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## Harmonization of sales taxes

### The First Ministers of Québec and Canada Announce a \$2.2-Billion Agreement

**Québec, September 30, 2011** – The Premier of Québec, Jean Charest, and the Prime Minister of Canada, Stephen Harper, today announced the signing of an agreement on the harmonization of sales taxes. Under this agreement, Québec will obtain financial compensation of \$2.2 billion from the federal government for the harmonization of the Québec sales tax (QST) with the goods and services tax (GST).

“For the past 15 years, Québec has claimed financial compensation from the federal government, similar to other provinces. I want to point out that Québec was the first province to recognize the benefits of a value-added tax and joined the federal government in harmonizing its sales tax with the GST on July 1, 1992,” the Premier of Québec said.

For his part, Québec Finance Minister Raymond Bachand recalled that reforming its tax system in 1992 enabled Québec’s economy to grow faster than it otherwise would have. The reform helped improve the competitiveness of the business tax system, promote job creation and increase the standard of living of Quebecers, and by extension, that of Canadians. “Today, with the signing of this agreement, Québec and Canada are making significant gains: businesses will be even more competitive and they will find it easier to administer the taxes,” the Minister noted.

“I thank Mr. Harper for keeping his commitment to reach a satisfactory agreement with Québec. The federal government has acknowledged, in the agreement, the basic principles put forward by Québec, i.e. to retain its own legislation and the administration of both taxes,” the Premier of Québec said.

The Minister of Finance also pointed out that all of the federal compensation will go to deficit reduction and achieving a balanced budget. The compensation will be paid in two installments: \$733 million in January 2013, when the measures under the agreement are implemented, and \$1 467 million a year later.

The changes that Québec has agreed to make to the QST will have no impact on the tax burden of Québec consumers. Rather, they are technical in nature. As of January 1, 2013, the QST will be calculated on the selling price without GST. In other words, the QST will no longer apply on the GST.

All the existing exemptions will be maintained (books, diapers for infants, etc.). As with the other provinces, the agreement provides that the QST base may differ by up to 5% compared with that of the GST. However, maintaining all existing exemptions, the QST base will differ by only 3%.

Moreover, as is the case in Ontario, financial institutions will no longer be entitled to reimbursement of the tax on their purchases. For other sectors of the economy, the agreement provides that Québec will gradually allow businesses to obtain a refund of the QST on properties and services to which restrictions currently apply, in accordance with the basic principles value-added taxes.

Following this agreement in principle, a detailed agreement will be reached by April 1, 2012.

"This agreement illustrates how federalism that is open and flexible makes it possible to meet the specific aspirations of Québec while remaining true to the spirit of the arrangements agreed with the other provinces," the Premier concluded.

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