

**Memorandum of Agreement Regarding Sales Tax Harmonization
with a View to Concluding a Canada-Quebec
Comprehensive Integrated Tax Coordination Agreement**

September 2011

Memorandum of Agreement Concerning a Canada-Quebec Comprehensive Integrated Tax Coordination Agreement

BETWEEN:

The Government of Canada (referred to as "Canada"), as represented by the Minister of Finance of Canada,

AND:

The Government of Quebec (referred to 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".

Preamble

This Memorandum of Agreement ("MOA") reflects the strong commitment by the Parties to work collaboratively to build a stronger economic foundation.

Pursuant to this MOA, the Parties commit to using their best efforts to negotiate a Canada-Quebec Comprehensive Integrated Tax Coordination Agreement (hereafter referred to as the "Canada-Quebec CITCA"), together with any necessary related agreements.

This MOA forms the framework for concluding the Canada-Quebec CITCA.

Canada-Quebec CITCA

1. The Parties undertake to enter into the Canada-Quebec CITCA, including seeking any authority that may be required. The Parties understand that this MOA does not constitute an agreement pursuant to subsection 8.3(1) of the *Federal-Provincial Fiscal Arrangements Act*.
2. The Parties will make their best efforts to enter into the Canada-Quebec CITCA by April 1, 2012.
3. The Parties agree to make their best efforts to fulfill the undertakings set out in this MOA before June 1, 2012, except where otherwise specified in this MOA, including
 - a) the finalization of all policy and administrative details;
 - b) the signing of all agreements relevant to the Canada-Quebec CITCA; and

- c) the public announcement by Quebec of all legislative amendments to be made to give effect to the Quebec Sales Tax ("QST") amended pursuant to this MOA (hereafter referred to as the "Amended QST") and any other measure appropriate to the transition to the Amended QST.

Implementation Date

4. Subject to the Parties having signed the Canada-Quebec CITCA, and subject to all necessary legislative approvals, Quebec will work toward implementing the Amended QST on January 1, 2013. Subject to these approvals and subject to the fulfillment before June 1, 2012 of the undertakings described in clause 3, the Agence du revenu du Québec ("Revenu Québec") and the Canada Revenue Agency ("CRA") will have the necessary systems in place to effectively administer, as provided for in this MOA, the Amended QST on or before January 1, 2013. The date of implementation of the Amended QST is hereafter referred to as the "Implementation Date".

Federal Assistance Payments to Quebec

5. Canada will make payments totaling \$2,200 million to Quebec (the "Assistance Amount") subject to clause 22 and any legislative approval that may be required.
6. Unless otherwise mutually agreed by the Parties, the schedule of payments for the Assistance Amount will be as follows: \$733 million upon the first business day following the Implementation Date and \$1,467 million upon the first business day following the day that is one year after the Implementation Date provided the Amended QST continues to remain in place.

Timing of Specific Rights and Obligations

7. The Parties agree that the rights and obligations set out in clauses 8 to 14 will continue for a period of at least five years following the Implementation Date, and that the rights and obligations set out in clauses 15 and 18 will continue for a period of at least 10 years following the Implementation Date.

Maintaining a Harmonized Tax Base

8. Subject to the exceptions described in this MOA, 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 Goods and Services Tax ("GST")/Harmonized Sales Tax ("HST") and are administered in a manner that produces identical results. Quebec therefore, despite subclause 10d), undertakes to remove the GST from the Amended QST base.
9. Subject to the exceptions described in this MOA and respecting the powers of the National Assembly, Quebec agrees that it will replicate under the QST legislation in

accordance with clause 8 any change that Canada makes under the GST/HST legislation as early as possible. Any required change made 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, unless otherwise mutually agreed by the Parties; and
- b) will, in general, apply as of the same date as the corresponding change to the GST/HST, but no later than 60 days after the date of such change, except in the case of a change imposing penalties or fines.

For a change imposing penalties or fines, Quebec undertakes to table in the National Assembly, as soon as possible after having publicly announced the change, a Bill implementing the change.

Quebec Tax Policy Flexibility

10. Quebec's tax policy flexibility in respect of the Amended QST, established taking into account the existence of the QST since July 1, 1992, will be confirmed in the Canada-Quebec CITCA as follows:

- a) Quebec may increase or decrease the Amended QST rate.
- b) The measures under the QST set out in Annex A, as they apply and are administered on the day that this MOA is executed, 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.
- c) 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 agree on the adoption of such measures in furtherance of the principles of this MOA.
- d) The Amended QST base may deviate from the GST/HST base provided that the total of the absolute value of such deviations does not exceed 5% (as determined by Canada in consultation with Quebec) of the estimated GST base for Quebec.

The Parties agree that, for the purposes of this MOA, the total value of all of the deviations relating to the measures mentioned in Annex B that Quebec implemented prior to the execution of this MOA represents 3% of the estimated GST base for Quebec.

The Parties agree that any new base deviation will only occur subject to data availability and definitions used in the Canadian System of National Accounts or other mutually agreed upon data sources, definitions and methodologies. If mutually agreed upon data or definitions are not readily available, any cost involved in

obtaining or establishing such data or definitions will be the sole responsibility of Quebec.

- e) Quebec may set the Amended QST rebate rates for municipalities, universities, schools, colleges, hospitals, charities and qualifying non-profit organizations, and the Amended QST rebate rates and thresholds for new housing, 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 municipalities in Quebec, Quebec is entitled to retain its rebate structure with respect to municipalities, as it applies and is administered on the day that this MOA is executed, but only until December 31, 2013.

Base Reductions

- 11. In accordance with the provisions of Annex C, where Canada proposes that property or a service be removed from the GST/HST base and replicating that base change under the QST legislation would result in a reduction of more than one percent of net Amended QST revenues, Canada may implement the change if the Minister of Finance of Quebec provides written agreement to the change. If Canada implements the tax base change without consulting Quebec, or proceeds without the written agreement of the Minister of Finance of Quebec, Canada agrees to compensate Quebec pursuant to the provisions of that Annex.

Place of Supply Rules

- 12. 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.

Financial Services

- 13. 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. The Parties will examine this issue in accordance with the above principles and Quebec will determine how best to achieve this result under Quebec's legislation.

Government Purchases

- 14. 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. Where inter-jurisdictional immunity from taxation applies, any such GST/HST and Amended QST will be recoverable through a rebate mechanism.

Elimination of Restrictions on Input Tax Refunds

15. 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 phase-out period of not more than three years.

Governance

16. The Parties agree that a review committee, consisting of representatives from the Parties, will be established to consider issues related to the GST/HST and the Amended QST, including the harmonized tax base and administrative, structural and definitional parameters, and to provide timely advice to the respective Ministers of Finance.

Collection and Administration

17. In Quebec, the GST/HST and Amended QST will be collected and administered by Revenu Québec, at mutually agreed upon service and compliance levels, under the agreement regarding the administration of the GST/HST by Revenu Québec in Quebec, as amended from time to time.
18. The Parties agree that
 - a) the CRA and Revenu Québec will jointly conduct a review of the cost that the CRA would incur to administer the GST/HST in Quebec;
 - b) the scope of the review will be determined jointly by the CRA and Revenu Québec;
 - c) the results of the review will be made available to the Parties by February 15, 2012, unless otherwise mutually agreed by the Parties, to allow the Parties to enter into the Canada-Quebec CITCA by April 1, 2012;
 - d) they will each bear their costs associated with the review;
 - e) the cost determined by the review represents 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 ("Implementation Year");
 - f) for each particular fifth year following the Implementation Year, the cost that the CRA would incur to administer the GST/HST in Quebec will be redetermined using the same methodology used to determine the cost for the Implementation Year, and that redetermined cost represents 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 a factor mutually agreed upon by the Parties as part of the review.

19. Despite clause 17,

- a) the GST/HST in respect of selected listed financial institutions ("SLFIs") as defined under Part IX of the *Excise Tax Act*, and financial institutions ("Specified FIs") that would be SLFIs if Quebec were a participating province under that Part, will be collected and administered by the CRA; and
- b) the Amended QST in respect of SLFIs and Specified FIs will be collected and administered by the CRA, as set out in an agreement between the Parties, 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 13.

20. The Parties acknowledge that revenues collected by the CRA and payable to Quebec because of the CRA administration of the Amended QST provided for in clause 19 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.

Exchange of Information

21. 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 the applicable laws and regulations.

Breach

22. Pursuant to the provisions of Annex D, if Quebec is considered to have committed a material breach of the Canada-Quebec CITCA, 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 and the remainder, if any, of the Assistance Amount will not be paid to Quebec.

Amendment and Termination

23. The Parties agree that the Canada-Quebec CITCA will include mutually agreed upon provisions outlining the manner by which the Canada-Quebec CITCA may be amended or terminated.

Constitutional Jurisdiction not Waived

24. Neither Party shall be deemed to have surrendered or abandoned any of its powers, rights, privileges or authorities under the *Constitution Acts, 1867 to 1982*, and any amendments

thereto, or otherwise, or to have impaired any such powers, rights, privileges, or authorities.

Miscellaneous

25. For greater certainty, the Parties understand that, since the Canada-Quebec CITCA will not be based on all the elements of the framework governing the Comprehensive Integrated Tax Coordination Agreements ("CITCAs") between Canada and the other provinces, the Canada-Quebec CITCA will not include all the same rights and obligations that are in the other CITCAs entered into by Canada, such as rights and obligations that relate to, or are a consequence of, federal legislation, federal administration and the allocation of tax revenues.
26. It is understood that Quebec will not circumvent the underlying objective of this MOA by means of another value-added tax.

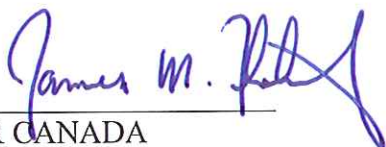
Confidentiality

27. Subject to mutual agreement in writing or requirement by law, the Parties commit to taking all steps to embargo the existence of this MOA and to not disclose in any way federal-provincial discussions relating to the development, negotiation and execution of this MOA or the Canada-Quebec CITCA.

THIS MEMORANDUM OF AGREEMENT ENTERED INTO ON:

September 29, 2011

_____, 2011



FOR CANADA
The Honourable James M. Flaherty
Minister of Finance

FOR QUEBEC
The Honourable Raymond Bachand
Minister of Finance

The Honourable Yvon Vallières
Minister responsible for Canadian
Intergovernmental Affairs and the Canadian
Francophonie

Annex A

- Administrative measures under Quebec's *Tax Administration Act*.
- 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.
- Anti-avoidance rule for the purposes of calculating the QST payable regarding a used road vehicle.
- Measures applicable to the operators of flea markets.
- Measures applicable to clothing manufacturers.
- Measures applicable to the operators of establishments providing restaurant services.
- Mandatory registration of certain small suppliers and of certain persons not residing in Quebec and not carrying on a business there.
- The application of the tax to road vehicles supplied otherwise than in the course of commercial activities.
- The compensation to the municipalities of Laval, Montréal and Québec for the repeal of the amusement tax.

Annex B

- Zero-rating of tobacco.
- Zero-rating of books.
- Zero-rating of diapers for children and items used for bottle-feeding or breast-feeding.
- Zero-rating of admission to a non-foreign convention sold by the convention sponsor to a non-resident participant.
- Zero-rating of passenger transportation services from Quebec to another province with transfer to another conveyance outside Canada.
- 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.
- Zero-rating of inter-provincial air ambulance services.
- Transitional exemptions for the Mohawks of Kahnawake.
- Non-taxation of certain properties and services supplied by municipalities due to the fact that these inputs were not eligible for any rebate.
- Rebate of the tax paid by certain international organizations.
- Rebate of the tax paid regarding automatic door openers for handicapped persons.
- Rebate of the tax paid regarding a pleasure boat temporarily brought into Quebec for winter storage.
- Taxation by self-assessment of food products intended for making wine or beer.
- Non-rebate of the tax paid regarding short-term accommodations or camping accommodations included in a tour package.
- Easing of the self-supply rule for a single unit residential complex or a residential unit held in co-ownership.

Annex C

1. If Canada proposes that property or a service (the “Property or Service”) be removed from the GST/HST base, Quebec is required to replicate that tax base change pursuant to clauses 8 and 9 of this MOA and the replication (the “Base Change Replication”) of that tax base change under the QST legislation would have the effect (taking into account Amended QST rebated, refunded or remitted) of reducing (the “Reduction”) by more than one percent the net Amended QST revenues (determined based on information from the Canadian System of National Accounts) that would, in the absence of the Base Change Replication, accrue to Quebec for the calendar year in which the GST/HST base change is proposed to be implemented (estimated by Finance (Canada), in consultation with Quebec, at the time the 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 that calendar year), Canada may implement the GST/HST base change:
 - a) with prior written agreement from Quebec; or
 - b) by fully compensating Quebec, upon completion of each calendar year that the GST/HST base change continues and the Amended QST base is in place under the Canada-Quebec CITCA, for the revenue loss (the “Revenue Loss”) of Quebec solely attributable to the Base Change Replication for that calendar year (estimated by Finance (Canada), in consultation with Quebec using the latest available data), provided that such compensation, if any, is subject to a reconciliation and adjustment process as well as a payments schedule to be agreed upon by the Parties.
2. For greater certainty, clause 11 of this MOA does not apply in respect of a proposed amendment to the GST/HST legislation if:
 - a) the amendment is proposed as a consequence of changes in circumstances affecting the GST/HST and for the purpose of maintaining
 - o the GST/HST tax policy, or
 - o the application or administration of the GST/HST that would exist in the absence of those changes; and
 - b) the proposed amendment prevents or redresses an increase in the GST/HST base.

Annex D

1. Despite clauses 5 and 6 of this MOA, Canada will not pay any part of the Assistance Amount to Quebec at any time if Quebec is considered to have, at or before that time, committed a material breach of the Canada-Quebec CITCA.
2. If Quebec is considered to have committed a material breach of the Canada-Quebec CITCA, 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 the Canada-Quebec CITCA.
3. Where Canada has, at a particular time, provided written notice to Quebec that Canada considers Quebec to have committed a material breach of the Canada-Quebec CITCA, for the purposes of clauses 1 and 2, Quebec will be considered to have, at the particular time, committed a material breach of the Canada-Quebec CITCA if:
 - a) Quebec has, at or before the particular time, committed a material breach of the Canada-Quebec CITCA; and
 - b) Quebec
 - o has not, within 60 days of the particular time, commenced reasonable steps to fully effect a cure or remedy of the material breach, or
 - o has not, within 180 days of the particular time, remedied or cured the material breach.
4. Despite clause 3, for the purposes of clauses 1 and 2, Quebec will not be considered to have committed a material breach of the Canada-Quebec CITCA 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 the Canada-Quebec CITCA that relate to the elimination of restrictions on input tax refunds or that relate to collection and administration.
5. 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 the Canada-Quebec CITCA, 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.

6. Despite clause 2, 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 the Canada-Quebec CITCA;
 - b) Canada has committed that material breach; and
 - c) Canada has not cured or remedied that material breach.
7. Despite clause 3, where Canada has, at a particular time, provided written notice to Quebec that Canada considers Quebec to have committed a material breach of the Canada-Quebec CITCA 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 1 and 2, Quebec will not be considered to have committed the material breach.
8. For greater certainty, for the purposes of subclause 3a) Quebec has committed a material breach of the Canada-Quebec CITCA 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 MOA read without reference to the powers of the National Assembly in the first sentence of clause 9 of this MOA.