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Tax Alert – Canada

Quebec: further phasing out of ITR restrictions

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

Consistent with the amendments to the *Act Respecting the Québec Sales Tax* (the AQST) tabled on 9 May 2018, the restrictions on obtaining an input tax refund (ITR) applicable to large businesses have been gradually phased out since 1 January 2018. Accordingly, large businesses concerned must once again update their procedures as of 1 January 2019 and increase the rate of the ITRs they claim in respect of restricted expenses from 25% to 50%.

As a result, with respect to taxable benefits provided to employees in 2018, registered employers that are deemed to be large businesses are required to include in the calculation of their net tax to be remitted 25% of the tax arising from taxable benefits related to expenses subject to the restrictions applicable to ITRs.

ITR claims at the 50% rate starting 1 January 2019

We invite you to read our Tax Alert 2017, Issue No. 49, [Quebec relaxes QST ITR restrictions](#), dated 30 October 2017, which discussed the details published by Revenu Québec in Interpretation Bulletin 206.1-10 regarding the gradual phasing-out of the ITR restrictions applicable to large businesses, including the following covered expenses:

- ▶ Electricity, gas, combustibles and steam used for a purpose other than to produce property intended for sale

- ▶ Telecommunication services, with the exception of internet access services and toll-free numbers (e.g., “1 800” and “1 888” numbers)
- ▶ Meals and entertainment expenses whose deductibility is limited to 50% for income tax purposes
- ▶ Road vehicles under 3,000 kg that must be registered to be driven on public roads
- ▶ Fuel, other than diesel, used to power such road vehicles

Starting 1 January 2018, the restrictions applicable to ITRs have been gradually phased out at a rate of 25% per year. Since 1 January 2019, large businesses can claim as ITRs 50% of the Quebec sales tax (QST) paid on their restricted expenses. Ultimately, the restrictions will be completely eliminated as the ITR rate increases to 75% on 1 January 2020 and then to 100% on 1 January 2021.

Impact on the calculation of the QST payable on taxable benefits for 2018

In calculating the QST to be remitted on their returns including the last day of February 2019, large businesses will have to take into account 25% of the ITRs claimed in 2018 in respect of restricted expenses incurred to provide taxable benefits to employees during 2018.

Learn more

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