



June 14, 2019

2019-7

## HARMONIZATION WITH CERTAIN TAX MEASURES ANNOUNCED BY THE FEDERAL GOVERNMENT AND OTHER MEASURE

The purpose of this information bulletin is to make public the position of the Ministère des Finances du Québec on legislative proposals relating to the *Excise Tax Act*, with respect to the goods and services tax and the harmonized sales tax (GST/HST), as set out in News Release 2019-049 of the Department of Finance Canada, as well as on tax measures proposed in the federal budget tabled on March 19, 2019.

It also outlines the Ministère des Finances' position on the tax measures set out in Bill C-86, which received assent in the Parliament of Canada last December.

Finally, it announces the harmonization of the rate used to calculate the taxable benefit relating to the right to use an automobile from which a shareholder of a corporation benefits, when his or her activities with the corporation are principally related to the sale or lease of automobiles, to the rate used in the federal tax system.

For information concerning the matters 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.

The English and French versions of this bulletin are available on the Ministère des Finances website at [www.finances.gouv.qc.ca](http://www.finances.gouv.qc.ca).

## HARMONIZATION WITH CERTAIN TAX MEASURES ANNOUNCED BY THE FEDERAL GOVERNMENT AND OTHER MEASURE

---

1. HARMONIZATION WITH THE NEWS RELEASE 2019-049 OF THE DEPARTMENT OF FINANCE CANADA .....	3
2. HARMONIZATION WITH CERTAIN FEDERAL TAX MEASURES ANNOUNCED IN THE MARCH 19, 2019 FEDERAL BUDGET .....	4
3. HARMONIZATION WITH CERTAIN MEASURES OF BUDGET IMPLEMENTATION ACT, 2018, NO. 2.....	7
4. HARMONIZATION OF THE RATE USED TO CALCULATE THE BENEFIT RELATING TO THE RIGHT TO USE AN AUTOMOBILE GRANTED TO A SHAREHOLDER IN THE AUTOMOBILE SECTOR.....	8

## 1. HARMONIZATION WITH THE NEWS RELEASE 2019-049 OF THE DEPARTMENT OF FINANCE CANADA

On May 17, 2019, the Department of Finance Canada made public, in a news release,<sup>1</sup> draft legislative proposals relating to the *Excise Tax Act* in respect of the goods and services tax and the harmonized sales tax (GST/HST).

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 taking into account the provincial context underlying the QST, the proposed federal measures to:

- expand the definition of a “freight transportation service” to include a driving service, so that the existing relief and other measures for international freight transportation services also apply to international driving services;
- extend the application of the drop-shipment rules, which allow non-residents to obtain tax relief on certain goods and services acquired in Canada, so that the existing relief and other measures under the drop-shipment rules also apply to commercially interchangeable or fungible goods;
- treat virtual currency (for example, Bitcoin) as a financial instrument for GST/HST purposes, meaning that suppliers will not be required to charge and collect GST/HST on supplies of virtual currency.

In addition, with respect to the other proposed federal amendment, namely the measure to extend the GST/HST holding corporation rules to holding partnerships and trusts, this measure is currently being studied by the Ministère des Finances du Québec and harmonization decisions in this regard will be announced at a later date.

### □ Application date

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

---

<sup>1</sup> DEPARTMENT OF FINANCE CANADA, News Release 2019-049, “Department of Finance Canada Consulting on Draft Goods and Services Tax/Harmonized Sales Tax Legislation,” May 17, 2019, [www.fin.gc.ca/n19/19-049-eng.asp](http://www.fin.gc.ca/n19/19-049-eng.asp).

## 2. HARMONIZATION WITH CERTAIN FEDERAL TAX MEASURES ANNOUNCED IN THE MARCH 19, 2019 FEDERAL BUDGET

On March 19, 2019, the Minister of Finance of Canada presented the federal government's budget for 2019. Along with the budget, the federal Minister of Finance tabled, in the House of Commons, supplementary information detailing each of the tax measures proposed in the budget, as well as notices of ways and means motions and draft amendments to various regulations to amend federal tax legislation and regulations accordingly.<sup>2</sup>

### □ Income tax measures

Québec's tax legislation and regulations will be amended to incorporate some of the income tax measures proposed in the 2019 federal budget. However, the changes to the Québec tax system will be adopted only after the assent of any federal legislation or the adoption of any federal regulation implementing the measures retained, taking into account technical amendments that may be made prior to the assent or adoption. For greater clarity, these changes will apply on the same dates as those retained for the application of the federal measures with which they harmonize.

### ■ Measures retained

The Québec tax legislation and regulations will be amended<sup>3</sup> to incorporate, with adaptations on the basis of their general principles, the measures concerning:

1. the reduction relating to the Canada training credit for the calculation of eligible expenses under the tuition tax credit (BR 2);<sup>4</sup>
2. the increase in the withdrawal limit for the home buyers' plan and amendments to the way the plan applies in the event of a breakdown of a marriage or common-law partnership (BR 6);
3. the rules applicable upon change in use for multi-unit residential properties (BR 7);<sup>5</sup>
4. the addition of other types of annuities permitted under registered plans, except for the special tax in the event of non-compliance (BR 8);

<sup>2</sup> DEPARTMENT OF FINANCE CANADA, *Budget 2019 – Investing in the Middle Class*, March 19, 2019, "Tax Measures: Supplementary Information", p. 349-460.

<sup>3</sup> Some of the measures retained do not require any amendments to Québec's tax legislation or its regulations.

<sup>4</sup> The references in parentheses correspond to the number of the budget resolutions (BRs) of the *Notice of Ways and Means Motion to Amend the Income Tax Act and Other Related Legislation* tabled in the House of Commons on March 19, 2019.

<sup>5</sup> The amendments relating to the rules applicable upon change of use for multi-unit residential properties will be incorporated into Québec tax legislation so that if a valid election is made for the purposes of federal tax legislation, the same election will be deemed to have been made for the purposes of Québec tax legislation. Similarly, in the event that no valid election is made for the purposes of federal tax legislation, no election will be possible for the purposes of Québec tax legislation.

5. changes to the registered disability savings plan (RDSP) when a person ceases to be eligible for the disability tax credit, except for changes to the Canada Disability Savings Grants and the Canada Disability Savings Bonds (BR 9);<sup>6</sup>
6. the tax treatment of financial assistance payments received by care providers under a kinship care program, to clarify that these amounts are neither taxable, nor included in income for the purposes of determining entitlement to income-tested benefits and credits (BR 10);
7. the repeal of the requirement that a property be of “national importance” in order to qualify for the enhanced tax incentives for donations of cultural property (BR 12 to BR 14);
8. the medical expense tax credit for amounts paid on behalf of a patient who holds a medical document in support of his or her use of cannabis for medical purposes (BR 17);
9. the rules applicable to contributions to a specified multi-employer plan for older members (BR 18);
10. the rules applicable to pensionable service under an individual pension plan (BR 19 and BR 20);
11. changes to the method of allocating to unitholders of a redeeming mutual fund trust (BR 21);
12. the joint and several liability of the holder of a tax-free savings account (TFSA) for tax payable on income from a business carried on by the TFSA (BR 22);
13. the electronic delivery of requirements for information to banks and credit unions for the purposes of the *Income Tax Act* and Part IX of the *Excise Tax Act* (BR 23 to BR 26 and BR 30 to BR 33);
14. the granting of a temporary enhanced first-year capital cost allowance rate in respect of eligible zero-emission vehicles (new capital cost allowance classes 54 and 55)<sup>7</sup> (BR 64 to BR 74);
15. the small business deduction for certain farming and fishing businesses (BR 75);
16. character conversion transactions (BR 80);
17. the order of application of the transfer pricing rules and the applicable reassessment period (BR 81 and BR 82);
18. foreign affiliate dumping (BR 83, BR 84(1) and BR 85 in part).

---

<sup>6</sup> Unlike federal legislation, Québec legislation does not provide any grants or bonds for the registered disability savings plan.

<sup>7</sup> New Class 55 of Schedule II of the *Income Tax Regulations* includes property that is a zero-emission vehicle that would otherwise be included in Class 16 of that Schedule. Property included in Class 16 of Schedule II of the *Income Tax Regulations* may be included, for the purposes of the Québec tax system, in Class 16 or Class 18 of Schedule B of the *Regulation respecting the Taxation Act*. Also, for greater clarity, for the purposes of the Québec tax system, a property may be included in the capital cost allowance category in Schedule B of the *Regulation respecting the Taxation Act*, which will correspond to Class 55 of Schedule II of the *Income Tax Regulations* if it is a zero-emission vehicle that would otherwise be included in Class 16 or Class 18 of Schedule B of the *Regulation respecting the Taxation Act*.

### ■ Measures not retained

Certain measures were not retained because they are out of step with the characteristics of the Québec tax system, or because the Québec tax system is satisfactory or has no analogous provisions. These measures concern:

- the introduction of the Canada training credit (BR 1 and BR 3 to BR 5);
- amendments to the *Cultural Property Export and Import Act*,<sup>8</sup> consequential to the repeal of the requirement that a property be of “national importance” in order to qualify for the enhanced tax incentives for donations of cultural property (BR 15 and BR 16);
- amendments to Part VII of the *Excise Tax Act*, the *Air Travellers Security Charge Act*<sup>9</sup> and the *Excise Act, 2001*<sup>10</sup> regarding the electronic delivery of requirements for information to banks and credit unions (BR 27 to BR 29 and BR 34 to BR 39);
- the introduction of a refundable labour tax credit for qualifying Canadian journalism organizations (BR 52 to BR 59);
- the introduction of a personal income tax credit for digital subscriptions to a qualifying Canadian journalism organization (BR 61 to BR 63);
- amendments to the enhanced scientific research and experimental development tax credit of Canadian-controlled private corporations (BR 76 to BR 78);
- the Canadian film or video production tax credit (BR 79);
- changes regarding tax on income from Canada of non-resident persons and additional tax on non-resident corporations in the presence of foreign affiliate dumping (BR 84(2), BR 85 in part and BR 86);
- cross-border share lending arrangements (BR 87 to BR 89).

### ■ Subsequent announcements

The Ministère des Finances du Québec will make known its position at a later date regarding the qualified donee status of registered journalism organizations (BR 40 to BR 51 and BR 60), as well as its position regarding the tax measure for kinship care providers clarifying that an individual may be considered to be the parent of a child in their care for the purpose of the Canada Workers Benefit, regardless of whether they receive financial assistance from a government under a kinship care program (BR 11).

---

<sup>8</sup> R.S.C., 1985, c. C-51.

<sup>9</sup> S.C. 2002, c. 9, s. 5.

<sup>10</sup> S.C. 2002, c. 22.

## ❑ Measures relating to the goods and services tax and the harmonized sales tax

In accordance with the principle of general harmonization of the Québec sales tax (QST) system with the goods and services tax and the harmonized sales tax (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, the federal measure on business investment in zero-emission vehicles (BR 6 to BR 10 and measures proposed in the draft amendments to various regulations).<sup>11</sup>

The changes to the QST system will be adopted only after the assent of any federal legislation or the adoption of any federal regulation implementing this measure, taking into account technical amendments that may be made prior to the assent or adoption, as the case may be. These changes will apply on the same date as that used for the application of the federal measure with which they harmonize.

As will be recalled, it was previously announced, in *Information Bulletin 2019-4* published on March 19, 2019, that the QST system would be harmonized with the proposed changes to the GST/HST system announced in the March 19, 2019 federal budget with respect to the GST/HST measures related to health (BR 1, BR 2, BR 4 and BR 5).

### 3. HARMONIZATION WITH CERTAIN MEASURES OF BUDGET IMPLEMENTATION ACT, 2018, No. 2

On December 13, 2018, Bill C-86, entitled “*A second Act to implement certain provisions of the budget tabled in Parliament on February 27, 2018 and other measures*” (hereinafter referred to as “Act No. 2”) received assent.<sup>12</sup>

In addition to implementing some of the tax measures set out in the February 27, 2018 federal budget, part 1 of this Act implements other income tax measures.

The Ministère des Finances has already made Québec’s position on most of the tax measures included in Act No. 2 known through the March 2018 Québec Economic Plan<sup>13</sup> as well as through information bulletins 2017-6,<sup>14</sup> 2018-3,<sup>15</sup> 2018-5,<sup>16</sup> 2018-6,<sup>17</sup> and 2018-8.<sup>18</sup>

<sup>11</sup> The references in parentheses correspond to the number of the budget resolution (BR) of the *Notice of Ways and Means Motion to Amend the Excise Tax Act* tabled in the House of Commons on March 19, 2019.

<sup>12</sup> S.C. 2018, c. 27.

<sup>13</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, p. A.132.

<sup>14</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2017-6*, April 28, 2017, p. 8.

<sup>15</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2018-3*, May 28, 2018.

<sup>16</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2018-5*, June 27, 2018.

<sup>17</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2018-6*, July 10, 2018, p. 3-5.

<sup>18</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2018-8*, October 25, 2018.

With respect to the measure on the revision of the rules relating to non-partisan political activities of charities (sections 17 and 20) implemented under part 1 of Act No. 2, Québec tax legislation will be amended to incorporate it, with adaptations on the basis of its general principles.

The amendments to Québec tax legislation will apply on the same dates as those retained for the purposes of the provisions of the federal tax legislation with which they harmonize.

Moreover, although it requires no legislative or regulatory amendments, the federal measure relating to the determination of international operational missions for the purpose of the deduction available for income earned by members of the Canadian Forces or police officers on such missions (section 9) will also be retained for the purposes of the Québec tax system.

Finally, certain measures were not retained because they are out of step with the characteristics of the Québec tax system, or because the Québec tax system is satisfactory or has no analogous provisions. These measures are aimed at:

- ensuring that financial assistance payments under certain programs do not preclude individuals from receiving the Canada Child Benefit (section 11);
- introducing a refundable tax credit for the purposes of the climate action incentive (section 13, subsections 18(1) and (8) and section 19).

#### **4. HARMONIZATION OF THE RATE USED TO CALCULATE THE BENEFIT RELATING TO THE RIGHT TO USE AN AUTOMOBILE GRANTED TO A SHAREHOLDER IN THE AUTOMOBILE SECTOR**

Like the federal tax system, the Québec tax system provides for the calculation of the value of taxable benefits relating to automobiles, including the benefit relating to the right to use an automobile, that an employee must include in the calculation of his or her income when an automobile is made available to this employee by his or her employer.

The taxable benefit for the employee's right to use an automobile corresponds, essentially, to 2% of the cost of the automobile for each month in which the automobile is made available to the employee or to two-thirds of the leasing expenses paid by the employer for the period in which the automobile is made available to the employee.

In both tax systems, this 2% rate is reduced to 1.5% when the individual is employed principally in selling or leasing automobiles.

The rules relating to the calculation of the value of the taxable benefit relating to the right to use an automobile from which an employee benefits are applicable to the calculation of the value of the taxable benefit relating to the right to use an automobile from which a shareholder or a person related to a shareholder benefits, with certain modifications.

Therefore, under the Québec tax system, the value of the taxable benefit relating to the right to use an automobile granted to a shareholder of a corporation, when the shareholder's activities with the corporation are principally related to the sale or lease of automobiles, is calculated using the reduced rate of 1.5%.<sup>19</sup> However, the federal tax system does not allow this reduced rate to be used if the taxpayer is receiving this benefit as a shareholder.

In this respect, in accordance with the principle of substantial harmonization of tax legislations with regard to the calculation of the value of taxable benefits in respect of automobiles, the Québec tax legislation will be amended to provide that, as of taxation year 2020, the calculation of the value of the taxable benefit in respect of the right to use an automobile granted to a shareholder of a corporation, when the shareholder's activities with the corporation are principally related to the sale or lease of automobiles, will be determined without taking into account the reduced rate of 1.5%.

---

<sup>19</sup> Taxation Act, s. 41.0.2 and 117.