

COMPREHENSIVE INTEGRATED TAX COORDINATION AGREEMENT

BETWEEN

THE GOVERNMENT OF CANADA

AND

THE GOVERNMENT OF QUEBEC

In case of disparities, the French version prevails

Comprehensive Integrated Tax Coordination Agreement

BETWEEN:

The Government of Canada (referred to in this Agreement as “Canada”), as represented by the Minister of Finance of Canada,

AND:

The Government of Quebec (referred to in this Agreement as “Quebec”), as represented by the Minister of Finance of Quebec and by the Minister responsible for Canadian Intergovernmental Affairs and the Canadian Francophonie,

TOGETHER referred to in this Agreement as the “Parties”.

WHEREAS:

- I. This Agreement reflects the strong commitment by the Parties to work collaboratively to build a stronger economic foundation;
- II. The Parties recognize the needs of governments to maintain a tax system that is responsive to the citizens and the business community, that reflects both Parties’ interests and that preserves the accountability of the federal and Quebec Ministers of Finance;
- III. The Parties acknowledge and recognize the objective of maintaining a broad harmonized tax base; and
- IV. The Parties recognize the importance of working collaboratively in exercising the flexibilities under this Agreement.

NOW, THEREFORE, the Parties agree as follows:

Part I

Interpretation

1. In this Agreement,

“Agreement” means this comprehensive integrated tax coordination agreement, entered into by Canada with Quebec under Part III.1 of the Federal-Provincial Fiscal Arrangements Act, including all Annexes attached to it and all instruments amending or restating it, or any successor agreement to it;

“Amended QST” means the QST amended as provided for in this Agreement;

“Amended QST Rate”, at any time, means the tax rate that is applicable, at that time, to determine and calculate the Amended QST;

“business day” means a day that is neither a Saturday nor a day defined as a holiday within the preamble to the definition of that word in subsection 35(1) of the *Interpretation Act*, R.S.C. 1985, c. I-21, as amended from time to time;

“Excise Tax Act” means the *Excise Tax Act*, R.S.C. 1985, c. E-15, as amended from time to time;

“Federal-Provincial Fiscal Arrangements Act” means the *Federal-Provincial Fiscal Arrangements Act*, R.S.C. 1985, c. F-8, as amended from time to time;

“Finance Canada” means the Department of Finance of Canada;

“Finances Québec” means the Ministère des Finances of Quebec;

“GST/HST” means the tax imposed under the federal value-added tax system;

“GST/HST Legislation” means any legislation of Canada under which the GST/HST is payable, refundable or administered, including Part IX of the Excise Tax Act, but only to the extent to which such legislation is in respect of the GST/HST;

“GST Base” in respect of Quebec for a calendar year means the estimated value of the tax base under the GST/HST for Quebec in the calendar year, calibrated to reflect QST revenues as reported in the latest available data from the Canadian System of National Accounts, as determined by Finance Canada in consultation with Finances Québec;

“Implementation Date” means the date on which the Amended QST is implemented;

“QST” means the tax imposed under the Quebec value-added tax system;

“QST Legislation” means any legislation of Quebec under which the QST is payable, refundable or administered, including Title I of the *Act respecting the Québec Sales Tax*, R.S.Q., c. T-0.1 and the *Tax Administration Act*, R.S.Q., c. A-6.002 as amended from time to time, but only to the extent to which such legislation is in respect of the QST; and

“Tax Administration Agreement” means the Agreement with Respect to the Administration by Quebec of Part IX of the Excise Tax Act (R.S.C. 1985, c. E-15) relating to the Goods and Services Tax, entered into by Canada and Quebec, or any successor agreement to it, as amended from time to time.

2. Unless otherwise specified, words or expressions used in this Agreement have the same meaning as in Part IX of the Excise Tax Act, except that
 - (a) where a word or expression is specific to the QST Legislation, it shall have the same meaning as in the QST Legislation; and
 - (b) where the context so requires, a reference to the term “Canada” shall be read as a reference to the Government of Canada.
3. The following are the Annexes that are attached to, and that form an integral part of, this Agreement:
 - Annex “A” – Quebec Tax Policy Flexibility
 - Annex “B” – Transitional Measures
 - Annex “C” – Arbitration Committee

Part II

Implementation

4. Subject to any requisite legislative approvals, the Parties agree
 - (a) to work collaboratively and in a timely manner towards the implementation by Quebec of the Amended QST;
 - (b) to make their best efforts to finalize all policy and administrative details and to sign all agreements relevant to this Agreement before June 1, 2012;
 - (c) that Quebec will make its best efforts to publicly announce all legislative amendments to be made to give effect to the Amended QST and all other measures appropriate to the transition to the Amended QST before June 1, 2012;
 - (d) that Quebec will work toward implementing the Amended QST on January 1, 2013; and
 - (e) that Revenu Québec and the Canada Revenue Agency will have the necessary systems in place to effectively administer, as provided for in this Agreement, the Amended QST on or before the Implementation Date, provided that the timelines described in paragraphs (b) and (c) are met.

Part III

Tax Harmonization Committee

5. The Parties agree that a Tax Harmonization Committee, consisting of representatives from the Parties, will consider issues related to the GST/HST and the Amended QST, including the

harmonized tax base and administrative, structural and definitional parameters, and will provide timely advice to the respective Ministers of Finance.

6. The Minister of Finance of Canada and the Minister of Finance of Quebec will each appoint an individual to act, and serve from time to time, as that Party's representative on the Tax Harmonization Committee.

7. Canada will chair the meetings of the Tax Harmonization Committee and of any sub-committee or working group of that committee.

8. Meetings of the Tax Harmonization Committee will be held from time to time as and when agreed upon between Canada and Quebec. Unless otherwise agreed upon between Canada and Quebec, the Tax Harmonization Committee will meet at least once in each twelve-month period.

9. Canada and Quebec will each communicate, as appropriate, the results of the deliberations of the Tax Harmonization Committee to the Deputy Minister of Finance of Canada and the Deputy Minister of Finance of Quebec.

10. The Tax Harmonization Committee may, in its discretion, establish sub-committees and special working groups to consider issues or matters related to the purposes of the Committee as set forth under clause 5.

11. If the members of the Tax Harmonization Committee cannot reach consensus in respect of an issue under their consideration, the issue will be referred to the Deputy Minister of Finance of Canada and the Deputy Minister of Finance of Quebec.

12. If an issue referred to the Deputy Ministers described in clause 11 remains unresolved, the issue will be referred to the dispute resolution process set forth in the applicable provisions of Part VIII of this Agreement.

Part IV

Provincial Tax Rate

13. Quebec may increase or decrease the Amended QST Rate.

Part V

Harmonized Taxes

14. Subject to the exceptions described in this Agreement, Quebec will ensure that the Amended QST has a tax base, as well as administrative, structural and definitional parameters, that produce results that are identical to the results produced under the GST/HST and are administered in a manner that produces identical results.

15. Canada may propose any change to the tax base of the GST/HST and, subject to the exceptions described in this Agreement, Quebec agrees to be bound by all changes to the tax base of the GST/HST that are implemented.

16. Subject to the exceptions described in this Agreement and respecting the powers of the National Assembly, Quebec agrees that it will replicate under the QST Legislation in accordance with clause 14 any change that Canada makes under the GST/HST Legislation as early as possible. Any required change under the QST Legislation

- (a) will be publicly announced by Quebec as early as possible but no later than 90 days from the date that Canada has publicly announced the corresponding change to the GST/HST Legislation, unless otherwise mutually agreed by the Parties;
- (b) will, unless paragraph (c) applies, in general apply as of the same date as the corresponding change to the GST/HST Legislation, but no later than 60 days after the date of such change; and
- (c) will, in the case of a change imposing penalties or fines, be included in a Bill that will be tabled in the National Assembly as soon as possible after Quebec's public announcement of the change.

17. Quebec undertakes to mirror under the QST Legislation the rules in respect of financial services and in respect of financial institutions under the GST/HST Legislation. Quebec will ensure that the harmonization of the QST system with the GST/HST system in this respect avoids instances of double-taxation and the absence of taxation and ensures the neutrality of the tax system for businesses in this sector.

18. Quebec undertakes to mirror under the QST Legislation the place of supply rules under the GST/HST Legislation, and in that respect commits to eliminate instances of double-taxation and the absence of taxation.

19. The Parties acknowledge that clauses 14 to 18 of this Agreement will operate subject to Quebec's tax policy flexibility under the provisions of Annex "A".

20. Quebec undertakes to not include the federal component of the GST/HST in the tax base of the Amended QST.

21. If, during the term of this Agreement, Canada proposes that property or a service be removed from the tax base of the GST/HST, Quebec is required to replicate that tax base change pursuant to clauses 14 to 18 of this Agreement and the replication (referred to as the "Base Change Replication") of that tax base change under the QST Legislation would have the effect (taking into account Amended QST otherwise rebated, refunded or remitted) of reducing by more than one percent the net Amended QST revenues (determined based on information from the Canadian System of National Accounts and other relevant information, referred to as "available data") that would, in the absence of the Base Change Replication, accrue to Quebec for the calendar year in which the GST/HST tax base change is proposed to be implemented (estimated by Finance Canada, in consultation with Finances Québec, at the time the tax base change is proposed, using the latest available data and on the assumption that the Base Change Replication would have been in place at the beginning of the calendar year), Canada may implement the tax base change:

- (a) with prior written agreement from the Minister of Finance of Quebec; or
- (b) by fully compensating Quebec, on the first business day following the end of each calendar year that the GST/HST tax base change continues and the Base Change Replication is in effect and conditional on Quebec continuing to respect the obligations set out in this Part of the Agreement, for the revenue loss (referred to as the "Revenue Loss") of Quebec solely attributable to the Base Change Replication

for that calendar year (estimated by Finance Canada, in consultation with Finances Québec, using the latest available data).

For greater certainty, the provisions of this clause above do not apply in respect of a proposed amendment to the GST/HST Legislation if:

- (c) the amendment is proposed as a consequence of changes in circumstances affecting the GST/HST and for the purpose of maintaining:
 - (i) the GST/HST tax policy, or
 - (ii) the application or the administration of the GST/HST that would exist in the absence of those changes; and
- (d) the proposed amendment prevents or redresses an increase in the tax base of the GST/HST.

22. The Parties agree that for each particular calendar year that the Base Change Replication referred to in clause 21 remains in effect,

- (a) the first official estimate of the Revenue Loss for the particular calendar year will be made on or before the last business day of the particular calendar year;
- (b) for each of the four calendar years following the particular calendar year, the Revenue Loss for the particular calendar year will be re-estimated by Finance Canada in consultation with Finances Québec, and adjusted where necessary, to reflect more recent data in respect of the particular calendar year and that re-estimate will be made on or before the last business day of that following calendar year;
- (c) the fifth and final re-estimate of the Revenue Loss for the particular calendar year
 - (i) shall be made by Finance Canada in consultation with Finances Québec on or before the last business day of the fifth calendar year after the particular calendar year using the most current data in respect of the particular calendar year that is available to Finance Canada as of that day, and
 - (ii) shall be final and not subject to revision 60 days after the business day referred to in subparagraph (i);
- (d) if the result of an adjustment referred to in paragraph (b) or (c) is that an amount remains payable to Quebec in respect of the particular calendar year, that amount shall be paid to Quebec on the first business day following the end of the calendar year in which the adjustment occurred; and
- (e) if the result of an adjustment referred to in paragraph (b) or (c) is that there has been an overpayment to Quebec in respect of the particular calendar year, the amount of the overpayment becomes due and payable by Quebec as a debt due to Canada on the first business day following the end of the calendar year in which the adjustment occurred. Canada will be entitled to set off this amount against any amount due, or becoming due, to Quebec from Canada for any reason and at any time, until such indebtedness of Quebec is fully paid to Canada. This right of set-off will survive any termination of this Agreement.

23. For greater certainty, this Part does not apply in respect of any change to the GST/HST that is solely related to the tax policy flexibility of a province other than Quebec under a comprehensive integrated tax coordination agreement between Canada and that other province.

Part VI

Harmonized Tax Administration

24. On the basis that Quebec has administered both the GST/HST and its value-added tax since 1992, in Quebec the GST/HST and the Amended QST will be administered by Revenu Québec, at mutually agreed upon service and compliance levels, under the Tax Administration Agreement. The Parties agree that in the case of a conflict between the Tax Administration Agreement and this Part, the terms of this Part will prevail.
25. The Parties agree that
- (a) the Canada Revenue Agency and Revenu Québec will jointly conduct a review of the cost that the Canada Revenue Agency would incur to administer the GST/HST in Quebec;
 - (b) the scope of the review will be determined jointly by the Canada Revenue Agency and Revenu Québec;
 - (c) the results of the review will be made available to the Parties by August 10, 2012;
 - (d) each Party will bear its costs associated with the review;
 - (e) the cost determined by the review will represent the maximum amount that Canada will pay to Quebec to administer the GST/HST in Quebec for the year that begins on the Implementation Date (the “Implementation Year”);
 - (f) for each particular fifth year following the Implementation Year, the cost that the Canada Revenue Agency would incur to administer the GST/HST in Quebec will be re-determined using the same methodology used to determine that cost for the Implementation Year, and that re-determined cost will represent the maximum amount that Canada will pay to Quebec to administer the GST/HST in Quebec for that particular fifth year; and
 - (g) for each of the four years following the Implementation Year and following each particular fifth year, the maximum amount that Canada will pay to Quebec for administering the GST/HST in Quebec will be equal to the cost determined for the Implementation Year or the particular fifth year, as the case may be, adjusted by the factor mutually agreed upon by the Canada Revenue Agency and Revenu Québec as part of the review.
26. If the Canada Revenue Agency and Revenu Québec fail to agree upon the interpretation or application of clause 25 in respect of any matter that is to be determined by the review described in that clause by August 10, 2012, despite Part VIII, the issue will be referred to an Arbitration Committee established and governed in accordance with the provisions set out in Annex “C”.
27. Despite clause 24,
- (a) the GST/HST in respect of selected listed financial institutions (referred to as “SLFIs”) and financial institutions that would be SLFIs if Quebec were a participating province under the GST/HST Legislation (referred to as “Quebec SLFIs”) will be administered by the Canada Revenue Agency; and

- (b) the Amended QST in respect of SLFIs and Quebec SLFIs will be administered by the Canada Revenue Agency, as set out in an agreement between the Canada Revenue Agency and Revenu Québec, on a fee-for-service basis and conditional on Quebec continuing to mirror under the QST legislation the rules in respect of financial services and in respect of financial institutions under the GST/HST legislation pursuant to clause 17.

28. The Parties acknowledge that revenues collected by the Canada Revenue Agency and payable to Quebec because of the Canada Revenue Agency's administration of the Amended QST provided for in clause 27 will be remitted to Quebec under terms provided for in the agreement referred to in that clause that will include a mechanism for audit by Quebec similar to the audit mechanism set out in the Tax Administration Agreement.

29. Canada will neither assess nor collect the Amended QST or any product-specific tax, levy or mark-up imposed by Quebec in respect of imported goods brought into Quebec, subject to a tax collection agreement between Canada and Quebec.

30. The Parties acknowledge that the costs assumed by Canada relating to the administration of the harmonized taxes in Quebec relate solely to the administration of the GST/HST by Quebec within its territory and not to the administration of the Amended QST.

Part VII

Exchange of Information

31. There will be full co-operation between the Parties with respect to the exchange of relevant Quebec-based information relating to the GST/HST and the Amended QST, subject to applicable laws and regulations.

32. Finances Québec, on behalf of Quebec, will provide to Finance Canada any relevant information relating to the Amended QST that is required for the determination of any amount that is to be determined by Finance Canada, in consultation with Finances Québec, under this Agreement, for the fulfilment of the objectives of this Agreement or for the formulation or evaluation of fiscal policy.

Part VIII

Dispute Resolution

33. Best efforts will be exercised by federal and Quebec officials to reach consensus in respect of issues arising in respect of matters governed by this Agreement.

34. Issues not resolved by federal and Quebec officials will be referred to the Minister of Finance of Canada and the Minister of Finance of Quebec.

35. If an unresolved issue has been referred to the Minister of Finance of Canada and the Minister of Finance of Quebec, those Ministers may refer the issue to a third party for consideration and advice.

36. If an issue relates to a matter governed by Part VI, the terms of this Part will prevail over any other dispute resolution mechanism in any administrative agreement between the Parties.

Part IX

Term, Amendment and Termination

37. The terms and conditions of this Agreement will continue in full force and effect for at least five years from the Implementation Date, in accordance with and subject to the provisions of this Part, until the termination date referred to in clause 42.

38. Despite clauses 37 and 42, the Parties agree that the terms and conditions set out in clause 25 and in clauses 3 to 19 of Annex "B", and in any other provisions of this Agreement relevant to applying those clauses, will continue in full force and effect for at least 10 years from the Implementation Date, in accordance with and subject to the provisions of this Part, until the day that is the later of

- (a) the day that is the termination date referred to in clause 42; and
- (b) the day that is 10 years after the Implementation Date.

39. If Quebec desires to amend an element of the Amended QST (other than an amendment required in accordance with Part V of this Agreement or an amendment to the Amended QST Rate, to the Amended QST rebate rates for municipalities, universities, public colleges, school authorities, hospital authorities, facility operators, external suppliers, charities and qualifying non-profit organizations or to the Amended QST rebate rates or thresholds for new housing, new rental housing and land for residential use), Quebec agrees to give Canada written notice of its desire to amend that element and of its proposed effective date at least 60 days, unless the Parties agree otherwise, in advance of the expected date of Quebec's public announcement of the proposed amendment and Canada agrees to provide a written response as soon as possible before the expected date of that announcement.

40. Any amendment to this Agreement must be made in writing through mutual agreement of the Parties and subject to any necessary approvals, authorizations or applicable legislative requirements.

41. Any amending document mutually agreed upon between the Parties will form an integral part of this Agreement and will be effective as of the date specified in that amending document.

42. Either Party may deliver to the other Party a written notice of termination to be effective no sooner than the end of the eighteen month period that immediately follows the last day of the calendar quarter in which the written notice of termination is received or any other time period that may be mutually agreed upon between the Parties. The Parties agree that the termination date set out in such a written notice of termination cannot be earlier than the date that is the fifth year anniversary of the Implementation Date.

43. On the termination of all of the clauses of this Agreement, all rights and obligations of Canada and Quebec under this Agreement cease, except for the obligations of Canada and Quebec to settle accounts relating to amounts outstanding under this Agreement and any obligations relevant to settling these accounts.

Part X

Government Purchases

44. As of April 1, 2013, the Parties agree to pay the GST/HST and the Amended QST in respect of supplies made to their respective governments or to agents thereof.
45. Where inter-jurisdictional immunity from taxation applies, any such GST/HST paid by Quebec, as provided for in clause 44, will be subject to rebate, administered by the Canada Revenue Agency, on application to the Minister of National Revenue, except to the extent that any such taxes are payable under any agreement regarding the reciprocal payment of sales or commodity taxes as between Canada and Quebec or are otherwise recoverable.
46. Where inter-jurisdictional immunity from taxation applies, any such Amended QST paid by Canada, as provided for in clause 44, will be subject to rebate, administered by Revenu Québec, on application to the Minister of Revenue of Quebec, except to the extent that any such taxes are payable under any agreement regarding the reciprocal payment of sales or commodity taxes as between Canada and Quebec or are otherwise recoverable.
47. Any rebates payable under clause 45 or 46 shall be made on a bi-weekly basis and, at the direction of the Party applying for the rebate, shall be paid either to the Party or to the government entity of the Party that paid the tax and that is identified as the recipient of the rebate in the application for the rebate.

Part XI

Quebec-Specific & Transitional Measures

48. The agreement of the Parties in respect of allowable base deviations, rebates of Amended QST and administrative measures is set out in Annex "A".
49. The agreement of the Parties in respect of transitional measures, including federal assistance payments and the elimination of restrictions on input tax refunds, is set out in Annex "B".
50. Quebec will propose legislative provisions that are appropriate or necessary in respect of the transition to the Amended QST in order to give effect to the measures provided for in the provisions of this Agreement, unless, in accordance with applicable laws, Quebec gives effect to those measures through other means.

Part XII

Miscellaneous

51. If Canada enters into a comprehensive integrated tax coordination agreement with another province under Part III.1 of the Federal-Provincial Fiscal Arrangements Act, or enters into a successor comprehensive integrated tax coordination agreement with another province under

that Part, on terms that differ from those of the Agreement then in effect between Canada and Quebec, Quebec will have the option of entering into a succeeding agreement with Canada regarding harmonization on the same terms as those in the comprehensive integrated tax coordination agreement with the other province; provided, however, that this option of Quebec will not apply to any term in respect of a transitional measure contemplated under that comprehensive integrated tax coordination agreement. For the purpose of this clause, a successor comprehensive integrated tax coordination agreement includes an amended comprehensive integrated tax coordination agreement.

52. It is understood that Quebec will not circumvent the underlying objective of this Agreement by means of another value-added tax.

53. If a Party informs the other Party of a proposed change under Part V or Part XI of this Agreement that is to be announced publicly by that Party in a Budget or otherwise, the other Party commits to take all actions necessary to embargo the existence of such a proposal, unless the Parties mutually agree otherwise in writing or unless otherwise required by law. Notwithstanding the embargo commitment referred to in this clause, the other Party may, prior to any public announcement of such a proposal, discuss on a need-to-know basis with its other government departments or agencies the information required for the purposes of evaluating and developing the processes and mechanisms that may be necessary for the proper implementation and administration in respect of such a proposal.

54. This Agreement may be executed in any number of counterparts, each of which will constitute an original and all of which taken together will constitute one and the same instrument. Counterparts may be executed in original, electronic or faxed form and the Parties adopt any signatures received by electronic mail or by a receiving fax machine as the original signatures of the Parties; provided, however, that a Party providing its signature in such manner will promptly forward to the other Party an original of the signed copy of this Agreement.

55. This Agreement, including all Annexes attached, constitutes the entire agreement between the Parties with respect to the subject matter of this Agreement and supersedes all prior agreements and understandings between the Parties with respect to that subject matter, other than the Tax Administration Agreement.

56. After execution of this Agreement, each Party will do, or cause to be done, all acts as the other Party may reasonably require from time to time for the purpose of giving effect to this Agreement and each Party will use reasonable efforts, and take all steps as may be reasonably within that Party's power, to implement to their full extent the provisions of this Agreement.

57. A Party may waive any right under this Agreement, but only in writing. If a waiver of any provision of this Agreement is executed in writing by a Party, that written waiver will not constitute a waiver of any other provision of this Agreement and will not constitute a continuing waiver unless otherwise expressly provided.

58. By entering into this Agreement, neither Party is deemed to surrender or abandon any of the powers, rights, privileges or authorities vested in either of them under the *Constitution Acts, 1867 to 1982* (or under any amendments to those Acts) or otherwise, or to impair any such powers, rights, privileges or authorities.

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IN WITNESS WHEREOF, THIS AGREEMENT IS SIGNED IN DUPLICATE, each of which is an original,

THE GOVERNMENT OF CANADA

THE GOVERNMENT OF QUEBEC

AT _____

AT _____

THIS ____ DAY OF _____, _____

THIS ____ DAY OF _____, _____

BY

BY

Minister of Finance for the Government of
Canada

Minister of Finance for the Government of
Quebec

AT _____

THIS ____ DAY OF _____, _____

BY

Minister responsible for Canadian
Intergovernmental Affairs and the Canadian
Francophonie for the Government of Quebec

Annex “A”

Quebec Tax Policy Flexibility

Interpretation

1. Unless otherwise defined in this Annex, terms used in this Annex have the same meaning as in the Agreement to which this Annex is attached.

Base Deviations

2. The Parties agree that any property or service that is included in the tax base of the GST/HST may only be removed from the tax base of the Amended QST, and that any property or service that is not included in the tax base of the GST/HST may only be added to the tax base of the Amended QST, if

- (a) Revenu Québec and, if applicable, the Canada Revenue Agency have the reasonable capacity to administer such a change to the tax base of the Amended QST;
- (b) businesses have the reasonable capacity to comply with such a change to the tax base of the Amended QST;
- (c) either
 - (i) the definition of the property or service is used in the Canadian System of National Accounts and sufficient data is available from that system to determine the amount of expenditure in Quebec attributable to the value of that property or service, or
 - (ii) other data sources, definitions and methodologies mutually agreed upon between the Parties can be used to determine the amount of expenditure in Quebec attributable to the value of that property or service; and
- (d) such a change to the tax base of the Amended QST complies with the requirements of clauses 3 to 6 of this Annex.

3. Where Quebec advises Canada of its desire to add to, or remove from, the tax base of the Amended QST a particular property or service under the QST Legislation effective on and from a particular day, the Parties agree that Quebec may implement such a change to the tax base of the Amended QST if the total value, as determined by Finance Canada in consultation with Finances Québec, of all property and services (including the particular property or service) that would be included in the tax base of the GST/HST but not in the tax base of the Amended QST, or that would be included in the tax base of the Amended QST but not in the tax base of the GST/HST, immediately after the particular day and that were consumed or used in Quebec during the last calendar year for which the GST Base in respect of Quebec has been determined by Finance Canada in consultation with Finances Québec does not exceed 5% of that GST Base in respect of Quebec, representing the deviation set out in clause 21 of Annex “B”, deemed to be 3% of that Base, plus a maximum additional deviation from that Base of 2% in accordance with this Annex.

4. If a condition under clause 2 in respect of data or definitions is not met, any cost involved in obtaining or establishing such data or definitions for the purpose of achieving the mutual agreement of the Parties referred to in that clause will be the sole responsibility of Quebec. If obtaining or establishing such data or definitions benefits Quebec and another province,

Quebec may enter into a separate agreement with the other province in respect of sharing between Quebec and the other province the cost involved in obtaining or establishing such data or definitions.

5. The Parties agree that the items that deviate under the Amended QST from the tax base of the GST/HST (other than the items listed in Annex “B”) will be agreed upon in writing between the Parties and any such agreement will form an integral part of this Agreement.

6. Unless otherwise mutually agreed upon between the Parties, where an item that Quebec proposes to be added to, or removed from, the tax base of the Amended QST is of the same class or kind as an existing item that deviates under the provincial component of the GST/HST in respect of another province from the tax base of the federal component of the GST/HST, Quebec agrees that the proposed item will have the same definition as the existing definition in respect of the existing item.

Rebates under the QST Legislation

7. Quebec may set the Amended QST rebate rates for municipalities, universities, public colleges, school authorities, hospital authorities, facility operators, external suppliers, charities and qualifying non-profit organizations, subject to matching GST/HST administrative, structural and definitional parameters in respect of those rebates. However, taking into account the existence of an agreement between Quebec and the municipalities in Quebec, Quebec is entitled to retain its rebate structure with respect to municipalities, as it applies and is administered on September 29, 2011, but only until December 31, 2013.

8. Quebec may set the Amended QST rebate rates for new housing, new rental housing and land for residential use and the threshold amounts in respect of which those rebates apply, including the phasing-out thresholds (if any) of those rebates and the maximum amounts of those rebates, subject to matching GST/HST administrative, structural and definitional parameters in respect of those rebates.

9. Canada may propose any change, and formulate any new rule, in respect of a GST/HST rebate under the GST/HST Legislation and, in accordance with Part V of this Agreement, Quebec agrees to be bound by any such change or rule that may affect the corresponding Amended QST rebate.

10. The Parties acknowledge that clause 9 will operate subject to Quebec’s tax policy flexibility under clauses 2 to 6.

11. The Parties agree that for the purposes of clauses 2 to 6, any differences in the GST/HST and the Amended QST rates for rebates in respect of municipalities, universities, public colleges, school authorities, hospital authorities, facility operators, external suppliers, charities and qualifying non-profit organizations, and any differences in the GST/HST and the Amended QST rates, thresholds, phasing-out or maximums for rebates in respect of new housing, new rental housing and land for residential use, are not considered to be deviations in the tax bases of the two taxes, provided that those Amended QST rebates match the administrative, structural and definitional parameters of the corresponding GST/HST rebates.

Administrative Measures

12. Quebec may adopt administrative measures to maintain the integrity of the Amended QST system or to simplify, improve or streamline the application of the Amended QST system,

provided that the Parties mutually agree on the adoption of such measures in furtherance of the principles of this Agreement.

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Annex “B”

Transitional Measures

Interpretation

1. Unless otherwise defined in this Annex, terms used in this Annex have the same meaning as in the Agreement to which this Annex is attached.
2. For greater certainty, transitional measures in the nature of those set out in this Annex are not available to a province that has previously entered into a comprehensive integrated tax coordination agreement with Canada.

Federal Assistance Payments to Quebec

3. On the terms and subject to the fulfillment of the conditions set out in the provisions of this Annex under the heading “Federal Assistance Payments to Quebec”, Canada agrees to provide, and Quebec agrees to accept, the assistance payments set out in clause 4, which Quebec may, at its full discretion, assign towards the financing of its various missions, the servicing of its debt or investments in capital assets according to a schedule that Quebec will determine and that cannot go beyond the termination date of this Agreement.
4. The total amount (referred to as the “Assistance Amount”) of the assistance payments payable by Canada to Quebec under this Agreement will be \$2,200 million, subject to the payment schedule in clauses 5 and 6 and subject to any adjustment in accordance with clause 7.
5. On the first business day following the Implementation Date or another date mutually agreed upon in writing between the Parties (the latter of which is referred to as the “Mutually Agreed-Upon Date”), if Quebec is not considered to have, at or before that time, committed a material breach of this Agreement, Canada will pay to Quebec the sum of \$733 million to be applied toward satisfaction of the Assistance Amount.
6. If, on the first business day following the one-year anniversary (or such other time period that is mutually agreed upon in writing between the Parties) of the later of the Implementation Date and the Mutually Agreed-Upon Date, Quebec is not considered to have, at or before that time, committed a material breach of this Agreement, Canada will pay to Quebec the \$1,467 million balance of the Assistance Amount.
7. If Quebec is considered to have committed a material breach of this Agreement, the Parties agree that the Assistance Amount will become immediately due and repayable by Quebec as a debt due to Canada to the extent that the Assistance Amount has been received by Quebec. Canada will be entitled to set off any debt owed, or amount payable, to Canada at any time by Quebec under this clause against any amount due, or becoming due, to Quebec from Canada for any reason and at any time, until such indebtedness of Quebec is fully paid to Canada. This right of set-off will survive any termination of this Agreement.
8. Where Canada has, at a particular time, provided written notice to Quebec that Canada considers Quebec to have committed a material breach of this Agreement, for the purposes of clauses 5 to 7, Quebec will be considered to have, at the particular time, committed a material breach of this Agreement if:

- (a) Quebec has, at or before the particular time, committed a material breach of this Agreement; and
- (b) Quebec
 - (i) has not, within 60 days of the particular time, commenced reasonable steps to fully effect a cure or remedy of the material breach, or
 - (ii) has not, within 180 days of the particular time, remedied or cured the material breach.

9. Despite clause 8, for the purposes of clauses 5 to 7, Quebec will not be considered to have committed a material breach of this Agreement if the material breach is committed more than 5 years after the Implementation Date, unless the material breach is committed less than 10 years after the Implementation Date and the material breach is in respect of rights and obligations under clauses 14 to 19 of this Annex or clause 25 of this Agreement.

10. A Party will, prior to giving written notice to the other Party that the Party considers the other Party to have committed a material breach of this Agreement, consult with the other Party in respect of the material breach and, during that consultation, discuss the circumstance or action that, in the Party's opinion, constitutes the material breach by the other Party.

11. Despite clause 7, the Assistance Amount will not become, at a particular time, immediately due and repayable by Quebec as a debt due to Canada if, at or before the particular time:

- (a) Quebec has provided written notice to Canada that Quebec considers Canada to have committed a material breach of this Agreement;
- (b) Canada has committed that material breach; and
- (c) Canada has not cured or remedied that material breach.

12. Despite clause 8, where Canada has, at a particular time, provided written notice to Quebec that Canada considers Quebec to have committed a material breach of this Agreement and Quebec has not, within 60 days of the particular time, commenced reasonable steps to fully effect a remedy or cure of the material breach, but the material breach is remedied or cured within 180 days of the particular time, the Parties agree that, for the purposes of clauses 5 to 7, Quebec will not be considered to have committed the material breach.

13. For greater certainty, for the purposes of paragraph 8(a) Quebec has committed a material breach of this Agreement if any change that Canada makes under the GST/HST Legislation is not replicated under the QST Legislation as early as possible and in accordance with this Agreement read without reference to the powers of the National Assembly in the first sentence of clause 16 of this Agreement.

Elimination of Restrictions on Input Tax Refunds

14. Immediately following an initial period of not more than five years from the Implementation Date, Quebec undertakes to phase out its restrictions on input tax refunds for large businesses in equal annual proportions during a period of three years (referred to as the "Phase-Out Period").

15. As the fiscal circumstances of Quebec allow, Quebec may:

- (a) shorten the Phase-Out Period, provided that any such shortened period begins on the first day of January and ends on the last day of December unless another period is mutually agreed upon by the Parties; or
- (b) take other steps to advance the elimination of its restrictions on input tax refunds, provided that any such step is implemented on the first day of January unless another date is mutually agreed upon by the Parties.

16. The Parties agree that any shortening of the Phase-Out Period in accordance with clause 15 will be subject to the capacity of Revenu Québec and the Canada Revenue Agency to administer such a shortening and the capacity of businesses to comply with it.

17. On and from the Implementation Date, the Parties agree that the classes of property and services in respect of which Quebec's restrictions on input tax refunds apply will be identical to, or a subset of, the classes of property and services in respect of which those restrictions applied as of September 29, 2011.

18. On and from the Implementation Date, the Parties agree that the classes of persons in respect of which Quebec's restrictions on input tax refunds apply will be identical to, or a subset of, the classes of persons in respect of which those restrictions applied as of September 29, 2011.

19. The Parties agree that for the purposes of clauses 2 to 6 of Annex "A", Quebec's restrictions on input tax refunds, as they apply and are administered on September 29, 2011, are not considered to be deviations between the tax bases of the GST/HST and of the Amended QST, provided that those restrictions are phased out in accordance with clauses 14 to 18.

Transitional Rules

20. The Parties agree that:

- (a) the transitional rules set out below are available to Quebec as a consequence of the fact that Quebec has had a value-added tax since 1992 and is not transitioning from a retail sales tax and of Quebec's commitment to further harmonize the tax base of the QST with the tax base of the GST/HST; and
- (b) in the absence of this fact and such a commitment, such transitional rules would not be available to Quebec.

21. The parties agree that the following list of items under the QST, as they apply and are administered on September 29, 2011 or as they are proposed to apply and be administered as stipulated in a public announcement made before that day, that deviate from the GST/HST may continue to deviate from the GST/HST under the Amended QST, but only to the extent of the deviation, and that, for the purposes of clause 3 of Annex "A", these deviations are deemed to collectively represent a deviation of 3% from the GST Base in respect of Quebec:

- (a) zero-rating of tobacco;
- (b) zero-rating of books;
- (c) zero-rating of diapers for children and items used for bottle-feeding or breast-feeding;
- (d) zero-rating of admission to a non-foreign convention sold by the convention sponsor to a non-resident participant;

- (e) zero-rating of passenger transportation services from Quebec to another province with transfer to another conveyance outside Canada;
- (f) zero-rating of inter-provincial services of ferrying by watercraft of motor vehicles and passengers between parts of a road or highway system separated by a stretch of water;
- (g) zero-rating of inter-provincial air ambulance services;
- (h) exemption of 9-1-1 emergency telephone call services supplied to governments, municipalities or other eligible entities;
- (i) transitional exemptions for the Mohawks of Kahnawake;
- (j) non-taxation of certain properties and services supplied by municipalities due to the fact that these inputs were not eligible for any rebate;
- (k) rebate of the tax paid by certain international organizations;
- (l) rebate of the tax paid regarding automatic door openers for handicapped persons;
- (m) rebate of the tax paid regarding a pleasure boat temporarily brought into Quebec for winter storage;
- (n) taxation by self-assessment of food products intended for making wine or beer;
- (o) non-rebate of the tax paid regarding short-term accommodations or camping accommodations included in a tour package; and
- (p) easing of the self-supply rule for a single unit residential complex or a residential unit held in co-ownership.

22. The Parties agree that the following measures under the QST, as they apply and are administered on September 29, 2011 or as they are proposed to apply and be administered as stipulated in a public announcement made before that day, that deviate from the GST/HST may continue to deviate from the GST/HST under the Amended QST, but only to the extent of the deviation:

- (a) administrative measures under Quebec's *Tax Administration Act*, R.S.Q., c. A-6.002;
- (b) zero-rating of motor vehicles acquired for re-supply and collection of the QST at the retail level by the Société de l'assurance automobile du Québec;
- (c) anti-avoidance rule for the purposes of calculating the QST payable regarding a used road vehicle;
- (d) measures applicable to the operators of flea markets;
- (e) measures applicable to clothing manufacturers;
- (f) measures applicable to the operators of establishments providing restaurant services;
- (g) mandatory registration of certain small suppliers and of certain persons not residing in Quebec and not carrying on a business there;
- (h) the application of the tax to road vehicles supplied otherwise than in the course of commercial activities; and
- (i) the compensation to the municipalities of Montréal, Québec and Laval for the repeal of the amusement tax.

Annex “C”

Arbitration Committee

Interpretation

1. Unless otherwise defined in this Annex, terms used in this Annex have the same meaning as in the Agreement to which this Annex is attached.

Arbitration Committee

2. The Arbitration Committee referred to in clause 26 of this Agreement will be established and governed in accordance with the following rules:

- (a) the Committee will be composed of three members, with one of these members to be appointed by the Minister of Finance of Canada, a second member to be appointed by the Minister of Finance of Quebec and a third member to be selected by the first two members, which third member shall chair the Committee;
- (b) the Minister of Finance of Canada and the Minister of Finance of Quebec will each appoint a member of the Committee as soon as possible but no later than August 24, 2012 or another date mutually agreed upon in writing by those Ministers;
- (c) the first two members will select a third member of the Committee as soon as possible but no later than the date that is 10 days after the day of the appointment of the last of the first two members or another date mutually agreed upon in writing by the Ministers of Finance of Canada and Quebec;
- (d) if the members appointed by the Ministers of Finance of Canada and Quebec are unable to agree on the choice of a third member by the particular day that is 10 days after the day of the appointment of the last of the members appointed by those Ministers or another date mutually agreed upon in writing by those Ministers,
 - (i) the appointments of the two members will become null and void,
 - (ii) the Minister of Finance of Canada and the Minister of Finance of Quebec will each appoint an alternate member of the Committee as soon as possible but no later than 10 days after the particular day or another date mutually agreed upon in writing by those Ministers,
 - (iii) the two alternate members will select a third member of the Committee as soon as possible but no later than the date that is 10 days after the later of the day of the appointment of the last of the alternate members or another date mutually agreed upon in writing by those Ministers, and
 - (iv) if the two alternate members are unable to agree on the choice of a third member within the time period described in subparagraph (iii), the procedure described in this paragraph shall be repeated;
- (e) the third member of the Committee must be selected no later than September 24, 2012 or another date mutually agreed upon in writing by the Ministers of Finance of Canada and Quebec;
- (f) the Committee will interpret and apply clause 25 of the this Agreement and will determine all outstanding issues that were to be determined as part of the review described in that clause;

- (g) the Committee will, at the earliest possible time but no later than December 17, 2012 or another date mutually agreed upon in writing by the Ministers of Finance of Canada and Quebec, submit to the Parties the report of the majority of the Committee, which must include its determination of all issues referred to in paragraph (f);
- (h) the Committee will be governed by the rules set out in Chapters I, V and VI and articles 12 to 15 of the Commercial Arbitration Code in the schedule to the *Commercial Arbitration Act*, R.S.C. 1985, c. 17 (2nd Supp.), as amended from time to time, with any modifications that the circumstances require, except to the extent of any conflict between this Agreement and those rules;
- (i) the Parties will establish the terms applicable to all expenses incurred by the Committee, including fees for experts, travel expenses and other administrative expenses, and these expenses will be borne equally by the Parties; and
- (j) each Party will bear its own costs associated with the arbitration.

3. The Parties agree that the findings of the majority of the Arbitration Committee shall, for the purposes of clause 25 of this Agreement, be considered to be the results of the review described in that clause and shall be final and binding.

4. The Parties agree to facilitate the establishment and operation of the Arbitration Committee and to provide, without delay, any information that the Committee considers necessary.

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