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Canadian Tax & Legal Alert

QST: no more ITR restrictions!

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We are finally there! As of January 1, 2021, the input tax refund (ITR) restrictions under the Quebec sales tax (QST) are a thing of the past. Here is what this means for large businesses.

Reminder

On October 25, 2017, Revenu Québec issued Interpretation Bulletin TVQ. 206.1-10, *Particulars regarding the phasing out of the ITR restrictions applicable to large businesses that is to begin on January 1, 2018*, announcing that they would be phasing out of the ITR restrictions applicable to large businesses. This phase out was completed on December 31, 2020.

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Applicable rules as of January 1, 2021

Large businesses will now be able to claim, as an ITR, the full amount of QST payable after December 31, 2020 in respect of expenses that were subject to the ITR restrictions.

> ***Example:***
> A services provider sends an invoice dated January 3, 2021 to a customer that is a large business for QST purposes. The invoice is for telecommunications services provided in December 2020.
>
> Since the QST relating to these services became payable (i.e., was invoiced) in January 2021, the large business can claim an ITR equal to 100% of the QST payable.
>
> However, if the invoice was dated December 30, 2020 and is paid in January 2021, the ITR amount to be claimed will be equal to 75% of the QST payable.

As a reminder, the goods and services subject to the ITR restrictions were the following:

- road vehicles of less than 3,000 kg that must be registered under the Highway Safety Code to travel on public highways;
- fuel (other than diesel fuel) used to power the engine of such vehicles;
- energy used for a purpose other than to produce movable property intended for sale;
- telecommunications services;
- food, beverages and entertainment.

A person is generally considered to be a "large business" during a fiscal year if sales of goods and services, including those of "associated persons", exceeded $10 million during the preceding fiscal year.

Special rules

As indicated above, large businesses are now entitled to claim a full ITR in respect of goods and services that were previously subject to the restrictions. However, the general rules continue to apply.

Road vehicles: The $30,000 valuation limit on passenger vehicles purchased for use as a capital asset, as well as the $800 monthly lease limit on passenger vehicles, must be taken into account.

Food, beverages and entertainment: The 50% limit on food, beverage and entertainment expenses must be taken into account.

Taxable benefits: With respect to a taxable benefit granted to an employee in 2020, a large business must add in its net tax calculations an amount of QST, multiplied by the applicable phase-out rate (i.e., 25%), following the supply of a good or service subject to ITR restrictions. However, this rule will no longer apply to taxable benefits granted to an employee in 2021.

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Employee allowances: A large business which pays a meal or mileage allowance to one of its employees will be able to claim in full the deemed QST included in the allowance amount.

Courtesy or demonstration vehicles for car dealers: With the abolition of ITR restrictions, car dealers providing courtesy vehicles or using certain vehicles as demonstrators will no longer have to calculate a monthly QST amount to be remitted.

Useful tips

Books and records

As this is the end of the restrictions, large businesses should implement controls to ensure that they claim the full amount of QST paid or payable as of January 1, 2021. Otherwise, they may leave money on the table.

Changes to expense accounts

Large companies should make changes to the spreadsheets used for reimbursements of expenses to their employees. In this regard, they must ensure that they are using the proper factor for the QST simplified method (9/109) in order to claim the QST in full.

Questions?

If you have any questions, please reach out to your Deloitte representative or any of the individuals noted on this alert.

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