

CHANGES TO THE QST SYSTEM ARISING FROM THE AGREEMENT ON HARMONIZATION WITH THE GST SYSTEM

CONSUMERS

Current system

- In 2012, the QST rate will be 9.5%.
- Since the QST rate applies to the selling price of goods and services including the GST, the effective QST rate on January 1, 2012 will be 9.975%.

Changes

- As of January 1, 2013:
 - the QST will apply on the selling price excluding GST;
 - so that there is no impact on the QST payable by consumers, the QST rate will be adjusted from 9.5% to 9.975%, i.e. a rate equivalent to the effective rate in the current system.
- All the QST exemptions will be maintained (for example, the QST exemption on books and diapers for infants).

FINANCIAL INSTITUTIONS

Current system

- Financial institutions can obtain a refund of the QST paid on their purchases.
- To keep their tax burden constant compared with what it was before the reform of the QST in 1992, a compensatory tax applies to financial institutions.
- The QST, like the GST, does not apply to financial services.

Changes

- As of January 1, 2013:
 - elimination of refund of the QST paid by financial institutions on their purchases;
 - elimination of the compensatory tax on financial institutions.
- The temporary increase in the compensatory tax, introduced in the plan to return to fiscal balance, will be maintained until March 2014, as stipulated in the March 2010 budget.
- The QST will continue not to apply on financial services.

REMBOURSEMENT REFUND OF THE QST PAID BY LARGE BUSINESSES

Current system

- The system stipulates the full refund of taxes paid by businesses on their purchases except for certain goods and services acquired by large businesses whose taxable sales in Canada exceed \$10 million.
- Large businesses cannot obtain a refund of the QST on the following goods and services:
 - road vehicles under 3 000 kg and the gasoline they consume;
 - electricity, natural gas, fuel and stem unless they are used to produce movable property intended for sale;
 - telecommunications services, except "1 800" type services and internet services;
 - meals and amusements.

Change

- The refund of the QST paid by large businesses on all of their purchases will be allowed gradually over three years, starting in 2018. The GST system already allows full refund of taxes paid by all businesses on their inputs.

As a result of these changes, the QST system will be the same as the system that has applied in Ontario since the implementation of the harmonization agreement with the federal government in 2010.

IMPACT OF THE QST RATE ADJUSTMENT AS OF JANUARY 1, 2013

(dollars)

	CURRENT SYSTEM GST TAXED	ADJUSTED SYSTEM GST NOT TAXED
Example: \$100 sale	100.00	100.00
5% GST	5.00	5.00
TOTAL AFTER GST	105.00	105.00
QST system: 9.5% <u>after</u> GST (9.5% x \$105)	9.98	
Adjusted QST system: 9.975% <u>before</u> GST (9.975% x \$100)		9.98
TOTAL AFTER GST AND QST	114.98	114.98

No impact
on the consumer

FINANCIAL IMPACT OF QST HARMONIZATION AS OF JANUARY 1, 2013

(millions of dollars)

	2012- 2013	2013- 2014	2014- 2015	2015- 2016	2016- 2017	2017- 2018	2018- 2019	2019- 2020	2020- 2021	TOTAL
COMPENSATION PAID BY THE FEDERAL	733	1 467	—	—	—	—	—	—	—	2 200
IMPACT ON CONSUMERS	—	—	—	—	—	—	—	—	—	—
<i>Adjustment of the QST rate to 9.975% and non-taxation of GST</i>										
IMPACT ON BUSINESSES										
<i>Gradual refund over three years of the QST on purchases of large businesses (as of January 1, 2018)</i>	—	—	—	—	—	-75	-370	-690	-945	-2 080
<i>QST on purchases of financial institutions (January 1, 2013)</i>	55	245	255	270	275	285	290	300	310	2 285
Subtotal	55	245	255	270	275	210	-80	-390	-635	205
TOTAL	788	1 712	255	270	275	210	-80	-390	-635	2 405