

# General Information Concerning the QST and the GST/HST



This guide is provided for information purposes only, and does not replace the statutes, regulations and administrative documents referred to herein, 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.

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## Introduction

If you carry on a business in Québec, you will want to know how the GST/HST and the QST apply to 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). It contains general information on how to calculate, collect and remit the taxes. It also deals with a variety of related subjects, such as the application of the taxes to various transactions, the use of coupons, meals and entertainment expenses, supplies to diplomats and to governments, and GST/HST and QST rebates and refunds.

This guide is intended to be as specific as possible. However, we have chosen not to describe certain exceptional situations that concern only a small number of persons. If you require additional information, contact the office of the Ministère du Revenu in your area. (A complete list of the offices of the Ministère is provided on the back cover of this document.)

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



You will notice that this brochure contains visual symbols (shown below in the left margin) that will help you locate certain information.

The pictogram representing an open document appears in the margin when we refer to a guide, brochure or similar publication of the Ministère du Revenu (such as the brochure *Should I Register with the Ministère du Revenu?*).



The pictogram representing a pencil is used when we refer to forms (such as the *General Application for a Québec Sales Tax (QST) Rebate*).



The pictogram representing a pair of curved arrows is used when we refer to another section of this document (such as the section entitled "Services offered by the Ministère du Revenu").





# Contents

<b>General information</b> .....	8
Administering the GST/HST in Québec .....	8
Definitions .....	8
The GST and QST systems .....	9
Guidelines for advertising .....	12
<b>Collecting the GST and the QST</b> .....	13
Indicating and calculating the taxes .....	13
Preparing invoices .....	13
When should the GST and QST be collected? .....	14
<b>Calculating your input tax credits (ITCs) and input tax refunds (ITRs)</b> .....	16
General rules .....	16
Restrictions on ITRs for large businesses .....	17
How to apply for ITCs and ITRs .....	19
Operating expenses .....	19
Capital property .....	20
Home office expenses .....	22
New registrants .....	23
<b>Simplified method for calculating ITCs and ITRs</b> .....	24
<b>Calculating the net GST and QST</b> .....	27
Determining the GST and QST payable .....	27
<b>The Quick Method</b> .....	28
Who may use the Quick Method? .....	28
How does the Quick Method work? .....	28
What are the Quick Method rates? .....	29
Election to use the Quick Method .....	29
Special quick method for public service bodies .....	30
<b>Filing your GST and QST returns</b> .....	31
Reporting periods .....	31
GST and QST returns .....	32
Applying a tax refund to the payment of tax owing .....	34
Tax remittances or refunds .....	34
Penalties and interest .....	35

<b>Special cases</b> . . . . .	36
Cash discounts and late-payment charges . . . . .	36
Volume discounts. . . . .	37
Deposits and returned goods . . . . .	37
Promotional gifts and free samples . . . . .	38
Gift certificates . . . . .	38
Coupons. . . . .	39
Manufacturers' rebates. . . . .	41
Used property . . . . .	42
Trade-ins of road vehicles . . . . .	43
Sales to persons residing in a participating province . . . . .	43
Sales to the federal government. . . . .	45
Sales to the Québec government. . . . .	46
Sales to Indians . . . . .	46
Sales to diplomats . . . . .	48
Sale of a business. . . . .	48
Principals and agents (mandators and mandataries) . . . . .	49
Exports . . . . .	50
Imports. . . . .	52
Returnable containers . . . . .	53
Vending machines . . . . .	54
Bad debts . . . . .	55
Sales of immovables. . . . .	56
Employee benefits . . . . .	59
Expenses incurred by employees, partners and volunteers . . . . .	60
GST and QST rebates payable to employees and partners. . . . .	62
Meal and entertainment expenses. . . . .	63
Refund of the GST on printed books . . . . .	63
<b>Keeping registers and books of account</b> . . . . .	64
<b>Audits</b> . . . . .	65
<b>Elections and applications</b> . . . . .	66
Elections . . . . .	66
Applications . . . . .	66
List of elections and applications. . . . .	66
Description of general applications and elections. . . . .	68

<b>Recourse available to registrants</b> . . . . .	70
<b>Cancelling your registration</b> . . . . .	71
<b>Services offered by the Ministère du Revenu</b> . . . . .	74
Services to the public. . . . .	74
Business windows . . . . .	74
GST and QST publications. . . . .	74
Other QST-related documents. . . . .	75
Other GST-related documents . . . . .	75
Services available on the Internet . . . . .	75



## General information

### Administering the GST/HST in Québec

Under an agreement reached 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 all persons carrying on commercial activities in Québec. Once registered, these persons continue to deal with the Ministère for all GST- and HST-related matters (for example, returns, remittances, rebate applications, audits, investigations, interpretation of laws and regulations, notices of objection, tax collection, failure to make remittances or file returns).

The federal-provincial agreement does not affect the federal government's responsibility regarding the GST/HST. The Canada Customs and Revenue Agency (CCRA) ensures uniform application of the GST/HST across Canada. In Québec the Ministère du Revenu du Québec is fully responsible for administering the GST/HST in accordance with the rules established by the federal government.



Whether you are registered for the taxes or not, you can find out more about the GST/HST and the QST by contacting the customer services branch of the Ministère (refer to the chapter entitled "Services offered by the Ministère du Revenu" on page 74).

The federal government uses the expression "GST/HST" in the provinces where HST applies. However, most businesses in Québec that are registered for the GST/HST seldom or never have to collect HST. Therefore, unless otherwise indicated, we have used the term "GST" in this guide to refer to the GST/HST.

### Definitions

The following key terms are used in this guide. Their definitions are based largely on the definitions provided in the *Excise Tax Act* and the *Act respecting the Québec sales tax*.

The term **commercial activity** refers to any activity carried on in order to make taxable sales. The making of exempt sales does not constitute a commercial activity.

**Consideration** is the value that is given in exchange upon the sale of a property or service. It 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.

In this guide, we generally assume that the consideration is a sum of money, since money is the most common form of consideration.

The **fair market value** is the highest price that may be obtained in an open market where the buyer and the seller are well informed, are dealing at arm's length, and are not forced to buy or sell.

**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). Land, buildings, offices, computers, cash registers, spare parts, cleaning products, invoices and pencils are examples of **corporeal property**. Licences, patents, cutting rights, shares and copyrights are examples of **incorporeal property**. "Property" does not include money.

**Public service bodies** include non-profit organizations, charities, municipalities, hospital and school authorities, and public colleges and universities.

A **registrant** is a person that is registered or is required to be registered for the GST and QST.

A **service** is anything that is supplied other than property or money. A service does not include supplies made by an employee to an employer in relation to the employee's office or employment.

A **supply** is the provision of property or a service in any manner whatsoever, whether by way of sale, transfer, barter, exchange, lease or gift.

In this guide, we generally use the term "sales" instead of "supplies," since goods and services are most often supplied by way of sale.

A person is considered to be a **small supplier** for a given calendar quarter and the month following the quarter if the total taxable sales 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). A person generally ceases to be considered a small supplier immediately after the calendar month following the four calendar quarters in which the limit was exceeded. It should also be noted that certain persons (such as retail vendors of tobacco products, new tires, and new or used road vehicles) must register for QST even if they are considered small suppliers. For further information, refer to the brochure *Should I Register with the Ministère du Revenu?* (IN-202-V).



## The GST and QST systems

### Basic rules

The supply of most property and services is subject to GST and QST. The majority of transactions conducted in Canada are GST-taxable at the rate of 7% of the selling price. Transactions conducted in Québec are subject not only to GST, but also to 7.5% QST calculated on the selling price including the GST. Certain goods and services are zero-rated, which means that they are subject to GST and QST at the rate of 0%. A small number of goods and services are exempt from both taxes.

### Example

You sell a pair of shoes priced at \$100. The taxes are calculated as follows:

Selling price	\$100.00
GST (\$100 x 7%)	\$7.00
QST [(\$100 + \$7) x 7.5%]	\$8.03
<b>Total</b>	<b>\$115.03</b>

The HST applies in three of the Atlantic provinces: New Brunswick, Nova Scotia, and Newfoundland and Labrador. The basic GST rules also apply to the HST, and 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 their taxable sales (excluding 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. Refer to the section entitled "Sales to persons residing in a participating province" on page 43.



The GST and QST are generally collected at each stage in the production and marketing of goods and services. Persons that carry on a commercial activity are required, in most cases, to register for both the GST and the QST, and must collect the taxes on all their taxable sales. These taxes must then be remitted to the Ministère.

As a registrant, you must collect GST and QST on your taxable sales (excluding zero-rated sales), but you may also recover the GST and QST paid or payable by you on property or services that you acquire for use in your commercial activities. You do this 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 buy office equipment for your business, you may claim an ITC and an ITR to recover the taxes you paid on the equipment.

The taxes you collect and pay must be reported on your GST and QST returns, which you must file with the Ministère at regular intervals. A reporting period is assigned by the Ministère at the time of registration, usually on the basis of the registrant's (and the registrant's associates') total annual taxable sales made in Canada. Whether monthly, quarterly or annual, the reporting period is generally the same for the GST and the QST. You may choose a different reporting period from the one assigned, provided you meet certain requirements.

When completing your returns, you must 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 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. If you paid (or should have paid) more tax than you collected, you are entitled to a refund. A return must be filed even if you have no remittance to make.

If you are a small supplier, you are generally not required to register for the taxes, or collect and remit them, even if you make taxable sales. However, if you are not registered, you may not claim ITCs and ITRs to recover the GST and QST you pay on your business purchases. Small suppliers may opt to register, even though they are not required to do so. If you decide to register, you must register for both taxes, and begin collecting the taxes on your taxable sales (excluding zero-rated sales) and remitting them to the Ministère.

### Types of supplies

There are three types of supplies: taxable, zero-rated and exempt. A "supply" is generally a sale. To determine whether you must collect GST and QST, or whether you may claim an ITC and an ITR, it is important to know the type of supply being made for each transaction you carry out.

The supply of a property or service (including zero-rated property or services) is said to be a **taxable supply** if it is subject to GST or QST and is made in the course of commercial activities. Registrants that acquire taxable property or services in the course of their commercial activities may be entitled to an ITC or an ITR.

Taxable supplies (excluding zero-rated 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 new residential complexes;
- sales and rentals of commercial buildings;
- retail automobile sales and automobile 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;
- sales of printed books (GST system only).

You are not required to collect GST or QST on the **zero-rated supplies** you make, since these supplies are taxable at 0%. For the same reason, zero-rated supplies do not give entitlement to an ITC or ITR. However, you may be entitled to an ITC or ITR with respect to the taxable property or services you acquire in order to make zero-rated supplies.

Zero-rated supplies include the following:

- sales of prescription drugs;
- sales of certain medical devices;
- sales of basic groceries;
- sales of certain property used 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 (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, regardless of whether they are registrants, may claim tax rebates (partial refunds) with respect to 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 by public sector bodies (that is, governments and public service bodies);
- the provision of financial services (GST system only).

## Guidelines for advertising

Businesses should avoid giving customers the false impression that their purchases are not subject to tax, if this is not the case.

The following examples of acceptable and prohibited references to taxes in advertising will help you better understand your responsibilities in this regard.

The following references are **acceptable**:

- Taxes included
- Taxes not included
- GST and QST not included
- Plus taxes

The following references are **prohibited**:

- No GST or QST
- No sales tax
- No taxes
- Tax-free
- Tax-free sales



## Collecting the GST and the QST

As a registrant, you are responsible for collecting GST (or HST, where applicable) and QST on your taxable sales (excluding zero-rated sales). As a rule, registrants that are vendors of taxable property or services are responsible for billing and collecting the GST and QST and for remitting the taxes to the Ministère du Revenu. If you have chosen not to register because you are a small supplier, you are generally not required to collect the taxes, except on sales of taxable immovables (“real property” for GST purposes).

### Indicating and calculating the taxes

When you make a taxable sale (excluding zero-rated sales), you must advise the recipient of the property or service that the sale is subject to GST and QST. You may do this by indicating the amount of the taxes on the cash register receipt, invoice or sales contract, or by posting signs which clearly state that the taxes are included in your prices. Whatever means you choose, you must ensure that the GST and QST are either indicated separately from the price or included in it.

The rate you use for calculating the taxes will depend on your cash register:

- You must use the 7.5% rate to calculate the QST if your cash register calculates the GST<sup>1</sup> and QST in three stages, that is, if it calculates 7% GST, adds the GST to the selling price, then applies the QST to the GST and selling price.
- 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 7% GST on the selling price, then calculating the QST directly on the selling price. This rate may be rounded off to 8.02% **only** if your cash register does not process three-decimal numbers.
- 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, if it uses a single rate to calculate the GST and QST on the selling price. This rate may be rounded off to 15.02% **only** if your cash register does not process three-decimal numbers.

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

Only fractions equal to or greater than one-half of a cent (\$0.005) are counted as a whole cent (\$0.01) of sales tax. If more than one property or service is being sold, you may calculate the taxes on the total price of all property or services purchased before rounding off the fractions.

### Preparing invoices

Although no special invoices are required under the GST and QST systems, you must provide certain information concerning the value of the property or services when you apply for ITCs or ITRs. As a registrant, you may ask your supplier for the information you need to support your ITC and ITR claims. Your customers that are registrants may request such information from you.

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1. Contrary to what was stated on page 8, “GST” does not mean “GST/HST” here or in the next two paragraphs.

### Information required on invoices to justify ITCs and ITRs

Information required	Total sale of less than \$30	Total sale of \$30 to \$149.99	Total sale of \$150 or more
Supplier's name <sup>1</sup> or firm name	X	X	X
Date of the invoice	X	X	X
Total amount of the invoice	X	X	X
Amount of tax <sup>2</sup>	X QST only	X	X
Supplier's identification numbers for GST and QST purposes		X	X
Purchaser's name or firm name			X
Terms of payment			X
Description of the property or service	X QST only	X QST only	X

1. In certain cases, the name of an intermediary may be entered.
2. The amount of the taxes charged must be indicated on the invoice, even if the taxes are included in the selling price. Where this is the case, the invoice must also contain a statement indicating that the GST and QST are included in the price.

### When should the GST and QST be collected?

The GST and QST must be collected on the date the recipient pays for the property or service or on the date payment is due, whichever comes first. Payment (whether in money or some other form, such as another property or service) is deemed to have been made when it is received by the supplier. Payment is considered to be due, in whole or in part, on the earliest of the following dates:

- the date on which the invoice is first issued;
- the date indicated on the invoice;
- the date on which the invoice would have been issued had it not been for an undue delay;
- the due date indicated in a written agreement.

The following specific rules stem from this general rule.

#### Payment made in instalments

The taxes on each instalment must generally be paid on the date the instalment is made or on the date it is due, whichever comes first.

## Vending machine operators

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

## Construction contracts

A portion of a construction contract payment is often withheld<sup>1</sup> as security until the transaction is completed. In this case, the GST and QST must be collected on the date this amount is paid or on the date it is 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 that become final only after possession on a trial basis has yielded conclusive results) are the most common type of conditional sale. Another type of conditional sale is the instalment sale, in which ownership of the property is transferred only after all instalments have been paid. In all 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.

Further information concerning the collection of the GST and QST is provided in the chapter entitled “Special cases” on page 36.



The GST and QST you collect is deemed to be held in trust, and must therefore be kept in a separate account.

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1. Such amounts must be withheld 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 sea-going vessel.



## 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 on taxable property and services by claiming ITCs and ITRs. Only purchases made in the course of your commercial activities give entitlement to ITCs and ITRs.

The making of exempt supplies, such as the supply of a long-term lease respecting a residential complex, is not considered 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 concerned 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 your commercial activities. Inputs generally give entitlement to ITCs and ITRs.

However, the following items are not subject to GST or QST, and therefore 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 the membership because your commercial activity consists in supplying such memberships.

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

- **Did I pay tax on the property or service?** If no tax was paid, 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. However, property and services that are partly consumed, used or supplied in the course of a commercial activity generally give entitlement to an ITC or ITR in proportion to their commercial use.

- **Was I a registrant during the reporting period in which I acquired the property or service?** In most cases you may not claim an ITC or ITR unless you were a registrant.

Property and services that are acquired by certain public service bodies and that do not give entitlement to ITCs or ITRs may nonetheless give entitlement to GST or QST rebates (partial refunds). The table below gives the rebate rates for each type of organization concerned.

Type of organization	Rebate rate	
	GST	QST
Municipalities	57.14%	0%
School authorities	68%	47%
Universities and public colleges	67%	47%
Hospital authorities	83%	55% <sup>1</sup>
Charities or qualifying non-profit organizations (other than selected public service bodies)	50%	50%

1. This rate has been in effect since April 1, 2003. The rate was previously 60% (beginning on April 1, 2000) and will be 51.5% as of April 1, 2006.

## Restrictions on ITRs for large businesses

As a registrant, you must determine whether you constitute an SMB (small or medium-sized business) or a large business for each fiscal year.

You are generally considered to be a large business for a given fiscal year if your and your associates' taxable sales (excluding sales of financial services) made in Canada exceeded \$10 million during the last fiscal year that ended before the given fiscal year. If the last fiscal year is shorter than 365 days, the value of the taxable sales for that year must be adjusted on the basis of a one-year period.

Your taxable sales made in Canada must include the value of all exports, including sales deemed to have been made outside Canada. They must also include any sales deemed to have been made for nil consideration pursuant to a joint election made by corporations that are specified members of a group of closely related corporations. However, your taxable sales made in Canada should not include GST, amounts from the sale of immovables that are capital property, or amounts from the sale of the goodwill of a business where that sale is non-taxable.

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;
- the Canada Deposit Insurance Corporation;
- investment plans.

Persons related to the above-mentioned large businesses are also considered to be large businesses.

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

- road vehicles under 3,000 kilograms that must be registered under the *Highway Safety Code* to be driven on public roads;
- the property and services relating to such vehicles, where the property or services were acquired in Québec (or brought into Québec) within 12 months following the date on which the vehicle was acquired or brought into Québec;
- fuel, other than fuel oil, used to supply the engine of such vehicles;
- electricity, gas, steam or combustibles, except when used to produce movable property intended for sale;
- telephone services and other telecommunications services, with the **exception** of Internet access services and "1 800," "1 888," and similar services;
- food, beverages and entertainment that are only 50% deductible under the *Taxation Act*.

In most cases new registrants do not have to determine whether the taxable sales made during the last fiscal year exceeded \$10 million, except where

- the business is a corporation resulting from an amalgamation, in which case the value of the taxable sales made by each predecessor corporation must 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 must be taken into account.

Where a large business acquires control of an SMB at any time during the fiscal year of the SMB, the latter (and any other corporation to which it is related) immediately ceases to be considered an SMB.

A member of a partnership (other than an individual) is deemed to constitute an SMB or a large business according to whether the partnership itself is an SMB or a large business.

## 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, you generally have four years in which to claim your ITCs and ITRs for a given reporting period. This four-year period begins on the filing deadline for the return in which you could have claimed the ITCs and ITRs.

### Example

Sylvia is registered for the GST and QST and has quarterly reporting periods. She made purchases in the course of her commercial activities in December 2002. She therefore has until January 31, 2007 (that is, the deadline for the return covering the period from October 1 to December 31, 2006) to claim ITCs and ITRs on the purchases she made in December 2002.

The four-year deadline is reduced to two years for listed financial institutions (such as a bank, insurer or trust) and for persons whose taxable sales during each of the last two fiscal years preceding the fiscal year in question exceeded \$6 million. However, the deadline is four years for charities and businesses if 90% or more of their sales (excluding sales of financial services) made during either of the last two 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. For further information, refer to the chapter entitled "The Quick Method" on page 28.

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 inventories) in your possession at the time of registration (refer to the section entitled "New registrants" on page 23).

## Operating expenses

Operating expenses are expenses incurred by registrants to ensure the normal operation of their business. Examples of such expenses include fixed costs, management expenses, expenses related to other support functions, stationery costs, office rent, equipment rental costs, and utilities. If 90% or more 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.

If an expense cannot be attributed solely to your taxable activities or your exempt activities, you must apportion it between the two. For this purpose, you must choose a fair and reasonable method and use it consistently for at least the duration of the fiscal year. Methods based on the allocation of space, time, cost or revenue may be used under certain conditions.

### Example

You use the ground floor of a building you own to operate a retail store (commercial activity) and the second floor to carry on an exempt activity. Your electricity bill for the entire building is \$200 a month, plus \$14 GST and \$16.05 QST. You determine that 60% of the electricity is used for the retail store and 40% for your exempt activity on the second floor.

You may claim an ITC of \$8.40 ( $\$14 \times 60\%$ ) and an ITR of \$9.63 ( $\$16.05 \times 60\%$ ) for the portion of the building used in your commercial activities.

## Capital property

Capital property is depreciable property for which capital cost allowance (CCA) may be claimed and non-depreciable property whose disposition (by way of sale or otherwise) results in a capital gain or capital loss.

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 such items as refrigerators, ovens and other appliances; photocopy machines and computers; chairs, tables, sofas, beds and television sets used to furnish hotel rooms, waiting rooms and convention facilities.

For GST purposes, capital property does not include property in class 12 (chinaware, cutlery or other tableware costing less than \$200), class 14 (certain patents, franchises, concession or licences issued for a limited period) or class 44 (a patent or a right to use patented information for a limited or unlimited period) of Schedule II of the *Income Tax Regulations*. You may claim ITCs for such property following the rules applicable to operating expenses. For QST purposes, capital property does not include property in class 12, 14 or 44 of Schedule B of the *Regulation respecting the Taxation Act*.

If, in your commercial activities, you use capital property that is an immovable (“capital real property” for GST purposes), or capital property that is movable property (“capital personal property” for GST purposes), you may generally claim ITCs and ITRs for the full amount of the GST and QST you paid on the property. However, the percentage of the property that is used in commercial activities must be at least 90% of the total use in the case of an immovable, and more than 50% in the case of movable 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 aircraft and passenger vehicles owned by registrants that are partnerships or 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. If you reduce the percentage, you may have to remit GST and QST.

ITCs and ITRs respecting capital property				
	Percentage of use in commercial activities	All registrants <sup>1</sup>	Individuals who are registrants <sup>2</sup>	Public service bodies
Movable property	≤ 50% > 50%	None 100%	None 100%	None 100%
Immovables	≤ 10% > 10% to ≤ 50% > 50% to < 90% ≥ 90%	None % of use % of use 100%	None % of use <sup>3</sup> % of use 100%	None None <sup>4</sup> 100% <sup>4</sup> 100%
Passenger vehicles and aircraft <sup>5</sup>	≤ 10% > 10% to ≤ 50% > 50% to < 90% ≥ 90%	None None 100% 100%	None Based on CCA <sup>6</sup> Based on CCA <sup>6</sup> 100%	None None 100% 100%

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

## Examples

You purchase a building (immovable) and plan to use 60% of it in your commercial activities. You may therefore claim an ITC and an ITR equal to 60% of the taxes you paid on the building, since less than 90% of the immovable is used in commercial activities.

Cost of building	\$500,000
GST (7% x \$500,000)	<u>\$35,000</u>
Subtotal	\$535,000
QST (7.5% x \$535,000)	<u>\$40,125</u>
Total	\$575,125
<b>ITC claimed</b> (\$35,000 x 60%)	<b>\$21,000</b>
<b>ITR claimed</b> (\$40,125 x 60%)	<b>\$24,075</b>

You purchase a computer (movable property) for your business that you intend to use 60% of the time in your commercial activities. You may therefore claim an ITC and an ITR equal to 100% of the taxes you paid on the computer, since the property is used more than 50% of the time in your commercial activities.

Cost of computer	\$4,000
GST (7% x \$4,000)	<u>\$280</u>
Subtotal	\$4,280
QST (7.5% x \$4,280)	<u>\$321</u>
Total	\$4,601
<b>ITC claimed</b>	<b>\$280</b>
<b>ITR claimed</b>	<b>\$321</b>

## Home office expenses

You may claim ITCs and ITRs for home office expenses only if the work space in your home

- is your principal place of business; or
- is used exclusively (90% or more) to earn income from your business and to meet persons on a regular and continuous basis in the course of your commercial activities.

Individuals who are registrants may claim ITCs and ITRs with respect to such expenses only if the expenses are deductible for income tax purposes.

## New registrants

If you are a small supplier and you decide to register, you may claim ITCs and ITRs in respect of all the goods you had on hand, immediately prior to registration, for consumption or use in your commercial activities. As a rule, these ITCs and ITRs equal the taxes you paid on the property (and, where applicable, on any improvements made to the property), minus any amounts (other than ITCs and ITRs) that you can recover through a rebate, remission or other means. Depreciation of the property<sup>1</sup> must also be taken into account. 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.

If you are a new registrant, you may also claim ITCs and ITRs in respect of any GST and QST payable, prior to registration, on services provided after your registration, and 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 these ITCs and ITRs on the first return you file after becoming a registrant.

### Example

You prepay 18 months' office rent for the period from January 1, 2003, to June 30, 2004. You register on March 15, 2003, and may therefore claim an ITC and an ITR respecting the GST and QST paid on rent for a period subsequent to that date. However, no ITC or ITR can be claimed with respect to the GST and QST paid on rent from January 1 to March 15, 2003, since this tax relates to the period prior to your registration.

Additional information concerning ITCs and ITRs will be found in the chapter entitled "Special cases" on page 36. Refer also to the chapter entitled "Simplified method for calculating ITCs and ITRs" on page 24.



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1. In the *Excise Tax Act* and the *Act respecting the Québec sales tax*, the term used is "basic tax content."



## Simplified method for calculating ITCs and ITRs

A simplified method for calculating ITCs and ITRs can be used by small businesses and eligible public service bodies. This method does not affect the procedures for charging, collecting or reporting GST and QST. The main advantage of using the simplified method is that you do not have to calculate the exact amount of the expense and taxes for each invoice. Instead, you take into account only the amount of your taxable purchases (excluding zero-rated purchases) for which you may claim ITCs and ITRs.

To use the simplified method for a given fiscal year, you must meet all of the following requirements:

- You must be a registrant.
- Your total annual taxable sales (including sales by associates) made worldwide for the previous fiscal year must not exceed \$500,000. Do not include GST or QST in calculating total sales under the GST system, QST in calculating total sales under the QST system, supplies of financial services or sales of immovables.
- If you start using the method in a quarter that is not the first quarter of your fiscal year, your total taxable sales for the previous quarter or quarters (included in the current fiscal year) must not exceed \$500,000. Do not include GST or QST in calculating total sales under the GST system, or QST in calculating total sales under the QST system.
- You must not be a listed financial institution, such as a bank, insurer or trust.
- Your total taxable purchases (excluding zero-rated purchases) in Canada for the previous fiscal year must not exceed \$2 million, including GST and QST.
- If you are a public service body, your total taxable purchases (excluding zero-rated purchases) for the current fiscal year must not exceed \$2 million, including GST and QST.

**To calculate your ITCs and ITRs using the simplified method, follow the instructions below.**

- (a) For the period covered by the return, determine the total amount (GST and QST included) on which GST and QST were paid or payable.

This amount **must include**, where applicable,

- import taxes or duties;
- tips paid, provided they are reasonable;
- expenses incurred with respect to capital property that is movable property (such as office furniture and equipment) and expenses related to improvements made to such property;
- tax reimbursements respecting expenses incurred by employees, partners or volunteers (you do not have to use the factor  $6/106$  with the simplified method);
- the portion of the cost of property or a service that becomes payable after the effective date of the election to use the simplified method;
- interest or penalties relating to late payment for property or a service that constitutes a taxable sale;
- 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);
  - amounts paid to acquire exempt or zero-rated property or services;
  - under the GST system, imports that are not subject to GST, and, under the QST system, property brought into Québec that is 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 were paid or became payable 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 on the purchase of immovables;
  - the portion of meal and entertainment expenses that does not give entitlement to an ITC or an ITR.
- (b) Determine your total taxable purchases (excluding zero-rated purchases) giving entitlement to an ITR under the QST system. Multiply this amount by 7.5/107.5 or 0.0697. The result constitutes your ITR for the period. Carry this amount to box 206 of form FP-500-V, *Detailed Calculations*, or to box 206 of form VDZ-471.CD-V, *Detailed QST Calculation*.

Next, determine your total taxable purchases (excluding zero-rated purchases) giving entitlement to an ITC under the GST system. Subtract the ITR to which you are entitled, and multiply by 7/107 or 0.0654. The result constitutes your ITC for the period. Carry this amount to box 106 of form FP-500-V, *Detailed Calculations*, or to box 106 of form FPZ-34.CD-V, *Detailed GST/HST Calculation*.

### Example

Your business incurs the expenses listed below during the fiscal year. These expenses are all taxable except for salaries and wages, and interest.

Salaries and wages		\$200.00
Inventories	+	\$345.08
Rent	+	\$230.05
Stationery	+	\$115.03
Interest	+	\$50.00
Office furniture	+	<u>\$230.05</u>
Total expenses		\$1,170.21
Salaries and interest (\$200 + \$50)	-	<u>\$250.00</u>
Total taxable expenses		\$920.21

The ITR and ITC are calculated as follows:

$$\text{ITR} = \$920.21 \times 7.5/107.5 = \mathbf{\$64.20}$$

$$\text{ITC} = (\$920.21 - \$64.20) \times 7/107 = \mathbf{\$56}$$

The simplified method can be used only with respect to property and services acquired to make taxable sales. Property and services that are used to make both taxable and exempt sales, or that are intended for both personal and business use, give entitlement to a GST or QST rebate only in respect of the portion acquired for consumption, use or sale in the course of commercial activities.

If you wish to use the simplified method, you must elect to do so. If your reporting period is annual, your election must be made no later than the first day of the second fiscal quarter of the fiscal year in which the method is to be used. If your reporting period is monthly or quarterly, your election must be made no later than the filing deadline for the first return on which the method is to be used. Please note that an election form need not be filed with the Ministère.

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

A similar method, called the simplified method for calculating the rebates of public service bodies, can be used by charities, non-profit organizations whose government funding is at least 40%, and other public service bodies. This method results not in ITCs and ITRs, but in a rebate (partial refund) of the GST and QST. Under this 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 rate for your type of organization (refer to the table on page 17).



Registrants that calculate GST and QST using the Quick Method or the special quick method for public service bodies (refer to the chapter entitled “The Quick Method” on page 28) 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.





## Calculating the net GST and QST

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 should have paid during the reporting period and in respect of which you are entitled to ITCs or ITRs.

As a rule, the difference between these two amounts, if positive, is the net tax you must remit to the Ministère; if it is negative, it constitutes your refund.

To determine the GST and QST that you must remit, and that give entitlement to ITCs and ITRs, you may choose the method that best suits your needs.

If you are a small business, you may use the Quick Method to determine the GST and QST to be remitted. Refer to the chapter entitled “The Quick Method” on page 28 for more information concerning the Quick Method (as well as the special quick method for public service bodies). Refer also to the chapter entitled “Simplified method for calculating ITCs and ITRs” on page 24.



### Determining the GST and QST payable

To determine the GST and QST payable, most registrants use two columns in their sales books to enter the GST and QST that they billed on taxable sales (excluding zero-rated sales) for the reporting period concerned, and two columns in their purchase books to enter the GST and QST for which they were billed during the same reporting period (and for which they are entitled to ITCs and ITRs).

Since the taxes may be included in the total price, it is important that your method allows you to identify the amount of tax. As well, certain sales made to Indians, to governments or to government corporations and agencies referred to in the reciprocal taxation agreement are not subject to tax. Refer to the sections entitled “Sales to Indians” on page 46, “Sales to the federal government” on page 45, and “Sales to the Québec government” on page 46.



Refer to the section entitled “When should the GST and QST be collected?” on page 14 to find out when the tax is considered to have been paid and when the consideration is considered to be due (respecting leases, vending machines, partial payments, conditional sales, etc.).



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 any amounts that may be deducted, pursuant to an adjustment, in the calculation of your net tax for the period. The latter amounts generally correspond to the GST and QST you paid or should have paid.



## ••••• The Quick Method

The Quick Method is a simplified accounting method designed to help registrants calculate the GST and QST they are required to remit to the Ministère du Revenu.

### Who may use the Quick Method?

The Quick Method may be used by small businesses whose total annual taxable sales worldwide (including zero-rated sales and sales made by associates) do not exceed \$200,000<sup>1</sup> (GST included) under the GST system, or \$215,000<sup>1</sup> (GST and QST included) under the QST system. Grocery and convenience stores, for example, generally use the Quick Method. However, the method may not be used by the following entities: 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.

### How does the Quick Method work?

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 purchases made in the course of your commercial activities, you need only 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. These amounts must then be remitted to the Ministère for each reporting period. In the calculation of your total sales, do not include zero-rated sales, sales of immovables and capital property, or sales made to Indians or to a provincial government.

Under the GST system, the amount of your total sales must include GST but not QST; under the QST system, this amount must include both GST and QST.

You may use the Quick Method regardless of whether you include the GST and QST in your selling prices or indicate the taxes separately from the price. Users of the Quick Method are not dispensed from the obligation to keep all supporting documents concerning their purchases and sales.

If you make taxable sales in participating provinces, please note that the rates may vary depending on the location of your business and depending on whether you charged 7% GST or 15% HST on your taxable sales (excluding zero-rated sales).

We noted above that, as a user of the Quick Method, you do not claim ITCs or ITRs in respect of most business expenses (such as heating costs, rent and telephone expenses). You may, however, claim ITCs and ITRs respecting acquisitions of land and property (such as a building, a vehicle or office furniture) that give entitlement to capital cost allowance (CCA) for income tax purposes. These ITCs and ITRs may be claimed in your GST and QST returns for the period during which the purchases were made.

The Quick Method rates apply only to sales made in the normal course of your commercial activities. For other transactions, such as the sale of land or used equipment giving entitlement to CCA, you must remit the full amount of GST and QST you collected or should have collected.

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

## 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. 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 that purchase goods for resale, and can be used by many types of businesses, including groceries, convenience stores, book-sellers, tobacco vendors, boutiques and service stations. However, the property purchased for resale or for use in other property intended for resale (other than basic groceries and property on which the registrant is not required to pay the taxes) must equal at least 40% of the business's total annual taxable sales.

- **1% rate reduction**

If you use the Quick Method as of the first day of your fiscal year, or as of your registration date, you may reduce your rate by 1% with respect to the first \$30,000 of taxable sales (excluding zero-rated sales) during the fiscal year. This means that, under the GST system, you remit only 1.5% or 4% (as applicable) with respect to the first \$30,000 (GST included) of taxable sales, and 2.5% or 5% (as applicable) with respect to the amount in excess of \$30,000. The same general rule holds under the QST system, but the corresponding rates are 1.7% or 4.3% (as applicable) with respect to the first \$32,250 (GST and QST included) of taxable sales (excluding zero-rated sales), and 2.7% or 5.3% (as applicable) with respect to the amount in excess of \$32,250.

If you file monthly or quarterly returns, the reduction applies to sales made during the first reporting period and subsequent reporting periods in the fiscal year, until the amount of \$30,000 (\$32,250 for QST purposes) is reached or the fiscal year ends.

If you file an annual return, the reduction applies to the first \$30,000 (\$32,250 for QST purposes) of taxable sales (excluding zero-rated sales) made during the fiscal year.

## Election to use the Quick Method

To use the Quick Method, you must fill out form FP-2074-V, *Election Respecting the Quick Method of Accounting for Small Businesses*, and file it with the Ministère du Revenu. The effective date you indicate on the form is the date on which you may begin using the Quick Method; however, the date must correspond to the first day of your GST and QST reporting period. The Ministère will confirm your election in writing.



Once you have made the election, you must use the Quick Method for at least one year; furthermore, your business must continue to meet the conditions qualifying it to use the method.

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 taxable 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.

### Special quick method for public service bodies

Owing to the special nature of their activities, qualifying non-profit organizations and certain public service bodies may use the special quick method to calculate the GST and QST to be remitted. Under this method, you simply multiply the total taxable sales (on which GST and QST were or should have been collected) by the prescribed rate for the type of entity concerned.

Prescribed rates		
Type of public service body	GST	QST
Hospital authorities	6.2%	5.9%
School authorities	6.0%	5.9%
Municipalities	5.8%	4.6%
Qualifying non-profit organizations	5.0%	5.9%
Universities and public colleges	5.6% or 6.0%	5.9%

This method can also be used by certain charities.



To use the method, you must file form FP-2287-V, *Special Quick Method of Accounting – Simplified Net Tax Calculation Method*.



## ..... Filing your GST and QST returns

Once you have calculated

- (a) the GST and QST that you collected and should have collected on your taxable sales (excluding zero-rated sales) for the reporting period, and
  - (b) your allowable ITCs and ITRs for the reporting period,
- you are ready to complete your GST and QST returns.

If amount (b) above exceeds amount (a), the difference is your refund. In the opposite case, the difference is the amount you must remit to the Ministère. Whether you have a refund or an amount payable, any adjustments that you have made must be taken into account no later than the filing deadline for your return.

### Reporting periods

As a registrant you must have the same fiscal year under the GST and QST systems, so that your reporting periods are identical for the two taxes. As a rule, the fiscal year is identical 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*.



Your reporting period for GST and QST is assigned to you on the basis of your and your associates' total annual taxable sales made in Canada. The assigned reporting period—monthly, quarterly or annual—is indicated on your confirmation of registration. If you file your returns on a monthly or quarterly basis, you must remit the amount of net GST and QST payable (or claim your refund) each time you file. If you file an annual return, you are generally required to remit the taxes in four instalments each year, and to file form FPZ-558-V, *Tax Instalment Form*. (A copy of the form will be sent to you before the due date for each instalment.) Instalments must be paid no later than one month after the last day of each quarter in your fiscal year. Any adjustments that are needed to take into account the actual amounts of GST or QST remittable can be made on your return, which you complete at the end of the year.



You are not required to make instalments if your net GST or QST payable for the current year or the previous year is less than \$1,500. Simply file the annual return and remit the net GST or QST payable, or claim your refund. Remember, however, that the \$1,500 limit refers to the total net GST or QST of your business as a whole, including all its branches and divisions. This is the case even if your branches or divisions file separate returns.

The table on the next page shows the assigned reporting periods and indicates whether it is possible to change the assigned period. The table does not apply to charities, which can choose their reporting period regardless of their annual sales, or to garment manufacturers, which are required to file monthly returns under the QST system.

Annual taxable sales	Assigned reporting period	Other possibility
Over \$6,000,000	monthly	none
Over \$500,000 but not over \$6,000,000	quarterly	monthly
\$500,000 or less	annual (with or without instalments)	monthly or quarterly



If you wish to change your assigned period, you must file form FP-620-V, *Election Respecting the GST/HST and QST Reporting Period*. For further information, refer to the chapter entitled “Elections and applications” on page 66. (If you are not yet registered, you may also make an election respecting your reporting period on form LM-1-V, *Application for Registration*.) If you expect to be claiming refunds often, a shorter reporting period is to your advantage. Once you have chosen a reporting period, you must normally use it for at least one year.

### GST and QST returns



If you are a registrant, you must file the appropriate returns even if you are not entitled to a refund or have no amount payable. In Québec, the GST is administered by the Ministère du Revenu du Québec. One advantage of this is that registrants in Québec can file a combined GST-QST return (**form FPZ-500-V**), and make each remittance with one cheque and a single remittance slip. Businesses that cannot use the combined GST-QST return must file a GST return (**form FPZ-34-V**) and a QST return (**form VDZ-471-V**). Use the personalized return sent to you by the Ministère.

Monthly and quarterly returns must reach the Ministère **no later than one month after the last day of the period covered by the return**. Annual returns must generally reach the Ministère **no later than three months following the end of the period covered by the return**. An exception is made for individuals who are registrants and who, for a given year, have business income for income tax purposes, an annual reporting period, and a fiscal year for GST-QST purposes that ends on December 31. These individuals have until June 15 of the following year to file their GST and QST returns. However, any GST or QST due must be remitted by April 30.

Your returns must be filed on time. If you lose the personalized return or do not receive it by at least 15 working days before the filing deadline, contact the office of the Ministère in your area to obtain another copy of the return.



Certain businesses and organizations may apply to have their branches or divisions file separate returns. The application form for this purpose is form FP-2010-V, *Application to File Separate Returns – Request to File Separate Rebate Applications – Revocation of Application or Request*. For further information, refer to the chapter entitled “Elections and applications” on page 66.

### Designated reporting periods

Registrants may request that certain reporting periods in a fiscal year be designated reporting periods for which they are not required to file returns. In this case, the tax that was (or should have been) collected and the adjustments in the net tax calculation must total \$1,000 or less for the reporting period or periods concerned. Amounts of tax pertaining to a designated period must be reported on the return for the following period.

This measure can be useful for persons that operate a seasonal or part-time business, or for non-residents that carry on commercial activities in Canada (or in Québec, in respect of the QST) for a short time each year. Designated reporting periods are granted only if the registrant has fulfilled all obligations to the Canada Customs and Revenue Agency and the Ministère du Revenu du Québec.

Designated reporting periods can be granted to businesses and organizations, regardless of the amount of their receipts or the nature of their commercial activities, but not, in most cases, to registrants that file annual returns. Nor is the option available to branches or divisions of registrants that file annual returns, unless the registrant applies for the business as a whole.

To apply for designated reporting periods, you must submit a letter to the Ministère, either at the time you register or before the beginning of the first designated period. The letter must be signed and indicate the registrant's legal name and the names of any branches or divisions that file separate returns, as well as the date on which each designated period is to begin and end.

### Deadlines in respect of GST and QST

One month after the last day of your reporting period MONTHLY OR QUARTERLY REPORTING PERIOD	Deadline for filing your GST and QST returns
Three months after the last day of your reporting period ANNUAL REPORTING PERIOD	Deadline for filing your GST and QST returns
The last day of the month following the end of each quarter in your fiscal period ANNUAL REPORTING PERIOD	Deadline for instalment payments, if you are required to pay instalments of GST and QST
April 30 For sole proprietorships ANNUAL REPORTING PERIOD	Deadline for remitting GST and QST, if your fiscal period ends on December 31
June 15 For sole proprietorships ANNUAL REPORTING PERIOD	Deadline for filing your GST and QST returns, if your fiscal period ends on December 31

## Applying a tax refund to the payment of tax owing

You may wish to use a GST refund or rebate (such as an amount of tax paid in error or a rebate for public service bodies) for a given period to offset the net GST payable for the same period. In this case, you must complete the appropriate application and file it along with your GST return.

Offset also exists under the QST system. Accordingly, if your QST return shows net QST payable, and you are claiming a QST refund, you may deduct the refund from the amount owing, and remit or claim the difference, as applicable. Here again you must complete the appropriate application and file it with your return.

If you are using the combined GST-QST return (form FPZ-500-V), you may use a QST refund to offset GST payable, and vice versa.

Offset with respect to GST and QST cannot normally be used by a registrant that

- has other debts to the federal or Québec government (even if a fiscal debt agreement exists), or
- has failed to file a return for a previous reporting period.

### Example

You collected \$1,500 in GST and \$1,800 in QST. You are entitled to an ITC of \$1,750 and an ITR of \$150.

GST collected		\$1,500
ITC	-	<u>\$1,750</u>
Refund of net tax		(\$250)
QST collected		\$1,800
ITR	-	<u>\$150</u>
Net tax payable		\$1,650
Net tax to be remitted		\$1,650
Refund of net tax	-	<u>\$250</u>
<b>Amount of remittance</b>		<b>\$1,400</b>

If you have branches or divisions that file separate GST and QST returns, you may elect to use the refund of one branch or division to offset the tax payable by another (GST offset by QST, or vice versa).

## Tax remittances or refunds

### Where should you make tax remittances or file refund applications?

All your GST and QST remittances must be made to the Ministère du Revenu. If you are making your remittance in person, either at a financial institution or an office of the Ministère, simply submit your payment along with your remittance slip. If you are making your remittance by mail, enclose your cheque or money order (made payable to the Minister of Revenue of Québec) in the envelope provided. Be sure to indicate your GST and QST identification numbers on the cheque or money order.

GST and QST remittances of \$50,000 or more **must** be made at a financial institution.

It is also possible to file GST and QST returns (and remit the taxes) electronically. For further information, contact the Groupe de promotion de l'EDI et d'acquisition des données électroniques at (418) 652-5281 or, toll-free, at 1 888 830-7747 (extension 5281). You may also ask your financial institution if it offers this service.

Your remittance slip and payment must be received by the Ministère no later than the filing deadline for your return. The date of receipt of a payment is the date on which the payment is received by a financial institution or an office of the Ministère.

If you are claiming a refund, or if you have no remittance to make, your return and refund application cannot be submitted to a financial institution. Submit the documents to an office of the Ministère, either by mail or in person.

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

Never send cash by mail.

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

The Ministère du Revenu must act with due diligence in refunding any net tax that a registrant claims on the required return.

If you do not receive your GST refund within 20 days after the day on which your return was filed, you will be paid interest calculated as of the 21st day following the date on which your return was received by the Ministère, provided

- you filed the return after the end of the reporting period; and
- you have filed all required returns for that reporting period and for all previous reporting periods. Any debt you have to the Canada Customs and Revenue Agency may result in your not receiving the refund you claimed.

If you do not receive your QST refund within 45 days after the Ministère du Revenu receives your return, you will be paid interest calculated as of the 46th day. Any debt you have to the Ministère may result in your not receiving the refund you claimed.

### **Penalties and interest**

Persons that fail to pay an amount of GST or QST within the prescribed time are liable to a penalty. For the GST, this penalty is calculated on the outstanding amount at the annual rate of 6%. For the QST, the rate of the penalty is based on the number of days the remittance is late. The rate is 7% of the outstanding amount for payments that are 1 to 7 days late; 11% for payments that are 8 to 14 days late; and 15% for payments that are 15 or more days late. Moreover, persons that fail to collect an amount are liable to a 15% penalty, as are persons that obtain a refund to which they are not entitled or that exceeds the amount to which they are entitled.

Any amount that is not paid within the prescribed time is subject to interest at the rates prescribed by regulation. These rates are revised quarterly. For the quarter ending June 30, 2005, the rate was 2.4066% under the GST system and 7% under the QST system.

It is a serious offence to file a false return.



## Special cases

### Cash discounts and late-payment charges

If you offer cash discounts (including early-payment discounts) on your credit sales you must collect the GST and QST on the total selling price before the discount.

#### Example

The invoice you give to the customer contains the following information:

Purchase		\$100.00
GST	+	\$7.00
QST	+	<u>\$8.03</u>
Total		\$115.03

The invoice also confirms that a 2% discount is offered if the customer pays within 10 days of billing. The GST and QST do not change, even if the customer takes advantage of the discount. Consequently, the total price paid by the customer will be \$113.03, calculated as follows:

Purchase (\$100 - \$2)		\$98.00
GST	+	\$7.00
QST	+	<u>\$8.03</u>
<b>Total</b>		<b>\$113.03</b>

If you charge an amount for late payment of a bill, 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. In this case, the GST and QST must be collected only on the amount of \$100, even if your customer actually paid \$105 for the item.

When the amount you bill the customer is already net of the early-payment discount, you must 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. Even if the customer makes the payment after March 23, you must charge GST and QST on the amount of \$108.

## Volume discounts

If you offer volume discounts, you may be able to adjust the GST and QST payable by the customer. This will depend on when the discount is granted.

If the discount is granted at the time of sale, you must bill the GST and QST on the selling price minus the discount.

### Example

Ms. Wilkinson buys 10 tables and 40 chairs and receives a 10% discount on the price.

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>
<b>Total</b>		<b>\$3,623.29</b>

Some volume discounts are granted after the sale is made and the GST and QST are collected. This type of discount is granted to the customer at the end of a set period, such as one year. In such a case, you may adjust, refund or credit the GST and QST related to the discount. If you choose to adjust the taxes, you must do so during the reporting period in which the reduction was granted, or within four years after the end of that period. As a rule, you must also issue a credit note to the customer specifying the amount of the discount and the amount of adjusted taxes. However, a credit note is not necessary if the customer provides you with a debit note containing this information. In this case, the GST and QST collected do not change, but you may subtract an amount in the calculation of your net tax. The ITCs and ITRs of the customer (in the case of customers that are registrants) will be reduced.

In certain circumstances you may not want to adjust the taxes, as when a registrant purchaser has already claimed an ITC and an ITR respecting the amounts. If you decide not to make the adjustment, the GST and QST must not be included in the discount, and a credit or debit note need not be provided.

## Deposits and returned goods

The GST and QST are collected on a deposit only if the deposit is considered to constitute partial payment of a property or service. If the customer forfeits the deposit because he or she does not purchase the item or service, both taxes are considered to be included in the deposit.

To determine the taxes to be remitted on the forfeited amount, multiply the amount of the deposit by 7/107 or 0.0654 for the GST (15/115 or 0.1304 for the HST), and by 7.5/107.5 or 0.0697 for the QST. Customers that are registrants may claim an ITC and an ITR in respect of the taxes deemed to have been paid on the forfeited deposit.

### Example

A customer puts down a deposit of \$50 on the purchase of a television set, but later decides not to buy the item. He therefore forfeits the deposit. The Ministère considers that you 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 the customer is a registrant, he may, in most cases, claim an ITC of \$3.27 and an ITR of \$3.49.

If you provide a refund or credit on goods returned by a customer, the corresponding GST and QST may be refunded or credited to the customer. In either case, you must prepare a credit note and give it to your customer. The note must contain the following information:

- a statement to the effect that the document is a credit note;
- your name or commercial name and your GST and QST identification numbers;
- the customer's name or commercial name;
- the date on which the credit note was issued;
- the amount of the adjustment, credit or refund, or a statement to the effect that the total amount includes this amount, the tax rate, and reduction applicable to each item or service.

A debit note prepared by the 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. If the customer is a registrant and claimed an ITC and an ITR for the tax initially paid, the customer must 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 also 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 to customers free of charge or as a bonus on the purchase of another item, as long as the gifts are reasonable in the circumstances. However, you may claim ITCs and ITRs with respect to the taxes you paid (or should have paid) on purchases related to such gifts, provided 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, you must calculate GST and QST on the full price of the item, as in a cash purchase. As the retailer, you are not eligible for any form of compensation.

### Example

For his birthday Daniel receives a \$20 gift certificate issued by a store that sells compact discs. His purchase is as follows:

Price of CD		\$25.00
GST	+	<u>\$1.75</u>
Subtotal		\$26.75
QST	+	<u>\$2.01</u>
Subtotal		\$28.76
Value of gift certificate	-	<u>\$20.00</u>
<b>Balance due</b>		<b>\$8.76</b>

## Coupons

Coupons are receipts or tickets with a set monetary value (such as a \$2 dollar discount) or without a set monetary value (such as a 10% reduction). Coupons entitle the consumer 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 shows how to calculate the GST and QST on various types of coupons.

### Reimbursable coupons

Reimbursable coupons reduce the total amount of the bill, like a cash payment. They are generally referred to as “manufacturers’ coupons,” and their face value is considered to include the GST and QST payable.

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 (excluding 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 vendor’s prices do include the GST and QST, the vendor must total the sale first and then deduct the value of the coupon or coupons.

### Example

Depending on whether or not the taxes are included in the selling price, the amount charged to the customer is calculated as follows:

	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>
<b>Amount charged to the customer</b>	<b>\$18.76</b>	<b>\$18.76</b>

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. Upon sending the coupon to the manufacturer for redemption, the retailer will be reimbursed for the full face value of the coupon (including GST and QST) and any related postage and handling fees.

The **manufacturer** may claim an ITC and an ITR in respect of the taxes that were reimbursed and deemed to have been included in the value of the coupon. The ITC will be equal to  $7/107^1$  of the value of the coupon, the ITR to  $7.5/107.5$  of its value.

1. 15/115 where the coupon is accepted for a sale made in a participating province for TVH purposes.

**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.

### Non-reimbursable coupons

Non-reimbursable coupons are normally issued by retailers, and have the following characteristics:

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

Such coupons may be treated as reimbursable coupons; this allows retailers to simplify their accounting, since all their coupons can be treated in the same way. In this case, they must follow the rules set forth in the previous point. The retailer can also claim ITCs and ITRs for the taxes that were deemed to be included in the value of the coupon, for the reporting period in which the coupon was accepted.

Alternatively, non-reimbursable coupons can be used to reduce the price of property or services before the calculation of GST and QST. Retailers who choose this method must deduct the value of the coupon from the selling price **before** calculating the GST and QST payable by the purchaser. In this case, the retailer cannot claim ITCs and ITRs on the value of the coupons.

### Example

Mr. Claxton buys a tool in a hardware store, and obtains a discount by presenting a coupon.

Total price of item		\$25.00
Face value of coupon	-	<u>\$10.00</u>
Subtotal		\$15.00
GST (\$15 x 7%)	+	\$1.05
QST [(\$15 + \$1.05) x 7.5%]	+	<u>\$1.20</u>
<b>Amount paid by the customer</b>		<b>\$17.25</b>

### 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 the calculation of the taxes.

These coupons 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 free of 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 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 property (excluding 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 case, 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 that can be completed and mailed to the manufacturer for a \$2 rebate. The manufacturer receives the rebate application and sends the customer a cheque for \$2.

Some manufacturers' rebates are granted to customers through the retailer at the time the property is purchased. Even if the amount of the rebate is applied to the retail price of the property, 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 \$20,000. The dealer informs the customer that the manufacturer is providing a \$500 rebate on the automobile.

Selling price		\$20,000
GST (7% x \$20,000)	+	\$1,400
QST (7.5% x \$21,400)	+	<u>\$1,605</u>
Subtotal		\$23,005
Rebate	-	<u>\$500</u>
<b>Amount paid by the customer</b>		<b>\$22,505</b>

The customer must pay \$20,900 (\$22,505 - \$1,605) to the dealership.<sup>1</sup>

Manufacturers that grant a rebate are entitled to an ITC equal to 7/107<sup>2</sup> 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 in your area.

1. Since February 21, 2000, the QST has been collected by the Société de l'assurance automobile du Québec.

2. 15/115 in the case of the HST.

## Used property

### Sales of used property

As a rule, used property (including property seized or repossessed by a creditor) is taxable at the rate of 7% under the GST system and at the rate of 7.5% under the QST system. Consequently, an antique dealer that is a registrant must, in most cases, collect the taxes on furniture sold. However, used property is not taxable if it is sold by a person not engaged in commercial activities, with the following exception: under the QST system, road vehicles that must be registered under the *Highway Safety Code* are QST-taxable even if the vendor is not engaged in commercial activities. In such cases, the QST is collected upon registration of the vehicle.

Persons that occupy a space at a flea market are subject to the same rules as most other merchants, regardless of whether the merchandise they sell is new or used. Under the QST system, persons that make the selling space available must submit a list of the occupants (containing certain information) to the Ministère. For further information, refer to the brochure *Flea Markets* (IN-255-V).



### 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 who trades in the property (the vendor) is a registrant.

#### The vendor of the used property is a registrant

In this case, the vendor must collect GST and QST on the value of the property traded in, inasmuch as the property was used in the course of the vendor's commercial activities. As the person accepting the trade-in, you must collect GST and QST from the vendor on the full selling price of the property you sell. There are, consequently, two separate transactions.

#### Example

Your company, ABC, sells machinery to XYZ company for \$50,000; you grant \$20,000 on the trade-in of XYZ's used machinery. Both companies are registrants.

##### Invoice made out by ABC

Selling price		\$50,000.00
GST (7% x \$50,000)	+	\$3,500.00
QST (7.5% x \$53,500)	+	<u>\$4,012.50</u>
Subtotal		\$57,512.50
Trade-in (including taxes)	-	<u>\$23,005.00</u>
<b>Amount paid by XYZ</b>		<b>\$34,507.50</b>

##### Invoice made out by XYZ

Selling price		\$20,000.00
GST (7% x \$20,000)	+	\$1,400.00
QST (7.5% x \$21,400)	+	<u>\$1,605.00</u>
<b>Total</b>		<b>\$23,005.00</b>

Both you and the vendor of the used property may claim an ITC and an ITR with respect to the taxes you paid, since the property in each case was acquired in the course of commercial activities. The amount of GST and QST collected must be indicated on both invoices.

### The vendor of the used property is not a registrant

In this case, the vendor does not collect GST and QST on the value of the property traded in. As the person accepting the trade-in, you must calculate the taxes on the net amount of the sale, that is, on the selling price of the item minus the trade-in value. There is an exception (as explained in the following section) respecting trade-ins of road vehicles under the QST system.



#### Example

Your company, Green Grass Inc., sells a lawnmower to Mr. Johnson for \$500, and grants \$100 for the trade-in of Mr. Johnson's old lawnmower. Green Grass Inc. is a registrant, Mr. Johnson is not.

New lawnmower		\$500.00
Lawnmower traded in	-	<u>\$100.00</u>
Subtotal		\$400.00
GST (7% x \$400)	+	\$28.00
QST (7.5% x \$428)	+	<u>\$32.10</u>
<b>Amount paid by the customer</b>		<b>\$460.10</b>

Green Grass Inc. is not entitled to an ITC or an ITR.

### 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. However, the QST does not apply to motor vehicles sold to dealerships that are registrants. Such sales are zero-rated, since the dealership acquires the vehicles exclusively for the purpose of reselling them or of leasing them for a period of at least one year.

In the case of used road vehicles, the QST applies to the estimated value of the vehicle. The tax is collected by the Société de l'assurance automobile du Québec.

### Sales to persons residing in a participating province

The harmonized sales tax (HST) applies in New Brunswick, Nova Scotia, and Newfoundland and Labrador (the "participating provinces"). The HST covers the same goods and services as the GST and applies at the 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 sales (excluding 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% or 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.



The rules below apply for the purpose of determining whether a sale is made in or outside a participating province. Québec registrants must take these rules into account in order to decide whether 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 or made available by the vendor in a participating province (for example, by mail, courier service or a common carrier hired by the vendor on behalf of the purchaser).

### Examples

- A sawmill in Rivière-du-Loup is registered for the GST and the QST. It sells lumber to a furniture manufacturer in Fredericton, New Brunswick. The sales contract specifies that the delivery is “FOB<sup>1</sup> purchaser’s plant.” The sawmill must collect HST of 15% because the sale is considered to have been made in New Brunswick. The same would be true if the sawmill had hired a common carrier, on behalf of the purchaser, to deliver the lumber to Fredericton.
- The same sawmill sells lumber to a furniture manufacturer in Halifax, Nova Scotia. The sales contract specifies that the delivery is “FOB<sup>1</sup> vendor’s plant.” The furniture manufacturer comes to pick up the lumber or hires a common carrier to deliver the lumber to Halifax. The sawmill must collect 7% GST, but is not required to collect QST. For QST purposes, the lumber is zero-rated because
  - the purchaser intends to ship the lumber outside Québec, and does so within a reasonable time after the lumber is delivered by the sawmill;
  - the lumber was not acquired for consumption, use or supply in Québec;
  - the lumber was not processed, transformed or altered in Québec before being shipped outside the province;
  - the sawmill has satisfactory evidence that the purchaser shipped the lumber outside Québec.
- A mail-order business in Montréal is registered for the GST and the QST, and 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. On its Québec sales, it must collect GST of 7% and QST of 7.5%.

1. “FOB” stands for “free on board” and indicates the point at which the merchandise becomes the property of the buyer.

## Leasing corporeal movable property

Where corporeal movable property is leased for a period of three months or less, 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 transactions, with a separate transaction corresponding to each period (“lease interval”) to which a particular payment is attributable. The supply is considered to have been made in a particular participating province if the ordinary location of the 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; or
- 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. The first two lease payments are subject to 15% HST; the lease payment attributable to the third month is subject to 7% GST and 7.5% QST.

### Sales of services

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

### Sales of road vehicles

The two situations you should be aware of with respect to these sales are illustrated in the following examples.

#### Example 1

A road vehicle is sold by a GST registrant in a non-participating province (such as Québec), and the GST is paid on the sale. The vehicle is then taken into a participating province. The purchaser must pay the 8% provincial component of the HST. This payment is made when the vehicle is registered in the participating province.

#### Example 2

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 must pay an amount equal to 15% of the value of the vehicle upon registering it in the participating province. The purchaser cannot claim an ITC.

### Other sales

If you are a GST registrant resident in Québec, special rules apply when you sell incorporeal movable property, immovables (and services related to an immovable), passenger and freight transportation services, and telecommunications services to residents of a participating province. For further information, contact the office of the Ministère du Revenu in your area.

### Sales to the federal government

Federal government departments, corporations and agencies are required to pay GST when they acquire taxable (excluding zero-rated) property or services, and to collect and remit GST when they make taxable sales (excluding zero-rated sales). Consequently, you must collect GST on your taxable sales (excluding zero-rated sales) to the federal government. Under a reciprocal tax agreement, the federal government, its corporations and agencies are generally not required to pay QST. Agencies not covered by the tax agreement must pay QST. However, the federal government and its agencies are required to collect QST and remit it to the Ministère du Revenu. For a list of federal government agencies that are required to pay QST, refer to interpretation bulletin TVQ. 16-1/R2, *The Government of Canada and Québec's Consumption Taxes*.



## Sales to the Québec government

Québec government corporations and agencies mentioned in the reciprocal tax agreement reached with the federal government are not required to pay GST on the property and services they acquire, and are exempt from the QST. However, the Québec government, as well as its corporations, agencies and agents, are all required, without exception, to collect GST and QST on their taxable sales (excluding zero-rated sales) and to remit the taxes to the Ministère du Revenu.



For a list of Québec government departments and agencies that are not required to pay QST, see interpretation bulletin TVQ. 678-1/R2, *The Government of Québec and Québec's Consumption Taxes*.

Purchasing officers for the Québec government, and for the government's departments, agencies and agents, must provide confirmation of QST-exempt status at the time a purchase is made. This confirmation may take the form of an exemption certificate, which is a signed declaration certifying that the property and services are not subject to QST because they are being acquired by the Québec government, its departments, agencies or agents. Such a declaration can be an integral part of the acquisition contract or order form, or a separate document remitted to the supplier. The declaration below 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:

### Declaration of exemption from the QST and the GST

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 QST or the GST.

\_\_\_\_\_  
Signature of authorized person

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

## Sales to Indians

In most cases, you must collect GST and QST on sales made to Indians, Indian bands and band-empowered entities, and on sales made on a reserve to persons who are not Indians. However, the taxes are not charged where

- property is 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 that is an artificial person, the property is intended for band management activities);
- services are provided entirely on a reserve, to an Indian, in respect of property located on the reserve at that time;
- services are provided entirely on a reserve to an Indian who is on the reserve at that time;
- transportation services, for transportation between locations on a reserve, are provided to an Indian;
- services are acquired on or off a reserve by an Indian band or band-empowered entity for band management activities or for use with respect to an immovable situated on the reserve.

Transportation services, short-term accommodation, and meals and entertainment are subject to GST and QST if they are acquired outside a reserve. However, a refund of the taxes may be claimed if the property or services were acquired for band management activities or for use with respect to immovables located on the reserve.

The exemption from the taxes cannot be granted unless the proper documents are submitted.

Where the purchaser is an individual, 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, the individual's registry number (usually nine or ten digits, indicated on the Certificate of Indian Status issued by the Department of Indian and Northern Affairs Canada) or the individual's band name and family number (commonly known as the "band number" or "treaty number").

Where property is purchased on 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 band-empowered entity.

Where property is acquired outside a reserve by an Indian, an Indian band or a band-empowered entity, the vendor must also retain (in addition to the registry number or the certifying document) adequate proof that the property was delivered to the reserve.

In the case of services, the document must certify that the services are being acquired by an Indian band or band-empowered entity for band management activities or in respect of immovables situated on the reserve.

You may claim ITCs and ITRs in respect of the purchases you make 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. We suggest that you keep separate entries in your books for sales made to Indians and sales on which you collected GST and QST.

Some 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, these vendors are in a remote location and their regular trading zone includes a reserve which is not in the immediate vicinity. In such cases, the requirement for the vendor to deliver the property to the reserve may be difficult to meet, either because of prohibitive costs or lack of public transportation. Consequently, this requirement may be waived if certain conditions are met.

For further information, refer to the technical information bulletin B-039R, *GST Administrative Policy – Application of GST to Indians*, and interpretation bulletin TVQ. 16-17/R2, *Rules Relating to Indians*.



### **Transitional measures for the Mohawks of Kahnawake**

A number of transitional measures have applied since December 15, 1999, providing for a QST exemption on sales of property to the Mohawks of Kahnawake. The exemption does not cover meals, fuel or alcoholic beverages. These measures must be applied by persons that carry on commercial activities in municipalities located in the regional county municipality of Roussillon, or in the new cities of Montréal and Longueuil (with the exception of the former municipalities of Boucherville and Saint-Bruno-de-Montarville as they existed on December 31, 2001). A Mohawk of Kahnawake who wishes to obtain the exemption must show two pieces of identification, one of which must be the Certificate of Indian Status. The other piece of identification may be the individual's Québec driver's licence, Québec health insurance card or Québec birth certificate. On the invoice, the merchant must indicate the purchaser's name and the number shown on the Certificate of Indian Status.

## Sales to diplomats

You must collect the GST and QST on the taxable sales (excluding zero-rated sales) you make to diplomatic missions, consular posts and international organizations. The same rule holds for diplomatic agents, consular officers and designated officials of international organizations, whether they make purchases on their own behalf or on behalf of their organizations.



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 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.



In addition, members of diplomatic missions and consular posts may obtain tobacco products from selected suppliers without paying the tobacco tax, as may non-Canadian employees of certain international organizations. At selected branches of the Société des alcools du Québec, these persons may also obtain alcoholic beverages without paying the QST or the specific tax on alcoholic beverages. For further information, refer to the brochure *Tax Rebate for Foreign Representations* (IN-249-V).

## Sale of a business

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. This election can be made only if the following conditions are met:

- You (the vendor) must be selling a business or part of a business that you established or carried on, or that you acquired from a person who established or carried on the business.
- The purchaser must be a registrant.
- The purchaser must acquire all or substantially all (90% or more) of the property that may reasonably be considered necessary to carry on the business.

To determine whether a sale of a business meets these conditions, the following questions must be asked.

### Are you selling a business or part of a business?

For GST and QST purposes, a business includes a trade, manufacture or professional practice. The assets of a business generally include immovable (real) property, equipment, inventory and incorporeal (intangible) property such as goodwill. As a rule, the sale of one or more individual assets is not considered to constitute a sale of a business or part of a business, even if the asset in question has a high monetary value and is indispensable to the operation or establishment of the business.

The expression “part of a business” generally refers to an activity that may be a functionally and physically distinct operating unit with its own goodwill, and which the purchaser can, practically speaking, begin to carry on immediately. A part of a business may also be an activity which supports or is related to the broader business, but is organized as a separate activity capable of operating on its own.

### Example

A cake and cookie manufacturer, in business for ten years, decides to specialize in cakes exclusively. Its cookie-making facilities—production line, inventory, equipment and incorporeal property—are put up for sale. In this case, it may be said that “part of a business” is being sold.

### Is the purchaser acquiring all or substantially all of the property?

Property that the purchaser requires to carry on the business but that is not acquired under the sales agreement (for example, property acquired from another source or already in the purchaser’s possession) must not make up more than 10% of the fair market value of all the property required to carry on the business.

In addition, the purchaser must be capable of carrying on the same kind of business that was established or carried on by the vendor using the property acquired under the sales agreement.

Once the joint election has been made, the GST and QST do not apply to the sale, and the taxes are not collected by the vendor or paid by the purchaser. However, this is not the case where

- taxable services are rendered to the purchaser;
- taxable property is supplied by lease or similar agreement; or
- taxable immovables are sold to a non-registrant.

### Principals and agents (mandators and mandataries)

A mandate is a contract by which a person (called an “agent” for GST purposes and a “mandatary” for QST purposes) is empowered to represent another person (called the “principal” for GST purposes and the “mandator” for QST purposes) in the performance of a judicial act in respect of a third party. When the agent transacts with a third party in the course of a mandate, the agent is considered to be acting on behalf of the principal. An agent may thus sell corporeal movable property on behalf of a principal.

Where the principal is required to collect the taxes on a sale, the usual GST and QST rules apply. In other words, principals must collect and report the taxes on the taxable sales (excluding zero-rated sales) made by their agents. For their part, agents must collect and report the taxes on the services they provide to principals with regard to the above-mentioned sales.

### Example

ABC Ltd., a company registered for the GST and QST, has several surplus computers that had been used in its commercial activities. The company arranges to have the computers sold by an agent who is also registered for the GST and QST. The agent asks for a commission amounting to 10% of the selling price (excluding the taxes), and sells all of the computers to one buyer for \$1,000. The agent therefore bills the purchaser \$70 GST (\$1,000 x 7%) and \$80.25 QST (\$1,070 x 7.5%). The agent then credits \$1,150.25 to ABC Ltd. and requests payment of the \$100 commission, \$7 GST and \$8.03 QST (for a total of \$115.03). ABC Ltd. therefore receives \$1,035.22 from the agent (\$1,150.25 - \$115.03), and remits \$63 GST (\$70 - \$7) and \$72.22 QST (\$80.25 - \$8.03) to the Ministère. The agent reports only the taxes charged on the commission.



However, an agent and a principal may make a joint election to have the agent collect, report and remit the taxes. This election must be made on form FP-2506-V, *Election or Revocation of an Election Made Jointly by a Principal and an Agent or Auctioneer*. Under the election, the agent and principal become jointly and severally responsible for any obligations arising from the tax payable. Also, the agent must collect GST and QST on the commission received from the principal.

Where the principal is not required to collect the GST or QST on the sale of corporeal movable property that is taxable (excluding zero-rated property), the agent is generally considered to have sold the property to the recipient. The agent must therefore be registered for the GST and QST, and must collect the taxes and remit them to the Ministère. However, the agent is not required to collect the taxes on the services provided to the principal with regard to the sale.

### Example

Jane Smith, who is not registered for the taxes, asks a merchant (the agent) to sell a desk for her. The desk was used in Jane's home for non-business purposes. The agent, who is a registrant, asks for a commission of 10% of the selling price (excluding GST and QST), and sells the desk for \$1,000. The agent must collect \$70 GST and \$80.25 QST from the recipient and remit the amounts to the Ministère. However, the \$100 commission that Ms. Smith pays to the agent is not taxable.

In such cases, the principal and the agent may make a joint election, in writing, to have the principal collect the taxes from the recipient and report them to the Ministère. This election may be made if the principal is a registrant who is not required to collect the taxes on the sale in question and if the property was last acquired by the principal for consumption or use in a business, adventure or concern in the nature of trade. The agent must collect and report the GST and QST applicable to the services provided to the principal.

**Auctioneers** are considered agents, and are subject to special rules. For further information, contact the office of the Ministère in your area.

## Exports

### Corporeal movable property

As a rule, corporeal movable property ("tangible personal property" for GST purposes) is zero-rated if it is exported from Canada (or, in the case of the QST, if it is shipped outside Québec). You are therefore not required to collect the taxes on such property sold to a person that intends to **export it from Canada** (or **ship it outside Québec**).<sup>1</sup> You may nonetheless claim ITCs and ITRs to recover the taxes you paid on the property and services acquired to make or sell such corporeal movable property.

To qualify as zero-rated, such property must meet **all** the following conditions:

- The purchaser must not be a consumer.
- Once the property has been delivered to the recipient in Canada, it must be taken outside Canada within a reasonable length of time.
- The property must not have been acquired for consumption, use or sale in Canada before being exported.

1. In this section ("Exports"), the reference to the QST and Québec is not repeated in every instance where the GST and Canada are mentioned. However, the rules set forth in this section apply in parallel manner to both taxes, unless otherwise indicated.

- The property must not be further processed, transformed or altered in Canada before being exported by the recipient, except to the extent required for its transport.
- The recipient must provide proof that the property is exported from Canada. You must keep this proof for audit purposes.

Property under warranty sold in Canada to a non-resident that is not a registrant is also zero-rated.

Under the GST and QST systems, a person (other than a consumer) not resident in Canada that purchases property for export, but does not meet the criteria for zero-rating mentioned above, must pay the taxes, but may be entitled to a refund of the taxes paid. However, the purchaser must export the property within 60 days after delivery, without using it. The refund of the GST is claimed on form FP-189-V, *General Rebate Application*; the refund of the QST is claimed on form VD-403-V, *General Application for a Québec Sales Tax (QST) Rebate*.



An **export trading house** is a person at least 90% of whose commercial activities consist in exporting property outside Canada or in buying property in Québec for resale outside Québec. Such a person may request authorization from the Ministère to use export certificates (shipping certificates) in order to purchase property without paying the taxes. These certificates serve as proof that the property is to be exported from Canada (or shipped outside Québec).

Eligible non-manufacturing businesses whose activities consist in exporting property from Canada (or shipping property outside Québec), and that add limited value through their processing or distribution activities, may use an **export (or shipping) distribution centre certificate**. This certificate allows the business to acquire the following property without paying the taxes: inventory, property added to other property during processing, and customers' property that undergoes processing services. For further information about these certificates, contact the Ministère.

In general, you must collect GST and QST on property purchased by **non-resident consumers**. However, these consumers may claim a refund of the GST by completing form GST176, *Application for Visitor Tax Refund*. This form is contained in the brochure IN-4031, *Tax Refund for Visitors to Canada*.



Effective October 1, 2000, consumers who are not resident in Canada are not entitled to a refund of the QST they pay on certain property acquired in order to be taken out or shipped out of Québec. Effective November 1, 2001, this also applies to QST paid with respect to the rental of short-term accommodations.

Consumers that reside in Canada, outside Québec, may apply for a refund of the QST on form VD-352-V, *Rebate of Québec Sales Tax (QST) Paid by a Canadian Not Resident in Québec on Property Purchased in Québec*.



## Services

Services provided to non-residents are, as a rule, zero-rated. However, such transactions are subject to 7% GST and 7.5% QST if

- the sale is made to an individual who is not resident in Canada<sup>1</sup> but is in Canada when he or she orders the service; or
- the service is provided to an individual during his or her stay in Canada.

1. In this section ("Exports"), the reference to the QST and Québec is not repeated in every instance where the GST and Canada are mentioned. However, the rules set forth in this section apply in parallel manner to both taxes, unless otherwise indicated.

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, provided the property is imported solely for the purpose of obtaining the services and is exported as soon as possible after the services have been rendered.<sup>1</sup> 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 exported as soon as possible once the repairs have been made. Accordingly, the repair service is zero-rated.

Other zero-rated services include

- certain professional or consulting services provided to a non-resident;
- advisory, consulting or research services that are intended to assist a person that is not a resident of Canada in taking up residence or establishing a business in Canada;
- advertising services provided in Canada to a non-resident that is not registered for the GST;
- services provided in Canada to a non-resident that is not a registrant, respecting property under warranty;
- services provided to a non-resident (other than an individual) that is not a registrant, 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.

## Imports

### Corporeal movable property

Property imported into Canada is subject to GST, and property brought into Québec is generally subject to GST and QST.<sup>2</sup> Zero-rated property is excepted, as are items designated as non-taxable importations (GST system) or as non-taxable property brought into Québec (QST system). Examples of such non-taxable items include

- medals, trophies and other prizes;
- goods donated to a charity that are subsequently imported by the charity;
- replacement parts or replacement property that is under warranty and is sent to an individual **in Canada**.

GST is collected on taxable goods (excluding zero-rated 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 customs duties. QST is collected on taxable property (excluding zero-rated property) that is brought into Québec from outside Canada and is intended for consumers. In the case of property brought into Québec from another place in Canada, the person that brings the property into Québec must remit the corresponding QST to the Ministère du Revenu immediately after the property arrives in

1. Services provided with respect to property that is ordinarily situated in Canada, outside Québec, are also zero-rated, provided the purchaser of the services is a registrant.

2. In this section (“Imports”), the reference to the QST and Québec is not repeated in every instance where the GST and Canada are mentioned. However, the rules set forth in this section apply in parallel manner to both taxes, unless otherwise indicated.

Québec, unless the person is a registrant and the property is 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 rendered **outside Canada**<sup>1</sup> or on incorporeal movable property (called “intangible personal property” for GST purposes) you purchased from a non-resident that is not required to register for the GST or QST and does not operate a business in Canada, provided the property or services are acquired for use exclusively (90% or more) in your commercial activities.

#### Example

You hire a computer consultant from the United States to design a computer system exclusively for your business’s commercial activities. The consultant does not carry on a business in Canada and is not a registrant. You do not have to pay GST or QST on the consultant’s services.

Taxable services and taxable incorporeal movable property (excluding zero-rated services and property) that are not acquired exclusively for commercial activities are subject to GST and QST. The taxes are generally calculated on the amount charged for the services or property. The sale must have been made outside Canada.

Accordingly, if you are a Québec resident and you purchase services or incorporeal movable property from a non-resident that is not a registrant and does not operate a business in Canada, you are responsible for remitting to the Ministère the GST and QST payable on the services or property.

If the non-resident vendor is a registrant, the sale is deemed to have been made in Canada, and you must remit the taxes to the vendor.

If you are a registrant and you acquired the services or incorporeal movable property for use in your commercial activities, you may claim an ITC and an ITR.

### Returnable containers

#### Deposits on beverage containers

Effective May 1, 2002, deposits on beverage containers are not taxable.

#### Deposits on other returnable containers

Other returnable containers or packages, such as oil drums and helium or oxygen cylinders, are generally considered to be part of the goods they contain, and the taxes apply to the container or package in the same way as they do to its contents. Consequently, a container filled with medical oxygen is zero-rated, because medical oxygen is zero-rated. If sold empty, such containers are subject to 7% GST and 7.5% QST.

1. In this section (“Imports”), the reference to the QST and Québec is not repeated in every instance where the GST and Canada are mentioned. However, the rules set forth in this section apply in parallel manner to both taxes, unless otherwise indicated.

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

- The purchaser of the container or package is deemed to have resold it to the original supplier. In such circumstances, the purchaser, if registered, must collect GST and QST from the supplier. Furthermore, the supplier, if registered, may claim an ITC and an ITR in respect of the taxes paid on repurchasing the container or package.
- The amount paid by the supplier on the return of the container or package is deemed to be a refund made by the supplier to the purchaser. In this case, two options are available:
  - The supplier refunds or credits to the purchaser the GST and QST paid by the latter, and a debit or credit 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.
  - Alternatively, the supplier and the purchaser may choose not to follow the refund procedure outlined in the preceding paragraph, provided they are both registered for the GST and the QST, and have accounted for the taxes (that is, they have remitted the taxes to the Ministère or claimed an ITC and an ITR in respect of them). If they prefer this option, the supplier must refund to the purchaser the deposit paid on the package or container, but not the GST and QST paid at the time of purchase.

Where goods are sold in a container or package 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 rules apply:

- If the package or container can be considered incidental to the goods, the GST and QST will apply to the package or container if the taxes apply to the contents.
- If the package or container cannot be considered incidental to the goods, it is subject to GST and QST separately from its contents and regardless of whether the contents are taxable. In this case, the taxes must be collected on the portion of the selling price that pertains to the package or container.

## 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 taxes must be taken into account for the reporting period that includes the day the money is removed from the machine.

The taxes must be calculated on the money collected from the vending machine. GST is generally calculated in one of the following ways:

- amount collected (QST not included) x 7/107; or
- total amount collected x 7/115.

QST is calculated as follows: amount collected x 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:

$$(\$100 - \$6.98) \times 7/107 = \$6.09.$$

Alternatively, you may multiply \$100 by 7/115 to determine 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 of \$0.25 or less for each transaction.

The right to use a washing machine or clothes-dryer located in a common area of a residential complex is exempt from GST and QST.

### Bad debts

If you write off an amount as a bad debt, the GST and QST already remitted on the amount may be recovered through an adjustment on your GST return (box 108) or QST return (box 208). 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 full amount of the taxes to the Ministère, but the purchaser only pays you \$30. You write off the rest of the amount as a bad debt. In this case you may make GST and QST adjustments on your returns, calculated as follows:

$$\text{GST adjustment:} \quad \$9.10 \times \frac{(\$149.52 - \$30)}{\$149.52} = \$7.27$$

$$\text{QST adjustment:} \quad \$10.43 \times \frac{(\$149.52 - \$30)}{\$149.52} = \$8.34$$

A month later, you receive a payment of \$60 on the \$119.52 that you wrote off as a bad debt. You must therefore calculate and remit the GST and QST applicable to the \$60 payment.

$$\text{GST to be remitted:} \quad \frac{\$60 \times \$9.10}{\$149.52} = \$3.65$$

$$\text{QST to be remitted:} \quad \frac{\$60 \times \$10.43}{\$149.52} = \$4.19$$

## Sales of immovables

Special rules apply to the sale of immovables (“real property” for GST purposes). A vendor (registrant or non-registrant) of a taxable immovable (excluding zero-rated immovables) 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, for QST purposes) is not considered a resident for the application of this rule.
- The purchaser is a registrant. If the purchaser is also an individual, the immovable must not be a residential complex. Nor can it be a cemetery plot or place of burial, entombment or deposit of human remains or ashes.



In both of these situations, the purchaser must remit the GST and QST to the Ministère du Revenu. The payments must be enclosed with form FP-505-V, *Special-Purpose Return*, in the case of purchasers that are not registrants, and in the case of purchasers that are registrants but will not be using the immovable primarily (that is, more than 50%) in commercial activities. Purchasers that are registrants and that will be using the immovable primarily in commercial activities must remit the taxes no later than the regular filing deadline for the return.



Persons completing a combined GST-QST return must complete, on form FP-500-V (*Detailed Calculations*), the section entitled “Statement respecting real property, immovables or imported supplies.” Persons completing a GST return must complete, on form FPZ-34.CD-V (*Detailed GST/HST Calculation*), the section entitled “Statement respecting real property or imported supplies.” Persons completing a QST return must complete, on form VDZ-471.CD-V (*Detailed QST Calculation*), the section entitled “Statement respecting immovables.” These forms must be filed together with the regular 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.

If you completed your returns without realizing that you were entitled to a refund, you may use the amount of the refund to offset the tax payable on the immovable.



A purchaser that pays 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. The purchaser must then remit the taxes as explained above. However, in order to apply for a refund of the tax paid in error in respect of the immovable, the purchaser must fill out form FP-189-V, *General Rebate Application*, (for GST) and form VD-403-V, *General Application for a Québec Sales Tax (QST) Rebate*. The purchaser generally has two years after the date of payment of the tax to apply for a refund.

## Self-supply of a residential complex

Builders that rent or occupy a residential property that they have built must generally pay GST and QST on the fair market value of the property.

A builder is generally a person that is in the business of constructing or substantially renovating a residential complex on land that the person owns or leases. A builder also includes

- a supplier of a previously unoccupied mobile home or floating home;
- a person that purchases an unoccupied new residential complex for the purpose of reselling or leasing it to be used in the course of a business or an adventure or concern in the nature of trade;
- a person that acquires an interest in a residential complex while it is under construction or substantial renovation;
- a person that converts a commercial complex into a residential complex.

An individual who constructs or substantially renovates a residential complex otherwise than to be used in the course of a business or an adventure or concern in the nature of trade is not considered to be a builder.

A builder is deemed to have sold and repurchased a complex on the later of the following dates:

- the date on which the work is substantially completed; or
- the date on which possession of the complex is transferred to the lessee or the complex is occupied by the builder (if the builder is an individual). The builder is required to report and remit the taxes calculated on the fair market value of the complex.

In accordance with these rules, the taxes are charged on a residential complex that is new or has been substantially renovated and that is leased or occupied as a place of residence by the builder before it is sold. As a rule, any subsequent sale of the property is exempt from the taxes.

A builder that is a registrant is generally entitled to ITCs and ITRs on costs incurred in relation to the construction of the complex. If the builder is not a registrant, a rebate of the GST or QST related to acquisition and construction costs may be claimed once the self-supply has occurred. A GST rebate claim must be filed on form FP-189-V, *General Rebate Application*, and a QST rebate claim on form VD-403-V, *General Application for a Québec Sales Tax (QST) Rebate*.



The following builders are generally excluded from the application of the self-supply rules:

- an individual who occupies a residential complex primarily (more than 50%) as his or her place of residence, provided the individual has not used the complex primarily for any other purpose between the time the work is substantially completed and the time the complex is occupied primarily as a place of residence, and has not claimed any ITCs or ITRs in respect of the acquisition of or the improvements to the complex;
- universities, public colleges and school authorities in respect of the construction of student residences;
- certain religious communal organizations; and
- a registrant that constructs residential complexes at remote work sites for employees or subcontractors of the registrant, if the registrant elects not to have the rules apply.

## New housing rebate

Purchasers of new housing, as well as home owners who build or substantially renovate their own home, may claim a rebate of the GST and the QST. The rebate may also be claimed with respect to the purchase of shares of the capital stock of a co-operative housing corporation, a condominium unit, a mobile home or a floating home. In order for the purchaser or owner to claim the rebate, the housing unit must be used as the principal place of residence by the purchaser or owner, by a related individual or by a former spouse, and the individual in question must be the first occupant of the new or substantially renovated unit.

For a housing unit whose fair market value (FMV) is \$350,000 or less, the GST rebate is 36% of the tax paid on the purchase price, but may not exceed \$8,750. The amount of the rebate is progressively reduced for units whose FMV is more than \$350,000 but less than \$450,000, and no rebate may be claimed for units whose FMV is \$450,000 or more. In respect of the QST rebate, the respective FMV threshold amounts are \$200,000 or less (36% rebate), more than \$200,000 but less than \$225,000 (progressively reduced rebate), and \$225,000 or more (no rebate).

Summary of new housing rebates		
Full 36% rebate	Progressively reduced rebate	No rebate <sup>1</sup>
GST Value of the residential unit: \$350,000 or less	GST Value of the residential unit: more than \$350,000 but less than \$450,000	GST Value of the residential unit: \$450,000 or more
QST Value of the residential unit: \$200,000 or less	QST Value of the residential unit: more than \$200,000 but less than \$225,000	QST Value of the residential unit: \$225,000 or more

1. Where the FMV is \$225,000 or more but less than \$450,000, the purchaser or owner may claim a QST rebate calculated on the amount of the GST rebate.



The new housing rebates must be claimed on form FP-190-V, *GST New Housing Rebate*, and form VD-366-V, *QST New Housing Rebate Application*.

In certain cases, the builder credits or pays the rebate directly to the purchaser at the time of purchase. If this is the case, the builder and the purchaser must indicate that fact on the rebate application. The builder must then indicate the amount so paid or credited in the GST and QST returns for the period in which the sale occurred, and enclose the rebate application with the returns.

The purchaser of a **new residential rental property** may claim a rebate of the GST and QST paid to the builder, provided the residential units are subsequently leased on a long-term basis to individuals as their place of residence. The builder of a new residential rental property that is required to pay the taxes on the fair market value of the property under the self-supply rules is also entitled to the rebate. The threshold amounts determining the percentage of the rebate are the same as those indicated above, but apply individually to each housing unit.

To claim the new residential rental property rebate in respect of the GST, file form FP-524-V, *New Residential Rental Property GST Rebate Application*, together with form FP-525-V, *New Residential Rental Property GST Rebate Application Supplement – Multiple Units*, where applicable. To claim the new residential rental property rebate in respect of the QST, file form VD-370.67-V or VD-370.89-V, *New Residential Rental Property QST Rebate*. Non-registrants must claim the rebate by filing the applications directly with the Ministère. Registrants must enclose the rebate application with their GST and QST returns, and they may deduct the amount of the rebate from the taxes payable.



For further information, refer to the brochure *QST and GST/HST Rebates: New Housing and New Residential Rental Property* (IN-205-V).



## Employee benefits

Although salaries, wages, commission, tips and other types of remuneration are not subject to GST or QST, other forms of compensation provided to employees, commonly referred to as “taxable benefits,” may be subject to the two taxes. Employers that are registrants must pay GST and QST on certain benefits granted to employees if the benefits are taxable (excluding zero-rated) property or services made available to employees and if all or a portion of the value of the benefits must be included in the calculation of the employees’ taxable income. 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 exemption also covers property and services that are subject to the ITR restrictions for large businesses.

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

- personal use of an automobile owned or leased by the employer;
- room and board;
- non-monetary bonuses;
- use of frequent-flyer points;
- gifts valued at more than \$500.

For further information, consult the brochure *Taxable Benefits* (IN-253-V). You may also wish to consult the document *Employers’ Guide – Taxable Benefits* (T4130), published by the Canada Customs and Revenue Agency.



The amounts of tax payable by the employer on a benefit unrelated to automobile operating costs are  $\frac{6}{106}$  (for GST) and  $\frac{7.5}{107.5}$  (for QST) of the total value<sup>1</sup> of the benefit. The total value of the benefit is the sum of the reported benefits (including GST and QST) and the amounts reimbursed by the employee with respect to stand-by charges and operating costs related to an automobile. Where the benefit is related to automobile operating costs, the amounts of tax payable by the employer are equal to the prescribed percentages of 5% for GST and 5.7% for QST.

In certain cases, property purchased or leased for the purpose of providing employee benefits is subject to restrictions in respect of ITCs and ITRs. For example, an employer may not claim ITCs and ITRs in respect of property or services acquired exclusively (90% or more) for an employee’s personal use or consumption (such as membership in a sports facility). In such cases, the employer is not required to pay GST or QST on the taxable benefit granted to the employee. This exemption also covers property and services that are subject to the ITR restrictions for large businesses.

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1. In the legislation, the term used is “consideration.”

As a rule, 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 for issuing T4 and RL-1 slips. The total value of the benefits reported on an employee's T4 and RL-1 slips 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.

If the last establishment where the employee worked is located in a participating province, the HST rates 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 the employers, partnerships, charities or public institutions (provided they are registrants) to ITRs and ITCs.

An "**allowance**" is a periodic payment or other payment that an employee receives from his or her employer, a partner receives from the partnership of which he or she is a member, or a volunteer receives from a charity or public institution for which he or she works (in addition to any salary, wages or other remuneration they may receive), and that is used to pay certain expenses without the recipient having to account for how the amount is spent.

A "**reimbursement**" is any amount that an employee receives from his or her employer, a partner receives from the partnership of which he or she is a member, or a volunteer receives from a charity or public institution (in addition to any salary, wages or other remuneration they may receive) in respect of expenses that the recipient must prove he or she incurred in 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 that were 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 deductible (in whole or in part) in the calculation of the registrant's income and if at least 90% of the expenses are taxable expenses (excluding 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. The ITC is equal to 7/107 of the allowance paid, taking into account (where applicable) the restrictions on expenses incurred for meals and entertainment (refer to the section entitled "Meal and entertainment expenses" on page 63).



Likewise, QST registrants may claim an ITR equal to 7.5/107.5 of the allowance paid to an employee, partner or volunteer for expenses incurred in Québec on which QST was paid, provided the allowance is deductible (in whole or in part) in the calculation of the registrants' income pursuant to the *Taxation Act*. Employers, partnerships, charities or 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):

- **First method**

They may claim an ITC equal to 6/106 of the total amount reimbursed and an ITR equal to 7/107 of this amount, provided at least 90% of the expenses reimbursed are taxable (excluding zero-rated expenses) and the expenses were incurred in Canada (or in Québec, for QST purposes). It should be noted that, under the QST system, the rate applicable to large businesses is 4.1% of total expenses reimbursed by means of an expense account.

- **Second method**

Alternatively, they may calculate the actual amount of 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. Under this method, the tax (GST or QST) paid by the employee, partner or volunteer is multiplied by the lower of the following amounts:

- the percentage of the cost that is reimbursed (that is, the reimbursement divided by the cost); or
- the proportion in which the property or service is used in the commercial activities of the employer, partnership, charity or public institution.

### Example

Daniel incurs expenses of \$575.13 exclusively 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:

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

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

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

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

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

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

He may therefore claim an ITR of \$5.24.

The method chosen must be used for each type of expense incurred. In most cases, registrants must also take into account the restrictions on meal and entertainment expenses. Registrants that opt to use the second method set forth above must have in their possession the documents and information necessary to claim the ITC or ITR. Where registrants opt for the first method set forth above, the requirements respecting documents and information are less strict; however, they must keep adequate registers and books of account and retain certain information on each reimbursement to employees, partners or volunteers.



Two methods of calculation are described in the section entitled “Meal and entertainment expenses” on page 63. 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 a participating province or in order to use a motor vehicle in a participating province, the HST rates may apply. For further information, contact the office of the Ministère in your area.

### **GST and QST rebates payable to employees and partners**

In some cases, employees or partners do not receive a reasonable allowance or a reimbursement to cover all the expenses they incur. They may also be required to report an allowance as income. In either of these two situations, employees or 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, must be claimed using form GST370, *Employee and Partner GST/HST Rebate Application*. 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.



Under the QST system, employees and partners may also be entitled to a rebate of the QST corresponding to 7.5/107.5 of the allowable expenses incurred. The rebate must be claimed using form VD-358-V, *Québec Sales Tax Rebate Application for Employees and Partners*.

## Meal and entertainment expenses

Registrants 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 employees or partners 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 public institutions and charities that are registrants may claim ITCs and ITRs to recover all of the GST and QST paid on meals and entertainment related to their commercial activities.

## Refund of the GST on printed books

Certain persons are entitled to a full refund of the GST they pay on the purchase of printed books, audio recordings of printed books, and printed versions of the scriptures of any religion, provided these documents are not purchased for resale. (These documents are zero-rated under the QST system.)

The persons that qualify for the GST refund on printed books are municipalities; school authorities; universities; public colleges; charities, public institutions and qualifying non-profit organizations that operate a public lending library; and prescribed charities and non-profit organizations whose primary purpose is the promotion of literacy. (Entities whose primary purpose is the promotion of literacy must apply to the Canada Customs and Revenue Agency in order to be considered “prescribed.”)

The refund must be claimed by indicating an amount separately on line 307 of form FP-66-V, *GST/HST Rebate Application for Public Service Bodies*. A refund application must be filed within four years following the end of the reporting period during which the GST became payable.





## 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.

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 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 returns, and will assist the Ministère du Revenu 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 your claims for ITCs and ITRs (refer to the table on page 14). All documents must be kept at your place of business, your residence, or another place designated by the Ministère.

Registers, books of account and supporting documents may be on paper, magnetic media or microfilm. However, your documents must meet certain standards. For further information, contact the bureau of the Ministère in your area.

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, unless you have obtained written authorization from the Ministère to dispose of documents before the date prescribed by law.



## ••••• Audits

Your business may be subject to an audit for the purpose of

- ensuring that your business has complied with its fiscal obligations under the laws administered by the Ministère du Revenu;
- providing you with the information you need in order for your business to comply with its fiscal obligations;
- making any necessary adjustments, including refunds.

The Ministère routinely conducts audits at business premises. In most cases, the auditor will call the contact person representing the business in order to fix a date for the audit. Audits are usually conducted at the business's main establishment, and the scope and duration of the audit depend on such factors as the size of the business, the reliability of the accounting system, the documents available, and the speed with which the requested information is provided to the auditor.

Audits are sometimes conducted at the offices of the Ministère. In this case, the auditor may request that you submit the necessary documents to carry out the audit.

A duly authorized employee of the Ministère may, at any reasonable time, enter the premises where a business is operated, property is kept, commercial activities are carried on, or registers and books of account are (or should be) kept, but may not enter a residence without the consent of the occupant. The employee may examine the registers, books of account, supporting documents, letters and any other document pertaining to

- information that is (or should be) contained in the registers and books of account;
- an amount that should be paid, deducted, withheld or collected under a fiscal law.

The employee of the Ministère may also require any person connected with the business (including the owner or manager of the business or of the premises at which the business's property is kept, or any other person present on the premises) to provide all reasonable assistance necessary to carry out the audit. Moreover, the employee may oblige the owner or manager to accompany him or her on the premises. If asked, the employee must state his or her name and present the document attesting that he or she is duly authorized by the Ministère.

For further information, refer to the brochure *Tax Audits of Businesses and Business Persons* (IN-135-V).





## Elections and applications

Businesses and organizations can simplify administration of the GST and QST by making various elections or applications, depending on the type of activity of activity they carry on.

### Elections

You may make an election if you meet certain conditions and (where applicable) file the prescribed form. Once you make an election, it remains in effect

- as long as you meet the eligibility requirements;
- until you cancel it; or
- until you make another election.

As a rule, an election must remain in force for a minimum of one year before it can be cancelled.

In certain cases, you are not required to inform the Ministère of your election with respect to a given situation. However, you must keep in your registers and books of account a copy of the duly completed election form, or a statement containing certain prescribed information. To ensure that your election remains in effect, you must continue to meet the eligibility requirements.

### 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.

### List of elections and applications



The following lists contain the titles and numbers of the forms that must be used to make elections and applications.

The elections and applications listed below are available to **most registrants**:

- *Election or Revocation of an Election Respecting a GST/HST and QST Fiscal Year* (FP-670-V)<sup>1</sup>
- *Election Respecting the GST/HST and QST Reporting Period* (FP-620-V)<sup>1</sup>
- *Notification of Fiscal Quarters and Fiscal Months and Application for Approval to Extend or Shorten Fiscal Months* (FP-671-V)<sup>1</sup>
- *Application to File Separate Returns – Request to File Separate Rebate Applications – Revocation of Application or Request* (FP-2010-V).<sup>1</sup> This application enables businesses that carry on commercial activities in more than one branch or division to file a separate return for each of them.
- Application respecting designated reporting periods<sup>1,2</sup>
- *Election Respecting the Acquisition of a Business or Part of a Business* (FP-2044-V)

1. This election or application may be made at the time of registration.

2. In this case, the application must be presented in the form of a letter.

- *Election Made by an Individual or Personal Trust to Treat the Exempt Supply of Real Property (an Immovable) by Way of Sale as a Taxable Supply* (FP-622-V)
- *Request for Cancellation or Variation of Registration* (FP-611-V)
- *Election Respecting the Quick Method of Accounting for Small Businesses* (FP-2074-V)
- *Election or Revocation of an Election Made Jointly by a Principal and an Agent or Auctioneer* (FP-2506-V)<sup>1</sup>
- *Election to Have the Operator of a Joint Venture Account for GST and QST* (FP-621-V)<sup>1</sup>
- *Election by an Organization to Have the Supply of Its Courses, Examinations and Certificates Deemed Taxable* (FP-629-V)<sup>1</sup>
- *Election Respecting the Use of an Aircraft or Passenger Vehicle in Non-Commercial Activities* (FP-30-V)<sup>1</sup> for GST purposes; *Election Respecting the Use of a Passenger Vehicle or an Aircraft in Non-Commercial Activities* (VD-293-V)<sup>1</sup> for QST purposes
- Application by a direct seller to use the special collection method<sup>2</sup>
- Application for designation of a buying group<sup>2</sup>
- Application for designation of a barter exchange network<sup>2</sup>
- *Declaration Respecting a Transaction Between Related Individuals with Regard to a Road Vehicle Registered in Québec* (VD-80.1-V). This application is to be used by an individual in order to avoid having to pay the QST on a vehicle supplied by way of gift to another related individual. As a rule, the GST does not apply in such cases.
- *Election to Defer Payment of the Tax Payable, in Accordance with the Self-Supply Rule, with Respect to a Residential Complex* (VD-224.1-V). This election is available only under the QST system.

The elections and applications listed below are available to **public sector bodies only**:

- *Application by a Public Service Body to Have Branches or Divisions Designated as Small-Supplier Divisions* (FP-631-V)
- *Application to File Separate Returns – Request to File Separate Rebate Applications – Revocation of Application or Request* (FP-2010-V). This application enables public service bodies that carry on commercial activities in more than one branch or division to file a separate rebate application for each of them.
- *Special Quick Method of Accounting – Simplified Net Tax Calculation Method* (FP-2287-V). This form enables a public service body (other than a charity) to elect to use the Special Quick Method of accounting, or a charity to elect not to use the simplified net tax calculation method. It also enables a public service body or a charity (as applicable) to revoke such an election.
- *Election by a Public Sector Body to Have Exempt Memberships Treated as Taxable Supplies* (FP-623-V)<sup>1</sup>
- *Election to Tax Memberships in a Professional Organization* (FP-2018-V).<sup>1</sup> This election enables a professional organization to have its otherwise tax-exempt memberships treated as taxable.
- *Election or Revocation of the Election by a Public Service Body to Have an Exempt Supply of Real Property (an Immovable) Treated as a Taxable Supply* (FP-2626-V)
- *Application by an Unincorporated Organization to Be Considered a Branch of Another Unincorporated Organization* (FP-632-V)

1. This form does not have to be filed with the Ministère, but it must be kept on file by the person or persons making the election.

2. In this case, the application must be presented in the form of a letter.

The elections and applications listed below are available to **corporations and financial institutions only**:

- *Election to Deem Taxable Supplies Between Closely Related Corporations to Have Been Made for Nil Consideration* (FP-25-V)<sup>1</sup> for the GST; *Election to Have Taxable Supplies Between Closely Related Corporations Deemed to Have Been Made for Nil Consideration* (VD-336-V)<sup>1</sup> for the QST
- *Application to Offset Tax by Refunds or Rebates* (FP-603.A-V and FP-603.B-V)
- *Election or Notice of Revocation of the Election to Deem Supplies Made Between Members of a Closely Related Group, of Which a Listed Financial Institution Is a Member, to Be Supplies of Financial Services* (FP-27-V). This election is not available under the QST system.

**The elections and applications listed below do not require the filing of a form:**

- Simplified method for calculating ITCs and ITRs
- Simplified method for calculating rebates
- Election to use the part of a patronage dividend that is attributable to taxable property and services for purposes of GST adjustments
- Election not to use a patronage dividend for purposes of price adjustments
- Election concerning the sale of the business property of a deceased person

## Description of general applications and elections



**The most frequent applications and elections for which a form must be completed are described below:**

- *Election or Revocation of an Election Respecting a GST/HST and QST Fiscal Year* (FP-670-V)
- *Election Respecting the GST/HST and QST Reporting Period* (FP-620-V)
- *Application to File Separate Returns – Request to File Separate Rebate Applications – Revocation of Application or Request* (FP-2010-V)
- *Election Respecting the Quick Method of Accounting for Small Businesses* (FP-2074-V); *Notice to Revoke the Election Respecting the Quick Method of Accounting* (FP-675-V)



For further information, refer to the section “Other forms relating to registration” in the **Guide to Registration** (LM-1.G-V).

- *Election Respecting the Acquisition of a Business or Part of a Business* (FP-2044-V)

When you sell a business (or part of a business) to a person and the person acquires all or substantially all of the property that is considered necessary to the operation of the business (or part of the business) acquired, you and the person may jointly elect not to charge GST or QST on the sale of the property. However, to make this election, the person acquiring the property must also be registered for the GST and the QST.

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

This form enables persons to modify their registration (where they have ceased to operate one of their businesses) or to cancel their registration (where they have ceased to carry on commercial activities), provided they meet all of the required conditions.

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1. This form does not have to be filed with the Ministère, but it must be kept on file by the person or persons making the election.

For further information, refer to the chapter entitled “Cancelling your registration” on page 71.



- *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 such activities as the exploration or development of mineral deposits 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 their representative.

This form need not be filed in order to make the election; simply fill it out and keep it on file for auditing purposes.

- *Election to Deem Taxable Supplies Between Closely Related Corporations to Have Been Made for Nil Consideration (FP-25-V) for the GST; Election to Have Taxable Supplies Between Closely Related Corporations Deemed to Have Been Made for Nil Consideration (VD-336-V) for the QST*

Where two or more registrants are members of a group of closely related corporations and are engaged exclusively (90% or more) in making taxable sales, they may jointly elect to have taxable sales 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, for QST purposes, to

- property that is used to replace other property, or property or services that are acquired by a registered insurer by way of a settlement of an insurance claim;
- property or a non-financial service sold to a registrant that acquires it in order to supply it with a financial service in order to enable the consumer to avoid paying the taxes.

This form need not be submitted in order to make the election; simply fill it out and keep it on file for auditing purposes.



## Recourse available to registrants

If you believe that the amounts shown on a notice from the Ministère du Revenu are incorrect, or if for other reasons you are dissatisfied with the services of the Ministère, you may take steps to obtain an explanation or to voice your disagreement. Various means of recourse are available to you.

The first step is to visit or telephone the office of the Ministère in your area. Staff members are available to help you solve your problem. The vast majority of cases are settled at this stage.

If the process described above fails to provide a satisfactory solution, you may wish to proceed with legal recourse. There are two types of legal recourse: objection and appeal. If you decide to take legal recourse, you must act within certain deadlines and follow the prescribed procedure. For more information, refer to the brochure *Recourse for Your Tax-Related Problems* (IN-106-V).



Still another means of recourse is available to registrants: you may file a complaint with the Direction du traitement des plaintes. The staff of the Direction ensures that the complaints submitted receive the attention they deserve from the proper authorities of the Ministère. If you wish to file a complaint, you must submit your problem in writing to the following address:

Director, Direction du traitement des plaintes  
Ministère du Revenu du Québec  
3800, rue de Marly  
Sainte-Foy (Québec) G1X 4A5

You may also telephone the Direction du traitement des plaintes at (418) 652-6159 or, toll-free, at 1 800 827-6159.

Please note that filing a complaint with the Direction du traitement des plaintes is not a substitute for the other means of recourse available to you, and does not prolong or suspend the prescribed deadlines for such recourse. Consequently, if you wish to file an objection or an appeal, you must do so within the prescribed time limit regardless of whether you have filed a complaint with the Direction.

If you believe that you have been treated unfairly, you may contact the Public Protector (Ombudsman), who is authorized to investigate all complaints respecting the activities of the public administration.



## Cancelling your registration

The Ministère du Revenu may cancel your registration for the GST and the QST if it has been determined that registration is no longer required. However, the Ministère must send you, prior to cancellation, a written notice specifying the date on which cancellation becomes effective. The following are some of the situations in which registration may be cancelled:

- The registrant is a small supplier.
- An individual or an organization that is not a corporation ceases to carry on commercial activities, or sells a business. The registered entity has therefore ceased to exist. However, registration will not be cancelled in a case where a 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 continue to carry on a business, and cease making taxable sales, while continuing to make exempt sales.

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*. In most cases, cancellation may come into effect as of the day on which registration is no longer required. If you are a small supplier, cancellation may take effect at any time, provided you have been registered for at least one year on the date on which cancellation of registration comes into effect. As a rule, cancellation for the GST and the QST must be requested for the same date.



The following small suppliers may not cancel their registration:

- taxi drivers (GST and QST)
- non-resident performers who collect admissions in Canada (GST and QST)
- retail vendors of tobacco products (QST only)
- retail vendors of fuel (QST only)
- vendors of alcoholic beverages (QST only)
- vendors of new tires (QST only)
- vendors of road vehicles (QST only)

A person that ceases to be a registrant is deemed to have sold all property that was in the person's possession at the time of cancellation and that was for consumption, use or sale in the course of commercial activities. However, different rules are applied in the case of capital property, non-capital property, and rental services and property.

In the case of capital property, the person is deemed to have ceased to use the property in the course of commercial activities immediately before cancellation of registration and to have sold the property and collected the GST and QST. As a rule, the taxes for each property must be calculated by carrying out the following operations:

- Determine the GST and the QST that were paid on the property the last time it was acquired or imported.
- Add the GST and the QST that were paid on improvements made to the property.
- Where applicable, deduct any amount (excluding an ITC or an ITR) that was recovered through a refund or rebate or in any other way.
- Multiply the result of the preceding operations by the result of the following operation: the fair market value (FMV) of the property divided by its acquisition cost and the cost of any improvements. (Note that this fraction may not be greater than 1.)

### Example

In August 2000 a registrant bought office furniture at a cost of \$5,000, to which \$350 GST and \$401.25 QST must be added. As the furniture is used for commercial activities, the registrant may claim an ITC and an ITR on the taxes paid.

On April 30, 2003, registration is cancelled. The registrant still owns the furniture and is therefore considered to have sold the furniture and collected the taxes immediately before cancellation of registration. On that date, the furniture's fair market value is \$2,500.

<b>Calculation of taxes to be remitted</b>	<b>GST</b>	<b>QST</b>
Tax paid at time of acquisition	\$350.00	\$401.25
Tax paid on improvements	+ \$0.00	+ \$0.00
Refund or rebate	- <u>\$0.00</u>	- <u>\$0.00</u>
Total	\$350.00	\$401.25
FMV ÷ cost of property and improvements		
\$2,500 ÷ (\$5,000 + \$0.00)	x <u>0.50</u>	x <u>0.50</u>
<b>Taxes to be remitted</b>	<b>\$175.00</b>	<b>\$200.63</b>

These amounts of tax must be reported in the net tax payable for the registrant's last reporting period.

In the case of non-capital property, the person is deemed to have sold the property for a price equal to its fair market value (FMV) immediately before cancellation of registration and to have collected the GST and QST calculated on the FMV, unless the sale is considered exempt.

### Example

A person ceases to be a registrant on April 30, 2003, and has an inventory of unsold computers with an FMV of \$8,000. GST and QST calculated on the FMV must therefore be included in the net tax payable for the person's last reporting period as a registrant. The amount of the GST is \$560 ( $\$8,000 \times 7\%$ ); the amount of the QST is \$642 ( $\$8,560 \times 7.5\%$ ).

Where a service is being rendered or property is being leased over a period that extends beyond the date when you cease to be a registrant, you are entitled to an ITC and an ITR solely for the period during which you were a registrant. The amount of the taxes must be prorated.

### Example

On April 15, 2003, a person receives the invoice for advertising services covering the period from April 15 through May 14, 2003. The cost of these services is \$170, to which \$11.90 GST and \$13.64 QST must be added. The person may claim an ITC and an ITR on the taxes paid. On May 1, 2003, the person ceases to be a registrant. Consequently, the person must add, to the net tax payable, the ITC and the ITR claimed for the period after cancellation of registration. The amount of the GST is \$5.55 ( $\$11.90 \times 14/30$ ); the amount of the QST is \$6.37 ( $\$13.64 \times 14/30$ ).



## Services offered by the Ministère du Revenu

### Services to the public

Decentralization of its activities is one of the means by which the Ministère du Revenu makes its services more accessible to the public. To obtain answers to your tax questions, or to have corrections made to your file, you may telephone, write or visit the office of the Ministère in your area. A list of the offices of the Ministère, with their addresses and telephone numbers, is provided at the end of this brochure.

Business hours for services to the public are

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 a.m. to 4:30 p.m.

### Business windows

The Ministère offers the following services to new businesses:

- a special information line for new businesses;
- visits (on request) to the place of business, in order to assist new businesses during start-up;
- personalized follow-up, by telephone, for new businesses;
- information sessions on tax-related matters.

The specific services available may vary from one office to another.

### GST and QST publications

#### GST and QST brochures and folders

No matter what your GST- and QST-related questions, you can find the answers in the documents published by the Ministère du Revenu. These brochures and folders may be ordered by calling one of the telephone numbers reserved for GST- and QST-related enquiries or by visiting the office of the Ministère in your area. They can also be ordered by Internet at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca).

#### Tax News

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/HST and incorporates the contents of *GST/HST News*, a newsletter published by the Canada Customs and Revenue Agency (CCRA). *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 CCRA publications designed to help you understand the application of the GST.

## Other QST-related documents

More detailed information is provided in the interpretation bulletins pertaining to the *Act respecting the Québec sales tax* and other legislation administered by the Ministère du Revenu. These documents are sold by Les Publications du Québec.

## Other GST-related documents

More detailed information is provided in GST memoranda and technical information bulletins. These documents are available on the Internet at [www.cra-adrc.gc.ca](http://www.cra-adrc.gc.ca).

## Services available on the Internet

The Web site of the Ministère du Revenu provides a wealth of information about the Québec tax system and the Ministère itself, and also allows you to consult the various guides, brochures, folders and forms you may need for tax purposes. We invite you to consult the Web site at [www.revenu.gouv.qc.ca](http://www.revenu.gouv.qc.ca).

If you use the NetFile service to file your return, you do not need to mail a paper copy of any of your documents to the Ministère. However, you should keep all documents that relate to your return for at least six years after the year to which they apply.

For further information, refer to the brochure *The New Electronic Services of the Ministère du Revenu: Now Online!* (IN-312-V) on the Web site of the Ministère, or contact the office of the Ministère in your area.

