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Harmonization of the QST with the GST – Finances Québec Information Bulletin 2012-4 of May 31, 2012.

June 4, 2012 (12-5)

On September 30, 2011, the Prime Minister of Canada and Premier of Quebec announced that an agreement had been reached to harmonize the Quebec Sales Tax (QST) with the federal Goods and Services Tax (GST). [Click here](#) for the summary we published at the time of the announcement.

On May 31, 2012, Finances Québec issued Information Bulletin 2012-4, “Changes to Québec’s Tax System Pursuant to the Undertakings to Harmonize it with the Federal Tax System Applicable in 2013,” which provides clarifications on harmonization as summarized below.

1. Transitional rules on the rate change

Because the GST is being removed from the tax base, the 9.5% QST rate will increase to 9.975% as of January 1, 2013 so that the effective tax rate remains the same.

Movable property and service

The taxable supply of movable property or a service will be subject to QST at the rate of 9.975% if all of its consideration becomes due after December 31, 2012 and it is not paid before January 1, 2013. The same rule applies to the payment of partial consideration.

Immovable

QST at the 9.975% rate will apply to the taxable supply of an immovable made by sale under a written agreement entered into after December 31, 2012.

The above rules regarding the taxable supply of movable property or a service will apply to the taxable supply of an immovable made otherwise than by sale.

Consequential amendments

Consequential amendments will be made to reflect the new QST rate and removal of the GST from the tax base. These include mathematical factors, partial rebates for a new residential property, and others.

2. Financial services

2.1 Exemption of financial services

As of January 1, 2013, for QST purposes, the tax treatment of financial services will be harmonized with the GST/HST system and financial services will generally become exempt.

The result of such exemption is that the properties and services acquired by suppliers of financial services will no longer qualify for an input tax refund (ITR) if these acquisitions are made for purposes of carrying out exempt financial services.

The specific GST/HST rules on financial institutions will be introduced into the QST system. These include:

- Special rules for the purpose of calculating ITRs Relief rules for intercompany transactions within a closely related group including a listed financial institution
- The special attribution method (SAM) applicable to selected listed financial institutions
- Specific rules for imported supplies of services and incorporeal movable properties;
- Rules for registration and the filing of returns and information

As harmonization is scheduled for January 1, 2013, transitional rules will be introduced to take account of the shift from zero-rating to exemption of financial services.

2.2 Transitional rules

QST excluded in the calculation of ITRs

To calculate their ITRs, registrants that supply financial services may not include QST that becomes payable after December 31, 2012 for properties and services acquired to carry out exempt financial services. QST payable prior to January 1, 2013 will however qualify for an ITR even if claimed after December 31, 2012.

2.3 Change-of-use rules for capital properties

The move from zero-rating to exemption will not give rise to the recovery of ITRs claimed for capital properties acquired before January 1, 2013 and used in the zero-rated supply of financial services before January 1, 2013. However, transitional rules will apply if there is a change of use or sale of such properties.

➤ Movable properties of a registrant other than a financial institution

A registrant, other than a financial institution, that uses movable property as capital property primarily in the course of commercial activities and begins to use such property primarily in the course of exempt financial services, after December 31, 2012, will be deemed to have made a supply by way of sale for no consideration, and will not have to remit QST. The registrant will also be deemed to have received a supply by way of sale for use other than as capital property, which means that the registrant may no longer claim ITRs if the property is used later in the course of taxable activities.

➤ Movable properties of \$50,000 or less of a registrant financial institution

The above rule applies in the same way.

➤ Movable properties of more than \$50,000 of a registrant financial institution

A registrant financial institution (registrant) that uses movable property of more than \$50,000 as capital property primarily in the course of commercial activities and reduces (by any per cent) or ceases its use in such course because of the exemption of financial services will be deemed to have made a supply by way of sale and to have collected QST equal to the tax content of the property. Furthermore, the QST deemed collected will not have to be remitted and the registrant will be deemed to have received a supply of the property by way of sale and to have paid the tax equal to the basic tax content of the property at that time.

If the property is subsequently used in the course of commercial activities, the registrant may recover in future an ITR only for QST paid after December 31, 2012 because the calculation of the tax content will be changed to exclude QST paid before January 1, 2013.

➤ Immovables used as capital property

The same rules apply as for movable property of more than \$50,000 of a registrant financial institution, except that the rule applies to all registrants, not just financial institutions.

2.4 Registration

Suppliers of financial services that were registered for the QST before January 2013 due to the zero-rating of financial services, but not for the GST/HST, will have to request the tax authorities to cancel their QST registration. However, the QST self-assessment rules stipulated for cancellation of registration will not apply.

Financial institutions carrying on business in a province participating in the HST system and in Quebec, or in a non-participating province and in Quebec, are generally registered for the GST/HST.

Following the harmonization, listed financial institutions carrying on business in a participating or non-participating province and in Quebec will be deemed to have a permanent establishment in Quebec and will have to register for the QST if they are already registered for the GST/HST. Furthermore, the special attribution method (SAM) applicable for purposes of the GST/HST system will apply for purposes of the QST system.

2.5 Reporting periods

Generally, the QST filing frequency and reporting periods should correspond to those of the GST/HST system.

However, listed financial institutions may have QST reporting periods that are different from the ones used in the GST/HST system.

As of January 1, 2013, a financial institution's QST reporting periods will be matched with the GST/HST reporting periods and end on the same dates. If a reporting period

includes January 1, 2013, the period before January 1, 2013 will end on December 31, 2012, and a new reporting period will begin on January 1, 2013 and end on the same date as the GST/HST reporting period.

2.6 ITR allocation method

For purposes of the GST/HST, financial institutions must allocate inputs between taxable and exempt activities. For QST purposes, the same allocation method should be used for reporting periods beginning after December 31, 2012.

2.7 Intercompany election

For purposes of the GST/HST, corporations that are members of a closely related group of which a listed financial institution is a member may elect to treat taxable supplies between them as exempt from GST/HST. In addition, selected listed financial institutions may make an election for purposes of the SAM to calculate the tax on the cost of the supply if the first election was made.

The QST rules will be harmonized so that if the above elections are in effect on January 1, 2013 for the GST/HST system, they will be deemed to be in effect on January 1, 2013 for the QST system. A financial institution makes a GST/HST election after December 31, 2012 must also make the QST election.

2.8 Information return

As in the GST/HST system, registered financial institutions will have to file an annual information return in the QST system within six months following the end of their fiscal year. This measure will apply to fiscal years beginning after December 31, 2012.

2.9 QST rebate for registered pension plan entities

Pension plans currently qualify for a QST rebate at the rate of 100%, 88% or 77%. As of January 1, 2013, these rates will be replaced with a single rate of 33%. This rate will apply to QST payable or deemed payable after December 31, 2012. If a rebate is claimed after December 31, 2012 for QST paid before January 1, 2013, the rebate rate will 100%, 88% or 77%, depending on the case.

The QST claim periods will be matched with the GST/HST claim periods.

2.10 Partial elimination of the compensation tax

As announced, the compensation tax on financial institutions will be eliminated as of January 1, 2013, except as concerns the temporary rate increase announced in the 2010-2011 Budget.

The compensation tax on financial institutions will no longer apply to paid-up capital, and the rates of the compensation tax that apply to the other tax bases, for taxation years beginning before April 1, 2014, are:

- For amounts paid as wages:
 - In the case of a bank, a loan corporation, a trust corporation or a corporation trading in securities, a rate of 1.9%
 - In the case of a savings and credit union, a rate of 1.3%

- In the case of any other person, a rate of 0.5%
- For insurance premiums and the amounts established regarding insurance funds, a rate of 0.2%.

Specific application dates for the partial elimination of the compensation tax are found in the Information Bulletin.

3. Taxes paid by governments

The federal and Quebec governments will no longer be exempt from paying the QST, in the first case, or paying the GST/HST in the second. The existing mechanism for exemption from payment of taxes will be replaced with a tax payment and rebate mechanism.

This measure will apply to GST/HST and QST that becomes payable by a government entity after March 31, 2013. The general rules of the GST/HST and QST systems stipulating when the GST/HST and QST become payable will apply in determining whether, as the case may be, the government entity may use an exemption certificate or must pay the taxes on its taxable acquisitions of goods and services.

4. Other harmonization changes

The following measures have also been announced:

- The QST system will be changed to include a provision equivalent to section 144 of the *Excise Tax Act* allowing a tax-free sale of imported goods held at a customs warehouse until they clear customs
- Section 411.01. of the *Act respecting the Québec sales tax* allows a person who is not a resident of Quebec to register voluntarily to avoid the application of drop shipment rules. This provision will be amended to apply only to non-residents of Quebec who reside in Canada. Non-residents of Canada who took advantage of this optional QST registration (without being able to register in the GST system where this rule did not exist) will have to request cancellation of registration as of January 1, 2013.

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