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QST News: Employee expense reports – elimination of the 5% factor

October 30, 2013 (13-3)

As of January 1, 2014, large businesses will no longer be able to use the simplified method (generally referred to as the 5% factor) to calculate an input tax refund (ITR) for the Quebec sales tax (QST) in respect of expenses incurred by and allowances paid to employees through expense reports. This new guideline was published in Revenu Québec's October 10, 2013 edition of ***Nouvelles fiscales***.

A person generally qualifies as a "large business" for its current fiscal year, if the value of its and its associates' taxable supplies (including zero-rated sales) exceeds $10 million over the last fiscal year.

ITR restrictions

Large businesses are subject to restrictions for the ITR in respect of the QST paid relating to certain expenses. Until December 31, 2013, large businesses must use the simplified method to claim the QST paid in respect of restricted expenses incurred by their employees and reimbursed through an expense report. This simplified method is applied to all categories of expenses.

However, as stated above, the simplified method will no longer be permitted for expenses reimbursed after December 31, 2013.

Impacts

The elimination of the simplified method will make it impossible for large businesses to claim the QST paid in respect of the following expenses, which are generally included in an expense report:

- Meals and entertainment subject to a 50% income tax deduction limit;
- Kilometre allowances paid related to road vehicles weighing less than 3,000 kg;
- Rental of road vehicles weighing less than 3,000 kg;
- Regular gas for road vehicles weighing less than 3,000 kg; and
- Telecommunications services (e.g. cellular communications, pager).

QST factor method

In place of the simplified method, as of January 1, 2014, large businesses will have two methods to calculate the ITR for expenses reimbursed to their employees through an expense report.

The first method is that of the actual amount of tax paid, i.e. the QST appearing on the supporting documents.

The second method is called the "QST factor method," whose factor will be 9/109 of the expense reimbursed. The factor method requires that at least 90% of the expenses reimbursed, other than zero-rated supplies, be related to property or services acquired by an employee in Quebec. Certain exemptions from the documentary requirements may be possible, similar to the GST requirements.

As for expense allowances, the QST factor method will not be permitted but a tax factor of 9.975/109.975 must be used to calculate the ITR.

Reimbursement of expenses

Examples of categories	Large businesses	
	Actual amount of QST paid	**QST factor method**
Meals	No ITR (restriction applicable)	No ITR
Lodging	QST paid	9/109 of the reimbursement

Expense allowances

Examples of categories	Large businesses
Meal allowance	No ITR (restriction applicable)
Kilometre allowance	No ITR (restriction applicable)
Lodging allowance	9.975/109.975 of the allowance

Small- and medium-sized businesses

The elimination of the 5% factor does not affect small- and medium-sized businesses, which can continue to claim their ITRs in the same way as they do today.

In light of these upcoming changes, we can help your business to prepare and plan for the implementation of these new measures. Please do not hesitate to contact your local Deloitte indirect tax specialist for assistance.

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