

Quebec Sales Tax Harmonization

30 September 2011

Quebec City, Quebec

The Memorandum of Agreement (MOA) between Canada and Quebec, signed on September 30, 2011, commits Quebec to make a number of changes to the Quebec Sales Tax (QST) in order to harmonize with the Goods and Services Tax. As part of this agreement, Quebec will continue, generally, to administer the QST and the Goods and Services Tax/Harmonized Sales Tax (GST/HST) in the Province, and the QST will continue to be legislated by Quebec.

The agreement will result in harmonization of the GST and QST tax bases and tax rules going forward, thereby lowering the compliance burden for businesses.

Once fully implemented, this agreement will fully remove QST on key business inputs such as telecommunications and energy, and ensure that the sales tax treatment of financial services is consistent for QST and GST purposes.

Key Features of the Canada-Quebec MOA

The MOA provides that:

Canada will make payments totalling \$2.2 billion to Quebec – \$733 million upon implementation of the amended QST on January 1, 2013, and \$1.467 billion on January 1, 2014.

Quebec will ensure that the QST tax base, as well as its associated administrative, structural and definitional parameters, produce results that are identical to those under the GST/HST, and are administered in a manner that produces identical results (subject to exceptions described in the MOA as explained below).

Quebec will undertake to remove the GST from the QST base (no more “tax on tax”).

Quebec commits to replicate under the QST legislation any change that Canada makes under the GST legislation. The change will generally apply on the same date as the corresponding GST change but, in any event, no later than 60 days from the coming-into-force date for the GST change.

The tax treatment of financial services in Quebec will be harmonized with that of the GST.

Quebec will undertake to mirror, under the QST legislation, the place of supply rules under the GST/HST legislation so as to avoid instances of non-taxation and double taxation. (Place of supply rules specify whether suppliers charge QST on their taxable supplies).

Quebec will undertake to phase out its existing restrictions on input tax refunds over a transitional period of no more than eight years.

Quebec will adopt the GST administrative, structural and definitional parameters for municipal rebates, as of January 1, 2014.

Canada and Quebec agree to pay GST/HST and QST on government purchases, as of April 1, 2013, to simplify compliance for businesses. Where interjurisdictional immunity applies, tax paid will be recovered through a rebate mechanism.

Quebec will continue to determine the QST rate and will be able to maintain a limited number of existing measures. This takes into account the existence of the QST since July 1, 1992.

As for other provinces, the QST base will be allowed to deviate by up to 5 per cent from the GST base.

Canada and Quebec will make best efforts to enter into a Comprehensive Integrated Tax Coordination Agreement (CITCA) by April 1, 2012. The CITCA is a detailed agreement that spells out the rights and obligations of the Parties under the agreement. This process of concluding an MOA that leads to a CITCA is identical to the one followed with Ontario.

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