

Indirect Tax Alert

News from Americas Tax Center

Canada: Quebec further phases out QST ITR restrictions

NEW! EY Tax News Update: Global Edition

EY's new Tax News Update: Global Edition is a free, personalized email subscription service that allows you to receive EY Global Tax Alerts, newsletters, events, and thought leadership published across all areas of tax. Access information about the tool and registration [here](#).

EY Americas Tax Center

The EY ATC brings together the experience and perspectives of over 10,000 tax professionals across the region to help clients address administrative, legislative and regulatory opportunities and challenges in the 33 countries that comprise the Americas region of the global EY organization. Access more information [here](#).

Consistent with the amendments to the *Act Respecting the Québec Sales Tax* (the AQST) tabled on 9 May 2018, the restrictions on obtaining an input tax refund (ITR) applicable to large businesses have been gradually phased out since 1 January 2018. Accordingly, large businesses concerned must once again update their procedures as of 1 January 2019 and increase the rate of the ITRs they claim in respect of restricted expenses from 25% to 50%.

As a result, with respect to taxable benefits provided to employees in 2018, registered employers that are deemed to be large businesses are required to include in the calculation of their net tax to be remitted 25% of the tax arising from taxable benefits related to expenses subject to the restrictions applicable to ITRs.

ITR claims at the 50% rate starting 1 January 2019

For background, see EY Global Tax Alert, [Canada: Quebec relaxes QST ITR restrictions](#), dated 31 October 2017, which discussed the details published by Revenu Québec in Interpretation Bulletin 206.1-10 regarding the gradual phasing-out of the ITR restrictions applicable to large businesses, including the following covered expenses:

- Electricity, gas, combustibles and steam used for a purpose other than to produce property intended for sale
- Telecommunication services, with the exception of internet access services and toll-free numbers (e.g., "1 800" and "1 888" numbers)

- ▶ Meals and entertainment expenses whose deductibility is limited to 50% for income tax purposes
- ▶ Road vehicles under 3,000 kg that must be registered to be driven on public roads
- ▶ Fuel, other than diesel, used to power such road vehicles

Starting 1 January 2018, the restrictions applicable to ITRs have been gradually phased out at a rate of 25% per year. Since 1 January 2019, large businesses can claim as ITRs 50% of the Quebec sales tax (QST) paid on their restricted expenses. Ultimately, the restrictions will be completely eliminated as the ITR rate increases to 75% on 1 January 2020 and then to 100% on 1 January 2021.

Impact on the calculation of the QST payable on taxable benefits for 2018

In calculating the QST to be remitted on their returns including the last day of February 2019, large businesses will have to take into account 25% of the ITRs claimed in 2018 in respect of restricted expenses incurred to provide taxable benefits to employees during 2018.

For additional information with respect to this Alert, please contact the following:

Ernst & Young LLP (Canada), Montréal

- | | |
|-----------------------|------------------------------|
| ▶ Jean-Hugues Chabot | jean-hugues.chabot@ca.ey.com |
| ▶ Manon Jubinville | manon.jubinville@ca.ey.com |
| ▶ Louis Fournier | louis.fournier@ca.ey.com |
| ▶ Jadys Bourdelais | jadys.bourdelais@ca.ey.com |
| ▶ Jean-Baptiste Congy | jb.congy@ca.ey.com |
| ▶ Catherine Dickner | catherine.dickner@ca.ey.com |

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Indirect Tax

© 2019 EYGM Limited.
All Rights Reserved.

EYG no. 000661-19Gbl

1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com