provided to non-residents are, as a rule, zero-rated. However, such transactions are taxable if the service is provided to an individual who is not resident in Canada but is in Canada when the service is ordered or provided.

Certain services provided to non-residents (for example, consulting or professional services) may be zero-rated.

The sale of services (other than transportation services) provided with respect to corporeal movable property (called “tangible personal property” for GST purposes) is zero-rated, if the property is imported solely for the purpose of obtaining the services and it is exported as soon as possible after the services have been provided. Any corporeal movable property supplied with these services is also zero-rated.

- **Example**

A person imports property, ordinarily situated outside Canada, for the sole purpose of making repairs. The property is subsequently exported as soon as it is possible to do so. Accordingly, the repair service is zero-rated.

Other zero-rated services include

- services provided to a non-resident, other than a service provided to an individual while the individual is in Canada (or in Québec for the purposes of the QST). This rule applies to services for which payment became due after June 1996, whether or not the individual is the recipient of the service;
- certain professional or consulting services provided to a non-resident;
- services (other than transportation services) pertaining to property brought into Canada or Québec, as applicable, solely for the purpose of receiving these services (to qualify, the property must be exported from Canada or shipped from Québec as soon as can reasonably be expected);
- advisory, consulting or research services that are intended to assist a person that is not a resident of Canada (or of Québec for the

purposes of the QST) in taking up residence or establishing a business in Canada or Québec, as applicable;

- advertising services provided in Canada (or in Québec) to a non-resident that is not registered for the GST or QST, as applicable;
- services provided by an agent acting on behalf of a non-resident, where the services relate to zero-rated property or to a sale made outside Canada (or outside Québec) to or by the non-resident. This includes services provided by an agent to arrange for orders for sales to be made to or by a non-resident;
- services provided in Canada (or in Québec, for the purposes of the QST) to a non-registrant that is not registered for the GST or the QST, respecting property under warranty;
- custodial or nominee services provided to a non-resident with respect to the latter's securities or precious metals;
- services provided to a non-resident (other than an individual) that is not registered for the GST and QST, where the services consist in giving instruction and administering examinations to non-resident individuals respecting courses leading to certificates, diplomas, licences (or classes or ratings in respect of licences), or similar documents attesting to the individual's competence in a trade or vocation;
- emergency repair services (including any property sold in conjunction with the service) provided to a non-resident, in respect of a cargo container or any means of transportation that is used by the person in the course of a business of transporting passengers or property;
- services provided to a non-resident not registered for the GST and QST, which consist in destroying or discarding property, dismantling property for export purposes, or testing or inspecting property that is brought into or acquired in Canada (or brought into or acquired in Québec) solely for the purpose of providing the services, where the property is to be destroyed or discarded in the course of providing the services or afterward.

Imports

- **Corporeal movable property**

Goods imported into Canada are subject to GST and property brought into Québec is generally subject to QST. Zero-rated property is excepted, as are items specified as “non-taxable importations” under the Excise Tax Act (and as non-taxable “property brought into Québec” under the Act respecting the Québec sales tax). Examples of such items not subject to taxation include

- medals, trophies and other prizes;
- goods donated to a charity that are subsequently imported by the charity;
- warranty replacement parts sent to an individual in Canada (or in Québec, for QST purposes).

GST is collected on taxable goods imported into Canada, when the goods go through customs. The amount of GST is calculated on the value of the goods including the excise tax and excise duties. QST is collected on taxable property that is brought into Québec

from outside Canada and is intended for consumers. On the other hand, QST is not collected from a person that brings into Québec property acquired elsewhere in Canada (that is, in another province or a territory); however, the person must remit the QST to the Ministère du Revenu du Québec immediately after having brought the property into Québec, unless the person is a registrant and brings the property into Québec for consumption or use exclusively in commercial activities. In other words, the person is not required to pay QST on property brought into Québec in respect of which an ITR could have been claimed had the person paid the tax.

The importer is responsible for paying the GST on imported goods. If you are a GST registrant, you may claim an ITC respecting the GST paid on goods imported in the course of your commercial activities.

- **Services and incorporeal movable property**

Generally, you are not required to pay GST on services sold outside Canada or on intangible personal property (such as the right to use a patent) you purchased from a non-resident that is not required to register for the GST and does not operate a business in Canada, provided the property or services are acquired for use exclusively in your commercial activities. Similarly, you are not generally required to pay QST on services sold outside Québec or on incorporeal movable property you purchased from a non-resident that is not required to register for the QST and that does not operate a business in Québec, provided the property or services are acquired for use exclusively in your commercial activities.

GST and QST are generally payable on taxable (other than zero-rated) supplies of services and incorporeal movable property (“intangible personal property” for GST purposes) made outside Canada or Québec, as applicable, that are not acquired for use exclusively in commercial activities. Accordingly, if you are a Québec resident and you purchase services or incorporeal movable property from a non-resident that is not registered for the GST and QST and does not operate a business in Canada or Québec, as applicable, you are responsible for remitting to the Ministère du Revenu du Québec the GST and QST payable on the services or property used in Québec other than for use in your commercial activities. GST and QST are generally calculated on the amount charged for the services or property. If the non-resident vendor is registered for the GST and QST and the sale is deemed to have been made in Canada or Québec, as applicable, you must remit the GST and QST payable to the vendor. If you are a registrant and you acquired the services or incorporeal movable property exclusively for use in your commercial activities, you may claim an ITC and an ITR.

- **Example**

- You hire a computer consultant from the United States (one who does not carry on a business in Canada and who is not registered for the GST or QST) to design a computer system for your business's commercial activities. Such a service is not subject to GST or QST if you acquired it exclusively for use in your commercial activities.

Returnable containers

- **Deposits on bottles and cans**

Special rules apply to deposits on bottles and cans. Under these rules, a bottler or manufacturer charges the retailer GST and QST on the deposit for the bottles and cans purchased and must remit the taxes to the Ministère. The retailer cannot claim an ITC or an ITR. For further information, consult the brochure *The QST and the GST: How they Apply to Food and Beverages* (IN-216-V).

- **Deposits on other returnable containers**

Under the GST and QST systems, returnable containers are generally considered to be part of the goods they contain or cover. Examples of returnable containers include oil drums and helium and oxygen cylinders.

The following section explains the treatment of returnable containers (other than beer and soft-drink containers) generally used to hold goods for sale.

A SUPPLIER SELLS CONTAINERS TO A MANUFACTURER.

The supplier collects GST and QST from the manufacturer and then claims an ITC and an ITR with respect to the taxes paid on the materials used to make the containers.

THE MANUFACTURER SELLS CONTAINERS AND THEIR CONTENTS TO A RETAILER.

The manufacturer collects GST and QST on the containers and their contents from the retailer and claims an ITC and an ITR in respect of the taxes paid on the containers and the materials used to make them.

THE RETAILER SELLS CONTAINERS AND THEIR CONTENTS TO A CONSUMER.

The retailer collects GST and QST from the consumer and claims an ITC and an ITR in respect of the taxes paid on the containers and their contents.

THE CONSUMER RETURNS THE EMPTY CONTAINERS TO THE RETAILER.

The retailer refunds to the consumer the GST and QST paid on the containers and may claim a notional ITC equal to 7/107 of the amount of the deposit (GST and QST included), and a notional ITR equal to 7.5/107.5 of the same amount.

THE RETAILER RETURNS THE EMPTY CONTAINERS TO THE MANUFACTURER.

The retailer collects GST and QST from the manufacturer; the latter may claim an ITC and an ITR.

When goods are sold in a package or container other than the one in which they are usually sold, and the package or container is sold with the goods as a single item, the following two rules apply.

Where the package or container can be considered incidental to the goods, the GST and QST apply to the package or container in the same way that they apply to the contents.

Where the package or container cannot be considered incidental to the goods, it is subject to GST and QST separately from its contents. GST and QST must therefore be collected on the portion of the selling price that pertains to the package or container.

Returnable containers that are sold empty are taxable.

When a package or container is returned, it can be treated in one of the following two ways:

The purchaser of the package or container is deemed to have resold it to the original supplier and the purchaser, if registered, must collect GST and QST from the supplier. The supplier, if registered, may claim an ITC and an ITR in respect of the taxes paid on repurchasing the package or container.

Amounts paid by the supplier on the return of the package or container may be treated as a refund made by the supplier to the purchaser. In such circumstances, the supplier has the option of refunding the GST and QST paid by the purchaser.

If the supplier and the purchaser are both registered for the GST and the QST, and have accounted for the taxes (that is, remitted the

taxes to the Ministère du Revenu or claimed an ITC and an ITR in respect of them), they may choose not to follow the usual refund procedures (see the paragraph below). In this case, the supplier must reimburse the purchaser for the deposit paid on the package or container, but not for the GST and QST paid at the time of purchase.

If the supplier refunds or credits to the purchaser the GST and QST paid by the latter, a credit or debit note must be provided. In addition, both the supplier and the purchaser must adjust their GST and QST returns for the period in which the note was provided. The supplier may deduct the amounts of GST and QST refunded or credited when calculating net tax, while the purchaser must add the amounts.

Vending machines

The sale of food and beverages from vending machines is GST-taxable at 7% and QST-taxable at 7.5%.

The price of these supplies generally includes GST and QST, which are considered to have been paid at the time of sale. However, the GST and QST must be taken into account for the reporting period that includes the day the money is removed from the machine.

GST and QST are calculated on the money collected from the vending machine. GST is generally calculated as follows: amount collected (QST not included) $\times$ 7/107 **or** total amount collected $\times$ 7/115. QST is calculated as follows: amount collected $\times$ 7.5/107.5.

• Example

- You remove \$100 (GST and QST included) from your vending machine. To determine the QST collected, do the following calculation: $\$100 \times 7.5/107.5 = \$6.98$.
- To determine the GST collected, do the following calculation: $(\$100 - \$6.98) \times 7/107 = \$6.09$. However, if you wish, you may simply multiply \$100 by 7.5/107.5 or 7/115 (depending on whether you wish to determine the QST or the GST collected).

Vending-machine operators do not have to calculate GST and QST on items sold through mechanical coin-operated devices that only accept a single coin for each transaction if the total amount deposited for each transaction is a single coin of \$0.25 or less.

Since April 24, 1996, the right to use a washing machine or clothes-dryer located in a common area of a residential building has been exempt from GST and QST.

Bad debts

When an amount is written off as a bad debt, the GST and QST remitted (or required to be remitted) on the amount may be recovered through an adjustment on your GST or QST return (in box 108 of the GST return and box 208 of the QST return).

The adjustment must be made on a return filed within four years after the deadline for filing the return for the reporting period in which the bad debt was written off.

• Example

• You provide a service to a customer and bill him for a total amount of \$149.52 (\$129.99 + \$9.10 GST + \$10.43 QST). You remit the GST and QST (\$9.10 and \$10.43 respectively) to the Ministère du Revenu du Québec. If the purchaser only pays you \$30 and you write off the rest of the amount as a bad debt, you may make an ITC adjustment.

Calculate the adjustment as follows:

$$\frac{\$9.10 \times (\$149.52 - \$30)}{\$149.52} = \$7.27$$

The ITR adjustment you may make respecting the portion of the debt that was written off is calculated as follows:

$$\frac{\$10.43 \times (\$149.52 - \$30)}{\$149.52} = \$8.34$$

However, if you receive payment with respect to an account that you previously wrote off as a bad debt and for which you claimed

ITC and ITR adjustments, you must calculate and pay the GST and QST applicable to the amount.

• Example

• You receive a payment of \$60 on an account of \$119.52 that you previously wrote off as a bad debt and for which you claimed ITC and ITR adjustments.

GST payable: $\frac{\$60 \times \$9.10}{\$149.52} = \$3.65$

QST payable: $\frac{\$60 \times \$10.43}{\$149.52} = \$4.19$

Sales of immovables

Special rules apply to the sale of immovables (called “real property” under the GST system). A vendor (registrant or non-registrant) of a taxable immovable must collect the GST or the QST, as applicable, except in the following situations:

The vendor does not reside in Canada (or in Québec, for QST purposes). Note that a non-resident with a permanent establishment in Canada (or Québec, if applicable) is not considered a resident.

The purchaser is a registrant and the immovable is not a residential complex being sold to an individual.

In both of these situations, the purchaser must remit the GST and QST to the Ministère du Revenu du Québec. Payments of the GST and QST must be enclosed with form FP-505-V, *Special—Purpose Return*.

If the purchaser is a registrant and intends to use the immovable primarily (that is, more than 50%) in commercial activities, the GST and QST must be remitted on or before the day on which the purchaser is required to file the return for the reporting period during which the GST and QST become payable. In all other cases, the purchaser must remit the taxes on or before the last day of the calendar month that follows the month during which the GST and QST were to have been paid.

Purchasers of an immovable that pay to the vendor GST or QST that was to have been paid to the Ministère should request a refund of the tax from the vendor. If the vendor does not refund the amount requested by a purchaser, the vendor is required to report the amount on the return to be filed with the Ministère and enclose payment with the

return. In order to apply for a refund of the tax paid in error in respect of the immovable, the purchaser must fill out forms FP-60-V and VD-438-V in the usual manner, and complete form VD-403-V, *General Application for a Québec Sales Tax (QST) Refund*, and form FP-189-V, *General Application for Rebate of Goods and Services Tax*. The purchaser generally has two years after the date of payment of the tax to apply for a refund.

Persons who acquire an immovable primarily for use in their commercial activities and who realize, after completing their GST or QST return, that they are entitled to a refund, may use the refund to offset the amount of tax payable on the immovable by completing form FP-60-V or VD-438-V and filing it with the corresponding GST or QST return.

Employee benefits

Although salaries and wages, commissions and other types of remuneration (including tips) are not subject to GST or QST, non-monetary compensation for employees, commonly called “taxable benefits,” may be subject to the two taxes. Registrant employers must pay GST and QST on certain benefits granted to employees if the benefits are property and services that are made available to employees and if the benefits must be included in the calculation of the employees’ income for income tax purposes. However, the employers are not required to pay the taxes if they are not eligible for an ITC or ITR respecting the property or services. This measure does not, however, apply to property and services that are subject to the ITR restrictions (see page 16) for large businesses, regardless of the date of acquisition.

Taxable employee benefits on which the employer must remit GST and QST include

- personal use of an automobile belonging to the employer;
- room and board;
- non-monetary bonuses, such as prizes, rewards, or trips, that are generally taxable, but that are provided to employees in the form of a benefit;
- use of frequent flyer points;
- gifts valued at more than \$100.

The calculation to determine the GST payable with respect to taxable benefits provided to employees and shareholders has been simplified for 1996 and subsequent years. The GST payable is equal to 6/106 of the total value of benefits provided for under paragraph (a) of subsection 6(1) of the Income Tax Act; as stand-by charges related to an automobile under paragraph (e) of subsection 6(1); and as benefits to shareholders under subsection 15(1) of the Act. (Total benefits include GST, QST and all amounts reimbursed by the recipients with respect to stand-by charges related to an automobile.) The QST payable respecting similar taxable benefits reported for the purposes of the Taxation Act is equal to 7.5/107.5 of the total benefit. The GST payable with respect to the operating-costs benefit relating to an automobile, (referred to in paragraph (k) or (l) of subsection 6(1) of the Income Tax Act) is equal to the prescribed percentage (currently 5%) of the total value of the benefit, including GST, QST and all amounts reimbursed by the recipients with respect to the operating expenses related to an automobile. The QST payable with respect to similar taxable benefits reported for the application of the Taxation Act is equal to 5.7% of the total benefit.

Where property is purchased or leased for the purpose of providing employee benefits, special restrictions apply to ITCs and ITRs. For example, ITCs and ITRs may not be claimed in respect of property or services intended exclusively for personal use or consumption (such as membership in a sports facility). In such cases, the employer is not required to pay QST or GST on the taxable benefit granted to the employee.

Generally, the GST and QST payable on taxable employee benefits are due once a year, on the last day of February. This is the deadline for calculating employee benefits for income tax purposes and issuing T4 and RL-1 slips. The total value of the benefits reported on an employee's T4 slip and RL-1 slip includes the

GST and QST applicable to the taxable benefits received.

The GST and QST payable must be indicated on the appropriate return for the reporting period covering the last day of February of the year following the taxation year in which the benefits were granted. Employee benefits not subject to GST or QST must not be included in an employer's GST or QST return.

Please note that if all or substantially all of the property and services that are considered taxable benefits were acquired in the participating provinces, the HST rate may apply. For further information, contact the office of the Ministère du Revenu in your area.

Expenses incurred by employees, partners and volunteers

Allowances (such as travel allowances) and reimbursements paid to employees, members of a partnership or volunteers working for charities or public institutions may entitle registrant employers, partnerships, charities or public institutions to ITRs under the QST system and to ITCs under the GST system. An "allowance" is a periodic payment, or other payment, that an employee receives from his or her employer, that a partner receives from the partnership of which he or she is a member or that a volunteer receives from a charity or public institution for which he or she works (in addition to salary or wages), where applicable, without having to account for how the amount is spent. A "reimbursement," on the other hand, is any amount that an employee receives from his or her employer, that a partner receives from the partnership of which he or she is a member or that a volunteer receives from a charity or public institution (in addition to salary or wages, where applicable), upon presentation of documents substantiating that the expenses were incurred by him or her during the course of the employer's, partnership's or organization's commercial activity.

• Allowances

GST registrants that pay an allowance to an employee, partner or volunteer to defray expenses incurred in Canada (with respect to activities carried on by the registrants) and on which GST was paid, are entitled to claim an ITC if, pursuant to the Income Tax Act, the allowance is (or would be) deductible in the calculation of the registrant's income and if at least 90% of the expenses are taxable (other than zero-rated) expenses. Employers, partnerships, charities or public institutions may claim an ITC to recover the GST paid on expenses that would have been recoverable in the form of an ITC had the expenses been incurred directly by them.

GST registrants may claim an ITC equal to 7/107 of the allowance paid, taking into account (where applicable) the restrictions on expenses incurred for meals and entertainment (see page 47).

Under the QST system, registrants may claim an ITR equal to 75/107.5 of the allowance paid to an employee, partner or volunteer for expenses incurred in Québec on which QST was paid, provided the allowance is (or could be) deductible in the calculation of their income for the purposes of the Taxation Act. Employers, partnerships, charities and public institutions may claim an ITR to recover the QST paid on expenses that would have been recoverable in the form of an ITR had the expenses been incurred directly by them.

• Reimbursements

Registered employers, partnerships, charities and public institutions that reimburse expenses incurred by an employee, partner or volunteer are entitled to an ITC and an ITR equal to the GST and QST paid on the expenses. They may choose either of the following two methods to determine the ITC and ITR to which they are entitled with respect to a reimbursement of expenses incurred in Canada (or in Québec, for QST purposes).

They may claim an ITC equal to 6/106 of the total amount reimbursed and an ITR equal to 7/107¹ of this amount if at least 90% of the expenses reimbursed are GST- and QST-taxable and the expenses were incurred in Canada (in Québec for QST purposes). It should be noted that, under the QST system, the rate applicable to large businesses is 4.1%.²

They may use the exact calculation method, whereby they calculate the actual GST and QST paid on expenses that they reimbursed and that were incurred in Canada (or in Québec, for QST purposes) during the reporting period in question. 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, partner or volunteer 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);
- the proportion of use in commercial activities

• Example

Daniel incurs expenses of \$575.13 in the course of his commercial activities (\$500 plus \$35 GST and \$40.13 QST). His employer reimburses him for the taxes paid. The employer may claim an ITC equal to the lower of the following amounts:

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

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

He may therefore claim an ITC of \$4.57.

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

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

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

He may therefore claim an ITR of \$5.24.

The method chosen must be used for each type of expense incurred. Regardless of the method used, registrants must take into account the restrictions on meal and entertainment expenses. Registrants that opt for the exact calculation method must have in their possession the documents and information necessary to claim the ITC or ITR.

Two methods of calculation are described in the “Meal and entertainment expenses” section on page 47. Either method may be used to calculate ITCs and ITRs with respect to meals and entertainment.

Please note that if all or substantially all of the transactions for which you provided an allowance or reimbursement were carried out in the participating provinces or in order to use a motor vehicle in the participating province, the HST rates may apply. For further information, contact the office of the Ministère du Revenu in your area.

1. Before January 1, 1998, this factor was 6/106.

2. Before January 1, 1998, this rate was 3.5%.

GST and QST rebates payable to employees and partners

Registrants that do not provide reasonable allowances to cover all of their employees' or partners' expenses, that do not reimburse all such expenses, or whose employees or partners include allowances or reimbursements in their income, should inform the employees or partners of the employee and partner GST rebate program. Under this program, employees and partners may recover the GST they paid on expenses incurred in the course of their employment or partnership activities. The rebate is available to persons that deduct employment or partnership expenses in their income tax return.

The rebate, which is equal to 7/107 of the allowable expenses, is claimed on form GST370-V, *Employee and Partner Goods and Services Tax Rebate*. The form must be filed within four years after the end of the year to which the expenses apply. Examples of allowable expenses include travel expenses and meal expenses.

The form and guide pertaining to the employee and partner GST rebate is available from the office of the Ministère du Revenu du Québec in your area.

Under the QST system, a registrant's employees and the members of a registered partnership may also be entitled to a rebate of the QST paid on certain employment or partnership expenses deducted in their income tax return. The rebate equals 7.5/107.5 of the allowable expenses incurred, and is claimed on form VD-358-V, *Québec Sales Tax Rebate Application for Employees and Partners*. The form may be obtained from the office of the Ministère du Revenu du Québec in your area.

Meal and entertainment expenses

As a registrant, you may claim ITCs and ITRs to recover the GST and QST paid on meal and entertainment expenses. The calculation of ITCs and ITRs in respect of such expenses is subject to the restrictions set forth in the Income Tax Act and the Taxation Act.

Meal and entertainment expenses are generally 50% deductible; accordingly, ITCs and ITRs may be claimed in respect of half of the GST and QST paid on such expenses. You may choose one of the following calculation methods to account for the 50% adjustment.

- You may claim 100% of the GST and QST paid on meal and entertainment expenses incurred in a given fiscal year. If you file annual returns, you must add 50% of the ITC and ITR claimed as an adjustment to the calculation of your net tax payable for the fiscal year. If you file monthly or quarterly returns, you must add 50% of the ITC and ITR claimed in the calculation of your net tax payable for the first reporting period immediately after the end of the fiscal year.

- You may claim 50% of the GST and QST actually paid on meal and entertainment expenses during your reporting period. If you opt for this method, you do not have to make a 50% adjustment at the end of the fiscal year.

You may claim ITCs and ITRs in respect of the GST and QST you reimbursed to your employees or members of your partnership regarding meal and entertainment expenses they incurred in Canada. However, these expenses are subject to a limit of 50%. It should be pointed out that registrant charities may claim ITCs and ITRs to recover all of the GST and QST paid on meals and entertainment related to their commercial activities. This special measure also applies to public institutions, respecting meals and entertainment expenses incurred after December 31, 1996, or for which compensation was paid after December 31, 1996.

SIMPLIFIED METHOD FOR CALCULATING ITCs AND ITRs

A simplified method for calculating ITCs and ITRs is available to small businesses and eligible public service bodies. Although the simplified method for calculating ITCs and ITRs does not affect the procedure for charging, collecting or reporting GST and QST, it does provide a simpler way of determining the refund you may claim when filing your GST and QST returns. You do not have to calculate the exact amount of tax and the amount of the actual expense applicable to each invoice. You need only take into account the amount of your taxable purchases for which you may claim ITCs and ITRs. You must, however, keep your calculations of the GST (7%), HST (15%) and QST (7.5%) separate.

To calculate the ITR you may claim respecting taxable purchases made in the course of your commercial activities, simply multiply the total amount of the purchases by $7.5/107.5$.¹ To calculate your ITC, multiply the total amount of the taxable purchases made in the course of your commercial activities by $7/107$ (or by $15/115$ for purchases taxable at the HST rate) after you subtract the ITR already calculated. The taxes do not have to be indicated separately on each invoice. You must, however, keep the usual supporting documents in case you are asked to justify the ITCs and ITRs claimed.

In order to be entitled to use the simplified method for calculating ITCs and ITRs for a given fiscal year, you must meet all of the following requirements:

- You must be a registrant.
- Your total annual taxable sales worldwide for the previous fiscal year must not exceed \$500,000. (The amount must not include the GST and QST, supplies of financial services or sales of immovables, but must include sales made by associates.)
- The total of your taxable sales for the previous quarter or quarters must not exceed \$500,000 (excluding GST and QST) if you are beginning to use the simplified method as of a quarter other than the first quarter of your fiscal year.
- You must not be a listed financial institution.
- The total of your taxable (other than zero-rated) purchases in Canada for the previous fiscal year must not exceed \$2 million.
- If you are a public service body, it is reasonable to expect that in the current fiscal year your taxable purchases will not exceed \$2 million.

1. Before January 1, 1998, this factor was $6.5/106.5$.

To calculate your ITCs and ITRs using the simplified method, you must proceed as follows:

(a) Determine, for the period covered by the return, the total amount (GST and QST included) on which GST and QST was paid or payable. List purchases subject to the HST separately and do not take into account amounts respecting zero-rated or exempt sales. **Include in this total, where applicable**, the following amounts:

- import taxes or duties;
- tips paid, if they are reasonable;
- expenses incurred with respect to capital property (such as buildings and equipment) and expenses related to improvements to the property;
- tax reimbursements respecting expenses incurred by your employees or by partners or volunteers (you do not have to use the factor 6/106 with the simplified method);
- the portion of the cost of the property or service that becomes payable after the effective date of the election to use this method;
- interest or penalties relating to late payment for property or a service that constitutes a taxable (other than zero-rated) supply;
- the air transportation tax.

However, **do not include** the following amounts:

- expenses on which you did not pay GST or QST (such as payments of salaries or wages, insurance premiums or interest), or amounts paid to acquire exempt or zero-rated supplies of property or services;
- under the GST system, imports not subject to GST and, under the QST system, property brought into Québec not subject to QST;
- passenger vehicles and aircraft used less than 90% of the time by individuals or partnerships in their commercial activities;
- amounts that became payable or that were paid before you began using the simplified method;
- purchases from non-registrants;
- under the GST system, payments of refundable provincial sales taxes, such as the QST;
- GST or QST paid with respect to the purchase of immovables;

- the portion of meal and entertainment expenses that does not give entitlement to an ITC or an ITR.

(b) First determine the total of your taxable purchases for which you are entitled to an ITR under the QST system. Multiply the result by 7.5/107.5 or 0.0697. The total amount constitutes your ITR for the period in question. Carry the amount to box 206 of form VD-471-V, *Detailed QST Calculation*, or to box 206 of form FP-500-V, *Detailed Calculation*.

Then determine the total of your taxable purchases for which you are entitled to an ITC under the GST system. Subtract the ITR to which you are entitled from that amount and multiply the result by 7/107 or 0.0654 (15/115 for the total of purchases taxable at the HST rate of 15%). The total amount constitutes your ITC for the period in question. Carry the amount to box 106 of form FP-34-V, *Detailed GST/HST Calculation*, or to box 106 of form FP-500-V, *Detailed Calculation*.

Example		
Expenses		
Salaries or wages		\$200.00
Purchases	+	\$345.08
Rent	+	\$230.05
Stationery	+	\$115.03
Interest	+	\$50.00
Office furniture	+	\$230.05
Total expenses	+	\$1,170.21
Total non-taxable expenses		
(\$200 + \$50)	-	\$250.00
Total taxable expenses		\$920.21
ITR = \$920.21 x 7.5/107.5 = \$64.20		
ITC = (\$920.21 - \$64.20) x 7/107 = \$56		

The simplified method, like the exact calculation method, can be used only with respect to property or services acquired to make taxable sales. Property or services that are used to make both taxable and exempt sales, or that are intended for your personal use, give entitlement to ITCs and ITRs only in respect of the portion acquired for consumption, use or sale in the course of your commercial activities.

If you wish to use the simplified method, you must elect to do so by the filing deadline for the first return on which the method is to be used. An election form need not be filed with the Ministère du Revenu.

Once the election has been made, you must use the simplified method for at least one year unless, at some point during your fiscal year, you cease to fulfil the eligibility requirements.

A similar method, called the simplified method for calculating the rebates of public service bodies, is available to charities, non-profit organizations whose government funding is at least 40%, and other public service bodies. Under this simplified method, you multiply the total allowable amount by $7/107$ (for GST purposes) and $7.5/107.5$ (for QST purposes), then by the appropriate rebate factor. Further information is provided in the brochure *The QST and the GST: How They Apply to Charities and Non-Profit Organizations* (IN-214-V).

GST and QST registrants that use the Quick Method of accounting or the special quick method of accounting may use the simplified method for calculating ITCs and ITRs or the simplified method for calculating the rebates of public service bodies respecting property to which the Quick Method rates do not apply.

3

THE QUICK METHOD: A SIMPLIFIED ACCOUNTING METHOD

The Quick Method was devised to help registrants calculate the GST and QST they are required to remit to the Ministère du Revenu du Québec. When you use the Quick Method to calculate GST, simply multiply your total taxable sales (GST included) by 2.5% or 5%, as applicable. When you use the Quick Method to calculate QST, multiply your total taxable sales (GST and QST included) by 2.7% or 5.3%,¹ as applicable. Do not claim ITCs and ITRs in respect of most purchases relating to your commercial activities; they are taken into account in the Quick Method.

If you make taxable sales in participating provinces, please note that the rates may vary depending on the location of your business and the tax applicable to the sales (7% GST or 15% HST).

Who may use the Quick Method?

The Quick Method may be used by most small businesses whose total annual taxable sales worldwide (including zero-rated sales and sales made by associates) do not exceed \$200,000² (GST included) under the GST system, or \$215,000³ (GST and QST included) under the QST system. Grocery and convenience stores, for example, generally use the Quick Method. On the other hand, the

method may not be used by listed financial institutions; charities; certain non-profit organizations; selected public service bodies; firms that provide legal, accounting or actuarial services; firms that provide fiscal or financial consulting services; and firms that provide bookkeeping services or that specialize in the preparation of tax returns.

What are the Quick Method rates?

5% rate (GST) and 5.3% rate (QST)

The general rates for most businesses are 5% for the GST and 5.3% for the QST respectively. These rates apply to small businesses, such as delivery services, dry cleaners, auto repair shops, small manufacturers, fast food outlets, caterers, travel agencies, taxi firms, photographers, and painting contractors.

2.5% rate (GST) and 2.7% (QST)

These rates are reserved for retailers and wholesalers (including grocery and convenience stores) that purchase goods for resale. Antique dealers, booksellers, tobacco dealers, boutique and service station owners can use this rate. To be entitled to use these rates your property purchased for resale or for use in other property intended for resale (other than basic groceries) must equal at least 40% of your total annual taxable sales.

1% rate reduction

Registrants that use the Quick Method at the beginning of their fiscal year or on the day on which they register may reduce their rate by 1% with respect to the first \$30,000 of taxable sales during the fiscal year. This means that, under the GST system, they remit only 1.5% or 4% (depending on the basic rate applicable to their business) with respect to the first \$30,000 (GST included) earned on taxable sales, and 2.5% or 5% (depending on the basic rate applicable to their business) with respect to the amount in excess of \$30,000. Under the QST system, registrants remit only 1.7% or 4.3% (depending on the basic rate applicable to their business) with respect to the first \$32,250⁴ of taxable sales (GST and QST included), and 2.7% or 5.3%, as applicable, with respect to the amount in excess of \$32,250.

1. Before January 1, 1998, these rates were 2.3% and 4.6% respectively.

2. The limit does not include zero-rated sales of financial services, sales of immovables or sales of goodwill.

3. Before January 1, 1998, this limit was \$213,000.

4. Before January 1, 1998, this limit was \$31,950.

In the case of registrants that file monthly or quarterly GST and QST returns, the 1% rate reduction applies to sales during the first reporting period and subsequent reporting periods in the fiscal year, until the amount of \$30,000 (or \$32,250 for QST purposes) is reached or the fiscal year ends.

In the case of registrants that file annual returns, the 1% rate reduction applies to the first \$30,000 (or \$32,250) of taxable sales made during the fiscal year.

Election to use the Quick Method

To use the Quick Method, you must fill out form FP-674-V, *Election respecting the Quick Method of Accounting for Small Businesses*, and file it with the Ministère du Revenu du Québec. The effective date you indicate on the form is the date on which you may begin using the Quick

Method; the date must, however, correspond to the first day of your GST and QST reporting period. The election is confirmed in writing by the Ministère.

ITC and ITR applications

Under the Quick Method, you must collect GST and QST in the usual manner. However, rather than claiming ITCs and ITRs respecting your current operating expenses or respecting purchases made in the course of your commercial activities, you must multiply your total taxable sales in Canada (or in Québec, for the purposes of the QST) by 2.5% or 5%, as applicable, for GST purposes, and by 2.7% or 5.3%, as applicable, for QST purposes, and remit the corresponding amounts to the Ministère du Revenu du Québec for each reporting period. (For the purposes of this calculation, do not deduct reimbursable coupons.) Zero-rated sales, sales of immovables and capital assets, and sales made to Indians or a provincial government are not to be taken into account in the calculation of total sales.

Under the GST system, GST (but not QST) must be included in the amount of the sales; under the QST system, GST and QST must be included in the amount of the sales.

If you use the Quick Method, you do not claim ITCs or ITRs in respect of most expenses pertaining to your business (such as heating costs, rent and telephone expenses). You may, however, claim ITCs and ITRs respecting acquisitions of land and property that give entitlement to capital cost allowance for income tax purposes (for example, a building, vehicle or freezer). Such ITCs and ITRs may be claimed in your GST and QST returns for the period during which the purchases were made. As you probably make separate entries in your books of account for expenses of this nature, your ITC and ITR claims should not involve much extra paperwork.

The Quick Method rates apply only to sales made in the normal course of your business activities. Accordingly, you must remit the full amount of GST and QST collected or payable in respect of other types of transactions, such as the sale of land or used equipment giving entitlement to capital cost allowance under the Income Tax Act or the Taxation Act.

If you opt for the Quick Method, you must use it for at least 12 months, unless your business ceases to meet the eligibility requirements.

The election to use the Quick Method does not have to be made each year; it remains in effect as long as your total annual sales do not exceed the maximum allowed for use of the method and you are entitled to use the same rate. The election ceases to be in effect as soon as you revoke it.

The election to use the Quick Method also applies to all of your branches and divisions, regardless of whether they file separate GST and QST returns.

Other considerations

You may use the Quick Method regardless of whether you include the GST and QST in your selling prices or indicate the taxes separately.

Even if you use the Quick Method, you must keep all documents pertaining to your purchases and sales

Special quick method for public service bodies

Owing to the special nature of their activities, charities, qualifying non-profit organizations and selected public service bodies (hospital authorities, municipalities, and most school authorities, public colleges and universities) may use the special quick method of accounting to calculate their GST and QST to be remitted. Registrants using this method simply multiply the total taxable sales on which GST and QST were or should have been collected by the prescribed rate determined for each of the types of public service bodies.

To elect to use the special quick method of accounting, registrants must fill out form FP-687-V, *Election or Revocation respecting the Special Quick Method of Accounting or the Simplified Net Tax Calculation Method*.

For further information on this method, consult the brochure *The QST and the GST: How They Apply to Charities and Non-Profit Organizations* (IN-214-V).

CANCELLING YOUR REGISTRATION

The Ministère du Revenu du Québec may cancel a person's registration if the Minister is satisfied that the registration is no longer required. However, a written notice specifying the effective date of the cancellation must be sent to the person prior to cancellation. Registration for the GST and QST may be cancelled in any of the following cases:

- A person's gross revenue worldwide (including the revenue of any associates) from taxable sales did not exceed \$30,000 in the last four calendar quarters, and the person is thereby considered a small supplier. (The small-supplier threshold has been raised to \$50,000 for public service bodies.)
- An organization that is not a corporation closes, sells or transfers a business. The registered entity has therefore ceased to exist. This does not apply where a person that is the sole proprietor of more than one business sells or closes one or more businesses, while continuing to engage in certain commercial activities. Registration may be cancelled only if all of the businesses are sold or closed, or if a request for cancellation is submitted by a person that is considered a small supplier.
- An individual dies.
- A partnership is dissolved.
- An organization that is a corporation ceases to exist.
- A person's legal status changes.
- A person who comes to Canada (or to Québec, for QST purposes) in order to sell taxable admissions ceases to do so.
- A person ceases to carry on a commercial activity in Canada (or in Québec, for QST purposes). For example, a person may maintain a business, but make only exempt supplies.

Registrants must inform the Ministère of any other circumstances that would require their registration to be cancelled or amended.

You must request cancellation of your registration on form FP-611-V, *Request for Cancellation or Variation of Registration*. If you are considered a small supplier, the cancellation may take effect at any time, provided you have been registered for at least one year on the date on which the cancellation of registration comes into effect. In all other cases, the cancellation may come into effect as of the day on which registration is no longer required. However, taxi drivers and non-resident performers who collect admissions in Canada and who have small-supplier status may not cancel their registration.

If you have small-supplier status, your registration for the QST cannot be cancelled if you do not also request cancellation of your registration for the GST.

To find out about the consequences of cancelling your registration, consult page 59.

5

ELECTIONS AND APPLICATIONS

Businesses and organizations can simplify administration of the GST and QST by making various elections or applications on the basis of their type of activity.

Elections

You may make an election if you meet certain conditions and file (where applicable) the prescribed form. Once you make an election, it remains in effect until you cancel it or make another election, or until you fail to meet the eligibility requirements.

In certain cases, you are not required to inform the Ministère of your election with respect to the treatment of a given transaction. You must, however, keep in your registers and books of account a copy of the duly completed election form, or a statement containing certain prescribed information.

This rule applies to the following forms:

- *Election to Have the Operator of a Joint Venture Account for GST and QST* (FP-621-V)
- *Election by a Public Sector Body to Have Exempt Memberships Treated as Taxable Supplies* (FP-623-V)

- *Election to Tax the Supply of Membership in Professional Organizations* (FP-624-V)
- *Election to Deem Taxable Supplies between Closely Related Corporations to Have Been Made for Nil Consideration* (FP-25-V/VD-335-V)
- *Election by an Organization to Have the Supply of Its Certificates, Courses and Examinations Deemed Taxable* (FP-629-V)
- *Election respecting the Use of an Aircraft or Passenger Vehicle in Non-Commercial Activities* (FP-30-V for GST purposes); *Election respecting the Use of a Passenger Vehicle or an Aircraft in Non-Commercial Activities* (VD-293-V for QST purposes)

To ensure that your election remains in effect, you must continue to meet the eligibility requirements. If you cease to meet the requirements, the Ministère may, in the course of an audit, relieve you of your right to make the election.

Applications

Applications are different from elections in that you cannot begin to use the procedure covered by the application until you receive a notice from the Ministère certifying that your

application has been accepted. However, as in the case of elections, you must make your application on the prescribed form (where applicable) and meet certain requirements.

Elections and applications for which no form has to be completed

- Simplified method for calculating ITCs and ITRs
- Simplified method for calculating the rebates of public service bodies
- Election concerning the provision of a residence or lodging to an officer or employee at a remote work site
- Election to use the part of a patronage dividend that is attributable to taxable (other than zero-rated) property and services for purposes of consideration and GST adjustments
- Election not to use a patronage dividend for purposes of consideration and GST adjustments
- Election concerning the sale of the business property of a deceased person
- Application for approval for a direct seller to use the alternate collection method¹
- Application for designation for buying groups (for GST purposes)¹
- Application respecting designated reporting periods¹

1. In this case, application must be made in the form of a letter.

List of possible applications and elections

The following elections and applications are for use by most registrants:

- Election respecting a fiscal year
- Election respecting reporting periods
- Application respecting designated reporting periods
- Application respecting fiscal quarters and fiscal months
- Application respecting separate returns for branches or divisions
- Election respecting the sale of all or a portion of the property of a business
- Election to have the sale of an immovable treated as a taxable sale
- Application respecting cancellation of registration
- Election to use the Quick Method of accounting for small businesses

Note

The first five elections or applications are available at the time of registration.

The elections and applications listed below are for public sector bodies only:

- Application by a public sector body to have its branches or divisions designated as small-supplier branches or divisions
- Application by a public sector body to have its branches or divisions file separate rebate applications
- Election by a public service body to use a particular method of accounting
- Election by a public service body to have an exempt sale of an immovable treated as a taxable sale

The following elections and applications may be made by corporations and financial institutions only:

- Election to have taxable sales between closely related corporations deemed to have been made for nil consideration
- Application for offset of the tax by means of a refund or rebate
- Election to have sales between members of a closely related group that includes a listed financial institution treated as sales of financial services

The following application may be filed by unincorporated organizations:

- Application to be considered a branch of another unincorporated organization

The elections and applications listed below apply to specific activities:

- Election concerning the use of a passenger vehicle or an aircraft for non-commercial purposes
- Election respecting the taxable sale of memberships in a professional organization
- Election respecting the acquisition or bringing in (importing) of specified corporeal movable property in order to sell it in the course of commercial activities
- Election respecting the taxable sale of courses, examinations or certificates
- Election respecting the filing of returns by the registrant of a joint venture

The most frequently requested elections and applications for which a form must be completed are described in the following section. The pertinent legal references are also provided. You may obtain the forms you need by contacting the office of the Ministère du Revenu du Québec in your area.

General applications and elections

Election or Revocation of an Election respecting a GST/HST and QST Fiscal Year (FP-670-V)

All registrants must have a fiscal year for GST and QST purposes.

The following persons must adopt the calendar year as their fiscal year:

- individuals (including trusts other than testamentary trusts) that have business income for income tax purposes;
- professional corporations that are members of a partnership (for example, partnerships whose members are lawyers, chiropractors, accountants, dentists, physicians or veterinarians);
- partnerships in which at least one member is an individual (other than a testamentary trust), a professional corporation or another partnership.

Individuals who earn business income and partnerships made up entirely of individuals who are not members of another partnership may elect to have a fiscal year (for the income tax purposes of their business) that does not correspond to the calendar year. All other persons are automatically assigned a fiscal year for GST–QST purposes that is the same as their fiscal year for income tax purposes. However, if their fiscal year does not correspond to the calendar year, these persons may elect to adopt the calendar year.

Registrants may revoke the election after it has been in effect for at least one year. Elections remain effective until they are revoked.

Excise Tax Act: section 244
Act respecting the Québec sales tax:
sections 458.4 and 458.5

Election respecting GST and QST Reporting Periods (FP-620-V)

A reporting period is assigned to you automatically upon registration; it determines the frequency with which you must file GST and QST returns. The reporting period is assigned on the basis of your total annual taxable sales (and those of your associates) respecting commercial activities carried out in Canada. Total annual sales do not include exports, supplies of financial services or sales of immovables). Your reporting period will be monthly if your taxable supplies exceed \$6 million, quarterly if the supplies are greater than \$500,000 but equal to or less than \$6 million, and annual if they are \$500,000 or less. If you are a listed financial institution or a charity whose fiscal year began after December 31, 1996, the Minister will assign you an annual reporting period. You may, however, elect to change the frequency of your reporting period (see page 24).

Registrants that wish to have their QST reporting periods coincide with the GST reporting periods assigned to them must have the same fiscal year under both the GST and QST systems. In the case of registrants that file quarterly for the purposes of the GST, the fiscal quarters must also be the same under both systems. Only listed financial institutions may request reporting periods that do not coincide under the GST and the QST.

Excise Tax Act: subsection 245(2)
Act respecting the Québec sales tax:
section 459.0.1

Notification of Fiscal Quarters and Fiscal Months and Application for Approval to Extend or Shorten Fiscal Months (FP-671-V)

This form is to be used by registrants whose quarter-end and month-end do not coincide with the quarter-ends and month-ends of the calendar year. It is also used by registrants wishing to extend or shorten fiscal months otherwise than as provided for in the legislation.

Pursuant to the legislation concerning fiscal months,

- the first month of each fiscal quarter begins on the first day of the fiscal quarter;
- the last month of each fiscal quarter ends on the last day of the fiscal quarter;
- each fiscal month is a maximum of 35 days;
- each fiscal month, except the first and last months of the quarter, is a minimum of 28 days.

Example

- There is no rule restricting the maximum number of fiscal months to 12. A business may elect to have fiscal months of four weeks each, for a total of 13 fiscal months containing 28 days each.

The Ministère may allow you to have one fiscal month per quarter that is longer than 35 days or to have two months per quarter (but not the first or last month of the quarter) that are shorter than 28 days, as long as you provide sufficient justification.

Pursuant to the legislation concerning fiscal quarters,

- there are a maximum of four fiscal quarters in a fiscal year;
- the first quarter begins on the first day of the fiscal year;
- the last quarter ends on the last day of the fiscal year;
- each fiscal quarter is a maximum of 119 days;
- each fiscal quarter (but not the first or the last quarter) is a minimum of 84 days.

Example

- The fiscal quarters of a registrant whose reporting period corresponds to the calendar year are as follows:
- First quarter: Jan. 1 - March 22
- Second quarter: March 23 - June 21
- Third quarter: June 22 - Sept. 20
- Fourth quarter: Sept. 21 - Dec. 31
- The registrant could also have elected to have three fiscal quarters of 84 days each and one fiscal quarter of 113 days.

Excise Tax Act: section 243
Act respecting the Québec sales tax:
sections 458.1 to 458.2.1

Application to File Separate Returns for Branches or Divisions (FP-594-V)

You may request that your branches or divisions file their own GST and QST returns. To do this, you must show that each branch or division is identifiable as a separate entity by its location or by the nature of its activities, and that each maintains separate registers, books of account and accounting systems.

Excise Tax Act: subsection 239(1)
Act respecting the Québec sales tax:
section 474

Election respecting the Acquisition of a Business or Part of a Business (FP-644-V)

When you sell a business, in whole or in part, to a person and the person acquires ownership, possession or use of all or substantially all of the property that may reasonably be considered necessary to the operation, by the recipient, of the business (or portion thereof) acquired, you and the person may jointly elect not to charge GST or QST on the sale of the property, regardless of whether you set up or operated the business. However, in this case, the recipient must also be registered for the GST and the QST.

Excise Tax Act: subsections 167(1) and 167(1.1)
Act respecting the Québec sales tax:
sections 75 and 75.1

Application for Cancellation or Variation of Registration (FP-611-V)

This application enables registered small suppliers (other than persons who operate taxi businesses), independent sales contractors or persons who have ceased to carry on commercial activities to modify or cancel their registration, provided they meet all of the required conditions. In the case of small suppliers, the cancellation generally takes effect the day after the last day of their fiscal year. In all other cases, the cancellation may take effect on the day on which it is no longer required.

When a person ceases to be a registrant, the person is deemed to have sold all property (other than capital property) that was in the registrant's possession immediately prior to the cancellation and that was for consumption, use or sale in the course of commercial activities. The person is also deemed to have collected, immediately prior to the cancellation, the tax calculated on the fair market value of the property at that time (unless the sale is considered exempt). In the case of capital property, the person is deemed to have ceased to use the capital property in commercial activities immediately prior to the cancellation of registration. Public service bodies that are registered before April 23, 1996, and that decide to cancel their registration at a given time before April 23, 1998, are not subject to these rules, provided their total annual taxable sales do not exceed \$50,000.

Excise Tax Act: section 242
Act respecting the Québec sales tax:
sections 416, 416.1, 417, 417.1 and 417.2

Election respecting the Quick Method of Accounting for Small Businesses (FP-674-V)/Notice to Revoke the Election respecting the Quick Method of Accounting (FP-675-V)

GST- and QST-registered small businesses, other than legal firms, accounting firms or financial management businesses, may elect to use the Quick Method of accounting, which was designed to reduce paperwork and accounting costs related to administration of the GST and the QST.

Under the Quick Method, the amount of GST and QST you have to remit is calculated by multiplying your total taxable sales (including 7% GST, 7.5% QST or 15% HST) by the prescribed remittance rate. To be entitled to use the Quick Method, your total annual taxable sales worldwide (including zero-rated sales and sales made by your associates) must not exceed \$200,000 (GST included) under the GST system and \$215,000 (GST and QST included) under the QST system. The limit does not include zero-rated supplies of financial services or sales of immovables, capital property or goodwill. When you use the Quick Method, you do not claim ITCs and ITRs respecting expenses incurred in the course of your commercial activities, unless the expenses entitle you to claim capital cost allowance under the Income Tax Act or the Taxation Act. These expenses have been factored into your percentage.

Once the Quick Method has been chosen, the registrant must use it for at least one year, unless the business ceases to meet the eligibility requirements.

Excise Tax Act: section 227
Act respecting the Québec sales tax:
sections 434 and 435

Election to Have the Operator of a Joint Venture Account for GST and QST (FP-621-V)

A registrant that, by virtue of a written agreement with the other participants, takes part in a joint venture (other than a partnership) involved in the exploration or development of mineral deposits, or in any other prescribed activity, may jointly elect, with the other participants, to account for all GST and QST collected during their joint commercial activities.

All of the participants in the joint venture are jointly and severally liable for all obligations pertaining to the GST and QST collected during the activities carried out on their behalf by the operator.

Excise Tax Act: subsection 273(1)
Act respecting the Québec sales tax:
section 346

Note

This form need not be filed; simply fill it out and keep it for auditing purposes.

Election to Deem Taxable Supplies between Closely Related Corporations to Have Been Made for Nil Consideration (GST: FP-25-V/QST: VD-335-V)

Where two or more registered members of a group of closely related corporations are engaged exclusively in making taxable supplies, they may jointly elect to have taxable supplies made to each other deemed to have been made for nil consideration.

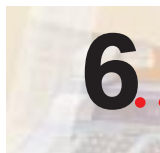
This election does not apply to taxable sales of immovables or to purchases made for non-commercial purposes. Nor does it apply in the following cases:

- if the supply involved property used to replace other property, or property or services sold to a registered insurer for one of the purposes provided for in section 280 of the Act respecting the Québec sales tax;
- if property or a non-financial service was sold to a registrant for the purposes provided for in section 281 of the Act respecting the Québec sales tax.

Excise Tax Act: section 156
Act respecting the Québec sales tax:
sections 334 and 335

Note

This form need not be filed; simply fill it out and keep it for auditing purposes.



6

ASSISTANCE

If your specific situation is not described in the guide, or if you need more information, you may take advantage of the various services and publications made available by the Ministère du Revenu du Québec.

Tax information services

The staff of the Ministère du Revenu provides tax information to taxpayers and agents. You may obtain information by contacting the office of the Ministère in your area **(the addresses and telephone numbers are listed on the last page of this guide).**

Business hours for tax information services:

Monday and Tuesday: 8:30 a.m. to 4:30 p.m.

Wednesday: 10:00 a.m. to 4:30 p.m.

Thursday and Friday: 8:30 to 16:30

Specialized GST and QST publications

GST and QST brochures, folders and guides

The documents listed below are published by the Ministère du Revenu du Québec and may be ordered by calling one of the telephone numbers reserved for tax enquiries.

- *Should I Register?* (IN-204-V)
- *The QST and the GST: How They Apply to Charities and Non-Profit Organizations* (IN-214-V)
- *The QST and the GST: How They Apply to Food and Beverages* (IN-216-V)
- *QST, GST and Fuel Tax: How They Apply to Freight Carriers* (IN-218-V)
- *The QST, the GST and Road Vehicles* (IN-624-V)
- *Tax on Lodging* (IN-623-V)

In addition, the Ministère publishes an information bulletin, entitled *Tax News*, four times a year. This bulletin is used by the Ministère to inform taxpayers and agents of any important changes to tax measures. *Tax News* is distributed to all GST and QST registrants, and is available to anyone else upon request. It offers up-to-date information on the application of the GST and incorporates the contents of *GST/HST News*, a newsletter published by Revenue Canada. *Tax News* also provides information on the application of the QST, other Québec consumption taxes and Québec income tax.

GST brochures and folders

The Ministère distributes Revenue Canada publications designed to help you understand the application of the GST. A list of the publications currently available is provided below.

- *Administration of the GST in Quebec* (IN-3308)
- *Electronic Filing and Remitting – Information and Application for Registrants* (IN-3236)
- *GST/HST Information for Non-Resident Incentive Travel Organizers* (IN-4038E)
- *How the GST Applies to Independent Sales Contractors* (IN-3172)
- *Information for Non-Resident Tour Operators* (IN-3154)
- *The Quick Method of Accounting – Guide and Election Form* (IN-3158)
- *Tax Refund for Visitors* (IN-4031E)
- *Completion Guide and Form: Employee and Partner GST Rebate* (IN-3142)
- *Doing Business in Canada – GST/HST Information for Non-Residents* (IN-4027E)
- *Information for Municipalities* (IN-3120)
- *Information for Non-Resident Suppliers of Publications* (IN-3231)
- *Information for the Non-Residential Construction Industry* (IN-3086E)

- *GST/HST Information for Non-Resident Meeting Planners and Convention Organizers* (IN-4037E)
- *GST/HST Information for Providers of Accommodation and Meeting Facilities* (IN-4039E)
- *Information for Travel Agencies and Tour Operators* (IN-3138)

Other GST-related documents

More detailed information is provided in GST memoranda and technical information bulletins.

Interpretation service

You may request interpretations respecting the application of the GST or QST. Any question pertaining to the application of either of the two taxes should be directed to the Direction

générale de la législation et des enquêtes and sent to the Sainte-Foy office of the Ministère du Revenu (see the address on the last page).

Confidentiality measures

Federal and Québec statutes contain a number of provisions concerning confidential information obtained by the Ministère pursuant to the Excise Tax and the Act respecting the Québec sales tax. It should be noted that it is

a punishable offence for civil servants to disclose confidential information or to allow such disclosure, except in cases where the law expressly states otherwise.

Recourse in the event of a disagreement with the Ministère

If you believe that the amounts shown on a notice from the Ministère du Revenu du Québec are incorrect, or if for other reasons you are dissatisfied with the services of the Ministère du Revenu, you may take steps to

obtain an explanation or to voice your disagreement. The two principal types of recourse with respect to tax matters are administrative recourse and legal recourse.

Administrative recourse

The first step in the administrative process is a visit or telephone call to an office of the Ministère du Revenu, where experienced staff members are available to help you solve your problem. The vast majority of cases are settled at this stage.

If you have cause, you may also request a complete review of your file. This is the second step in the administrative process. The Ministère du Revenu will deal with your problem in an appropriate and confidential manner. To request a review of your file, call, visit or write to the office of the Ministère in your area.

The Bureau des plaintes is another service available to you. An experienced staff ensures that the complaints submitted receive the attention they deserve from the proper authorities of the Ministère. If you need the assistance of the Bureau des plaintes, submit your problem in writing to the director of the Bureau des plaintes, at the following address:

Ministère du Revenu du Québec
3800, rue de Marly
Sainte-Foy (Québec)
G1X 4A5

Legal recourse

If you are not satisfied after going through administrative channels at the Ministère du Revenu, you may file a notice of objection no later than 90 days after the mailing date of the notice of assessment you are contesting.

To file an objection in the prescribed manner with the Minister of Revenue, your notice of objection must specify the reasons for your action and provide all pertinent information. It must be addressed to the director of the Direction des oppositions and delivered, in person or by mail, to an office of the Ministère.

After reviewing your file, the Ministère will either confirm the notice of assessment you are contesting, or vacate or vary it. The Ministère will notify you of its decision by mail.

Under the QST system, if you are still dissatisfied upon receipt of the decision of the Ministère concerning your objection, you may file an appeal with the Court of Québec or with the Small Claims Division of the Court of Québec. Finally, you may appeal the decision of the Court of Québec before the Québec Court of Appeal and, as a last resort, before the Supreme Court of Canada, with its permission.

Under the GST system, you may file an appeal with the Tax Court of Canada and, as a last resort, with the Supreme Court of Canada, with its permission.

The Ministère du Revenu du Québec has set up special GST—QST information lines. If you need further information or additional copies of this publication, call us at one of the numbers below.

OFFICES OF THE MINISTÈRE DU REVENU DU QUÉBEC

Sainte-Foy

3800, rue de Marly
Sainte-Foy (Québec) G1X 4A5
(418) 659-4692

Montréal

Complexe Desjardins
C.P. 3000, succursale Desjardins
Montréal (Québec) H5B 1A4
(514) 873-4692

Québec

200, rue Dorchester
Québec (Québec) G1K 5Z1
(418) 659-4692

THE MINISTÈRE
DU REVENU
bringing services
closer to you!

Abitibi-Témiscamingue and Nord-du-Québec

19, rue Perreault Ouest, 3^e étage
Rouyn-Noranda (Québec) J9X 6N5
(819) 764-6765

Bas-Saint-Laurent and Gaspésie-Îles-de-la-Madeleine

212, avenue Belzile, bureau 250
Rimouski (Québec) G5L 3C3
(418) 727-3702

Côte-Nord

391, avenue Brochu, bureau 1.04
Sept-Îles (Québec) G4R 4S7
(418) 968-2211

Estrie

2665, rue King Ouest, 4^e étage
Sherbrooke (Québec) J1L 2H5
(819) 563-3776

Laval, Laurentides and Lanaudière

705, chemin du Trait-Carré
Laval (Québec) H7N 1B3
(514) 873-4692

Mauricie-Bois-Francs

225, rue des Forges, bureau 400
Trois-Rivières (Québec) G9A 2G7
(819) 379-5392

Montréal

- 1, rue de la Place-du-Commerce, 3^e étage
Brossard (Québec) J4W 2Z7
(514) 873-4692
- 101, rue du Roi
Sorel (Québec) J3P 4N1

Outaouais

170, rue de l'Hôtel-de-Ville, 6^e étage
Hull (Québec) J8X 4C2
(819) 770-8504

Saguenay-Lac-Saint-Jean

2154, rue Deschênes
Jonquière (Québec) G7S 2A9
(418) 548-6392

Throughout Québec, and elsewhere in Canada (toll-free): 1 800 567-4692

Enquiries from outside Canada should be directed to the following office
of the Ministère: 2665, rue King Ouest, 4^e étage, Sherbrooke (Québec) J1L 2H5 Tel.: (819) 563-3776

We invite you to visit the Web site of the Ministère at the following address:
<http://www.revenu.gouv.qc.ca>

This publication was prepared by the Direction générale des communications of the
Ministère du Revenu du Québec.

Vous pouvez vous procurer la version française de cette publication en demandant la
brochure *Renseignements généraux sur la TVQ et la TPS/TVH : Guide pour l'inscrit* (IN-203).