2021 Issue No. 01
14 January 2021

Tax Alert – Canada

Québec eliminates QST ITR restrictions for large businesses

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* tabled on 9 May 2018, Québec has eliminated the restrictions on obtaining an input tax refund (ITR) applicable to large businesses, effective 1 January 2021. Accordingly, large businesses concerned must once again update their procedures and systems as of 1 January 2021 and increase the rate of the ITRs they claim in respect of restricted expenses from 75% to 100%.

With respect to taxable benefits provided to employees in 2020, registered employers that are deemed to be large businesses must include, in calculating their net tax to be remitted, 75% of the tax arising from taxable benefits related to expenses subject to the ITR restrictions.

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ITR claims at the 100% rate starting 1 January 2021

Large businesses may recover full ITRs for QST paid or payable on or after 1 January 2021, where the QST relates to the acquisition of goods and services that were covered by restricted ITRs. The following expenses were subject to ITR restrictions:

- 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 **(please note that the rate of 50% for the ITRs recoverable on these expenses remains applicable)**
- 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

Québec began phasing out the ITR restrictions on 1 January 2018, at the rate of 25% per year. For background, see EY Tax Alert 2017 Issue No. 49.

Impact on the calculation of the QST payable on taxable benefits for 2021

Taxable benefits provided to employees are required to be calculated by the end of February following the year they were incurred. The QST in respect of these benefits must be remitted on the return that includes the last day of February. In calculating the QST to be remitted on their returns that include the last day of February 2021, large businesses will have to take into account 75% of the ITRs claimed in 2020 in respect of restricted expenses incurred to provide taxable benefits to employees during 2020.

Learn more

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