

CHANGES TO THE QUEBEC SALES TAX SYSTEM:

WHAT YOU NEED TO KNOW

Changes were announced in September 2011 which would almost harmonize the Quebec Sales Tax (QST) with the federal Goods and Services Tax/Harmonized Sales Tax (GST/HST) legislation. **These changes go into effect January 1, 2013.**

The purpose of this issue is to outline some of these changes and how they will affect you and your business.

1. FINANCIAL SERVICES

In September 2012, you may have received a letter in French from Revenue Quebec advising you that, effective January 1, 2013, companies who offer financial services, including banks, insurance companies, insurance brokers, investment brokers, etc., will no longer be able to claim Input Tax Reimbursements (ITR) on QST paid on goods and services used in their business. What's important to note is that Investment Holding Corporations (Holdcos) are also included in the definition of financial services.

Under current law, many of these Holdcos are registered for QST and are not permitted to be registered for GST/HST. Consequently, these QST registered Holdcos are permitted to claim ITRs on goods and services purchased; however, they are not permitted to claim Input Tax Credits (ITC). The reason for this is that, prior to January 1, 2013, the Quebec system zero-rates financial services and the federal system exempts financial services. *Effectively, on January 1, 2013, both systems will be harmonized and financial services will become exempt under the Quebec system and will remain exempt under the federal system.*

Action required

If your company received the above-mentioned letter and is engaged exclusively in financial services, you must complete the appendix attached to it and send it back to the Quebec Government in order to cancel your QST registration effective January 1, 2013.

However, if your company is not engaged exclusively in financial services, for example you also rent commercial property from the same entity, **do not cancel** your QST registration as commercial rentals are still subject to both sales taxes.

2. QST WILL NO LONGER BE CHARGED ON THE GST INCLUDED AMOUNT

Many people we have spoken with are under the false impression that the QST rate is increasing on January 1, 2013 – **NOT TRUE!**

What is happening is that the QST will no longer be charged on the GST included amount. In order for the Quebec Government not to lose tax revenue, the QST rate will be increased to 9.975%; however, the total sales taxes charged on Quebec purchases will still equal 14.975% (5% GST plus 9.975% QST).

Action required

If you operate a business that charges GST and QST, your computers and/or cash registers must be reprogrammed to account for the above-mentioned change so that the QST is no longer calculated on the GST included amount.

The new method of calculation will only have an effect in the future if either the Federal Government or the Quebec Government decides to change their respective sales tax rates.

3. SOME CONSEQUENTIAL CHANGES IN 2013

- The mathematical factor for allowances (mileage, etc.) will increase from 9.5/109.5 to 9.975/109.975.
- The specified percentages and mathematical factor for expense reimbursements will remain unchanged for both large businesses and small and medium-sized businesses.
 - Large businesses: 5%
 - Small and medium-sized businesses: 9/109
- Commencing on April 1, 2013, all federal and provincial departments and agencies will be required to pay taxes (GST/HST and QST) on the purchase of goods and services. Purchase exemption certificates will no longer apply.
 - Consequently, review all government contracts and verify wording in order to be compliant with the new QST legislation.

Some Planning Points to Consider

All businesses in the financial services sector should accelerate purchases of capital property and incur expenses in 2012. For example, a holding corporation currently registered for QST would be able to recover an ITR on a computer purchased in 2012. However, if the same computer were to be purchased in 2013, no ITR would be available.

CONCLUSION

We are closer to full harmonization, but we are not there yet and may never get there!

TAX TIDBIT

Group Sickness and Accident Insurance Plan

The amount of the *employer's contributions, after March 28, 2012*, to a group sickness and accident insurance plan is now to be included as a federal *taxable benefit* in the income of the employee, in the year in which the employer contribution is made. Quebec has always considered this to be a taxable benefit.

The Federal Government will defer the 2012 taxable benefit to 2013 under its transitional rules.

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.

FOR ADDITIONAL INFORMATION, PLEASE CONTACT A MEMBER OF OUR TAX DEPARTMENT:

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