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HARMONISATION WITH NEWS RELEASE 2018-055 OF THE DEPARTMENT OF FINANCE CANADA

On June 27, 2018, the Department of Finance Canada presented, in a news release,¹ a draft of technical changes to the goods and services tax and the harmonized sales tax (GST/HST) rules for sales of carbon emission allowances, such as those traded in cap-and-trade systems.

In accordance with the principle of general harmonization of the Québec sales tax (QST) system with the GST/HST system, changes will be made to the Québec tax system to incorporate, with adaptations on the basis of its general principles and with its specific features and the provincial context underlying the QST taken into account, all technical changes related to sales of carbon emission allowances.

Therefore, as of the day of publication of this information bulletin, when the QST is payable on a sale of carbon emission allowances, the purchaser is responsible for self-assessing the amount of the tax. This replaces the previous requirement, whereby the seller of the allowance collected the QST from the purchaser and remitted it to Revenu Québec. The adjustment brings Québec rules in line with how these allowances are treated internationally.

These technical changes will generally apply only to the secondary market of carbon pollution pricing instruments in which businesses with spare allowances typically sell their surplus, if applicable, to companies that have exceeded their emission targets. Purchasers will report the QST amount to be paid in their QST return and if entitled, claim an input tax refund in the same return. The measure has no effect on the imposition of the QST, but rather on how it is accounted for and remitted to Revenu Québec.

Furthermore, like the GST/HST system, the initial supply of emission allowances by a government entity generally remains exempt in the QST system.

The amendments to the QST system will be adopted only following assent to any federal statute or adoption of any federal regulation giving effect to these GST/HST measures, taking into account technical amendments that may be made prior to assent or adoption. They will generally apply on the same dates as those retained for the purposes of the federal measures with which they harmonize.

In addition, changes will also be made to the QST system so that sales of carbon emission allowances are excluded from supplies for which non-resident suppliers registered under the new specified registration system² are required to collect the QST.

¹ Department of Finance Canada, News Release 2018-055, "Government Adjusts GST/HST Rules for Carbon Emission Allowances," June 27, 2018, <https://www.fin.gc.ca/n18/18-055-eng.asp>.

² Ministère des Finances du Québec, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.5-A.14.

For information concerning the matter dealt with in this information bulletin, contact the Secteur du droit fiscal, de l'optimisation des revenus et des politiques locales et autochtones at 418 691-2236.

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