

# TAX TARGET™

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## ELIMINATION OF THE SIMPLIFIED METHOD FOR LARGE BUSINESSES UNDER THE QST SYSTEM

In October 2013, the Minister of Revenue of Quebec announced that large businesses will no longer be able to use the simplified method (LB simplified method) to calculate an input tax refund (ITR) with respect to expenses incurred by and allowances paid to employees effective January 1, 2014.

As a reminder, a large business is defined as a business where the value of **taxable supplies**<sup>1</sup>, other than supplies of financial services, **made in Canada**<sup>2</sup> by the registrant, and by any person with whom it is associated, exceeds \$10 million during its last taxation year.

From January 1, 2014, only the *QST factor method* (explained below) will be allowed to be used to determine ITRs. Please note that a taxpayer is always permitted to use the actual amount of QST paid with respect to expense reimbursements.

The QST factor method will have to take into account the following ITR restrictions applicable to large businesses:

- Purchase or lease of road vehicles under 3,000 kilograms that must be registered under the *Highway Safety Code* to be driven on public roads;
- Fuel used to supply the engine of such vehicles, except diesel;
- Electricity, gas, steam or combustibles, except when used to produce personal property intended for sale;
- Telephone services and other telecommunications services, except Internet access services and “1-800”, “1-888” and similar numbers; and

<sup>1</sup> Taxable supplies: Includes a zero-rated supply.

<sup>2</sup> Made in Canada: This includes the value of all exports, together with supplies deemed to be made outside of Canada.

- Food, beverages and entertainment that are only 50% deductible under the *Taxation Act*.

### QST FACTOR METHOD

#### Expense Reimbursements

Effective January 1, 2014 when an employer reimburses an expense incurred by an employee in relation to activities of their employer, the employer may claim an ITR by using either the QST factor method or the actual amount of QST paid. To be eligible, the following conditions should apply:

- The reimbursement is paid to an employee, partner or volunteer;
- The expense must be incurred for consumption or use in relation to activities of the employer, partnership, charity or public institution;
- The employee, partner or volunteer has paid the tax payable.

The following are some aspects of the QST factor method:

- The factor applicable to a reimbursement will be 9/109;
- At least 90% of the expenses reimbursed will have to be expenses relating to taxable supplies, other than zero-rated supplies, of property or services acquired by an employee in Québec;
- Small and medium-sized businesses will be subject to a limit on entertainment expenses varying between 1.25% and 2% of their gross revenue;
- Large businesses will have to respect the ITR restrictions that apply specifically to them.

## ITRs in respect of reimbursements of expenses incurred on or after January 1, 2014, based on the calculation method

Examples of categories	Large businesses		Small and medium-sized businesses	
	Actual amount of QST paid	QST factor method	Actual amount of QST paid	QST factor method
Meals	No ITR (restriction applicable to large businesses)	No ITR (restriction applicable to large businesses)	QST paid subject to any restrictions that may apply	9/109 of the reimbursement subject to any restrictions that may apply
Lodging	QST paid	9/109 of the reimbursement	QST paid	9/109 of the reimbursement
Transportation (train, bus, airplane)	QST paid	9/109 of the reimbursement	QST paid	9/109 of the reimbursement

### Expense Allowances

The QST factor method will not apply to the calculation of an ITR when an expense allowance is paid to an employee. However, on or after January 1, 2014, an ITR equal to 9.975/109.975 of the allowance may be claimed under the following conditions:

- The allowance is deductible (in whole or in part) in the calculation of the registrant's income, pursuant to the *Taxation Act*;
- At least 90% of the expenses are taxable expenses (excluding zero-rated expenses);
- The expense is incurred in Quebec.

## ITRs in respect of expense allowances paid on or after January 1, 2014

Examples of categories	Large businesses	Small and medium-sized businesses
Meals	No ITR (restriction applicable to large businesses)	9.975/109.975 of the allowance subject to any restrictions that may apply
Kilometres travelled	No ITR (restriction applicable to large businesses)	9.975/109.975 of the allowance
Lodging	9.975/109.975 of the allowance	9.975/109.975 of the allowance
Transportation (train, bus, airplane)	9.975/109.975 of the allowance	9.975/109.975 of the allowance

The matters highlighted in this tax memo are presented in broad general terms and, of course, cannot be applied without consideration of all circumstances. The firm will be pleased to discuss with recipients the possible effects of these matters in specific situations.

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