



Quebec Sales Tax Harmonization Agreement

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The governments of Canada and Quebec signed a Memorandum of Agreement on September 30, 2011 to provide Quebec with \$2.2 billion in compensation payments for harmonizing the Quebec Sales Tax (QST) with the federal Goods and Services Tax (GST).

While the two taxes have been, in a sense, harmonized since 1992, the degree of harmonization will increase to reduce the amount of work necessary for businesses to comply with two different tax regimes.

Interestingly, the harmonization of the GST and QST is different from that of other provinces in that Quebec will retain its own sales tax legislation.

Quebec consumers will continue to pay the taxes separately, rather than paying one combined Harmonized Sales Tax (HST) as is the case with other provinces who have harmonized their sales tax with the GST.

Quebec will continue to maintain all existing QST exemptions and Revenu Québec will continue to administer both taxes.

Timelines

While the signed Memorandum of Agreement has the basic parameters of the arrangement, there are still ongoing efforts to further integrate both tax regimes. The goals and deadlines set out by both parties are:

- to negotiate a detailed Canada-Quebec Integrated Tax Coordination Agreement by April 1, 2012;
- to work out the necessary policy and administrative details by June 1, 2012; and
- to have most of the changes take effect on the implementation date of January 1, 2013.

Increased Harmonization

Subject to certain exceptions, the agreement requires the QST to produce results that are identical to the results produced under a GST/HST system. Quebec has also agreed to mirror the GST/HST rules on governing where the supply of goods and services is made.

Quebec has also agreed to match future GST/HST changes. However, if the proposed changes decrease net QST revenues by more than one percent, the federal government must either get the written agreement of Quebec or compensate Quebec for its losses.

QST Calculation

One of the main changes is how the QST is calculated. Currently, the QST is calculated on the selling price of goods and services after applying the GST. In other words, Quebec consumers pay tax on a tax.

This will be changed effective January 1, 2013, leaving Prince Edward Island as the only Canadian jurisdiction to charge provincial sales tax on top of the GST.

However, Quebec consumers will not see a reduction in the amount tax they pay as a result of this change since the Quebec government has announced its intention to increase the QST rate that will be in effect on that date from the 9.5% to 9.975%. As a result, consumers will effectively pay the same amount of tax under the new calculation method and the level of government revenues will remain constant.

Large Businesses

Quebec currently places certain restrictions on input tax refunds for large businesses. Businesses whose taxable sales in Canada exceed \$10 million cannot obtain QST refunds on the following goods and services:

- road vehicles under 3,000kg;
- electricity, natural gas, fuel, and steam;
- telecommunications services, except toll-free and Internet services; and
- meals and entertainment expenses.

Under this agreement, Quebec will phase out these restrictions over a three-year period beginning in 2018, allowing large businesses to claim input tax refunds.

Financial Institutions

Currently, financial institutions can obtain a refund of the QST paid on their purchases. This will be eliminated, effective January 1, 2013. Quebec will also eliminate the compensatory tax on financial institutions on this date, although they will maintain the temporary increase in the compensatory tax (announced in the 2010-2011 Quebec Budget) until March 2014.

Quebec-Specific Provisions

Although one of the main goals of this agreement is harmonization of the way goods and services are subject to tax, Quebec will maintain the following measures that currently deviate from the GST/HST:

- all existing QST exemptions including books, children's diapers, tobacco, certain inter-provincial transportation services, and transitional exemptions for the Mohawks of Kahnawake;
- certain rebate rules;
- administrative measures under Quebec's *Tax Administration Act*;
- certain rules relating to the taxation of motor vehicles;
- special measures applicable to restaurants, flea market operators, and clothing manufacturers;
- mandatory registration for certain small suppliers and non-residents of Quebec; and
- compensation to Laval, Montreal, and Quebec City for the repeal of the amusement tax.

The Memorandum of Agreement also allows for new deviations from the GST/HST system of tax provided that the value of all deviations does not exceed 5% of the estimated GST system of tax for Quebec. Quebec also maintains the right to increase or decrease the QST rate.