JUNE 3 LUNCHTIME TAX CONFERENCE

REFERENCE DOCUMENT

By Taxation Service

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1. DEDUCTIBILITY OF ENTERTAINMENT EXPENSES

1.1 GENERAL RULE

Entertainment expenses are defined as amounts paid or payable for the acquisition of food, beverages or enjoyment of entertainment the main purpose of which is to derive income from a business or property.

The law[1] provides that the deduction of entertainment expenses is limited to 50% of the lesser of:

- the amount actually paid or payable in respect thereof (including GST, QST and tip)
- the amount in respect thereof that would be reasonable in the circumstances.

In Quebec, in addition to being subject to the 50% deduction restriction, entertainment expenses are also subject to an additional limit ranging between 1.25% and 2% of sales. This limit applies to the deductible portion of entertainment expenses, namely, 50% of the amount[2] and is calculated as follow:

SALES	LIMIT
▪ $32,500 and under	▪ 2%
▪ From $32,501 to $51,999	▪ $650
▪ $52,000 and over	▪ 1.25%

As entertainment expenses are increasingly becoming subject to tax audits, you are strongly recommended to keep all receipts and write on the back of each the name of the client for whom the expense was incurred as well as a brief explanation of the circumstances and reason for the expense.

1.2 LONG-HAUL TRUCK DRIVERS

The deductible portion of meal and beverage costs incurred by long-haul truck drivers is 80% rather than 50%[3] providing the following conditions are met:

- the trip is a minimum of 24 consecutive hours long;
- the driver is outside the municipality or metropolitan area where they reside and
- the truck/tractor is being used to transport merchandise at least 160 kilometres away from the driver's residence.

1.3 REIMBURSED EXPENSES

When entertainment expenses are reimbursed by the client and are clearly identified on the receipt, the 50% limit does not apply. Accordingly, the expense is 100% deductible.

[1]Section 67.1 *Income Tax Act* (Canada)
[2]Section 175.6.1 *Taxation Act* (Quebec)
[3]Subsection 67.1 (1.1) *Income Tax Act* (Canada)

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1.4 SPECIAL OCCASIONS

Food, beverage and entertainment expenses incurred by the employer for special occasions[4], such as Christmas parties, are fully deductible (100%) for the company providing the food, beverage and entertainment is made available to all employees at a place of business of the employer.

This rule also applies to food and beverages made available to an employee's spouse and children, providing they are made available at a place of business of the employer.

The Act[5] permits a maximum of six (6) special events in a calendar year at each of the employer's places of business.

If these conditions are not met, namely, when food, beverages and entertainment are not made available to all employees or there were more than six (6) such events in the year, these expenses are not eligible for the 100% deductibility; instead, they are subject to the 50% limit, as is the case with all other entertainment expenses[6].

1.5 CONFERENCES AND CONVENTIONS

The cost of food and beverages made available to participants at a convention or conference, other than incidental beverages and refreshments such as coffee, juice, cookies or muffins, is deemed to amount to $50 for each day[7], if it is included in the total event fee and not specifically identified. This deemed amount of $50 applies regardless of the duration of the event, be it one full day or only part of a day.

The cost of food and beverages incurred in the event of a convention or conference is subject to the general 50% deduction limit applicable to entertainment fees.

1.6 EXPENSES FOR RECREATIONAL PROPERTIES AND CLUB DUES

As a rule, outlays or expenses for the use or maintenance of a recreational property, such as a boat, lodge, or a golf course cannot be deducted from business income. However, if these expenses are incurred in the ordinary course of a taxpayer's business of providing the property for hire or reward, they are deductible.

Membership fees or dues in any club or association if the main purpose of the club is to provide its members with recreational or sporting facilities are not deductible. However, expenses for food and beverages incurred on site may be deductible (subject to the 50% limit) providing the facilities concerned are used for commercial purposes.

[4] CRA, Income Tax Technical News No. 15.
[5] Paragraph 67.1(2)f) *Income Tax Act* (Canada)
[6] Subsection 67.1(1) *Income Tax Act* (Canada)
[7] Subsection 67.1(3) *Income Tax Act* (Canada)

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2. TAXABLE BENEFITS

2.1 ALLOWANCES VS REIMBURSEMENT OF EXPENSES

It is important to make the distinction between an allowance given to an employee as compensation for expenses incurred in the course of their employment and a reimbursement.

The term 'allowance' refers to any payment received by an employee, in addition to their salary, without any requirement for the employee to justify how it is to be used. In contrast, a reimbursement of expenses is defined as an amount paid by an employer to an employee in consideration of invoices, receipts or other proof of payment provided by that employee.

The *Income Tax Act*[8] provides that unless expressly stated otherwise, allowances paid to an employee are taxable[9] as opposed to reimbursements of expenses which only constitute a taxable benefit for an employee when that employee derives an economic benefit from it (for example, when a personal expense is reimbursed).

2.2 GIFTS

Giving gifts to employees can have its tax implications. In fact, in some cases, it can trigger a taxable employment benefit for the employees receiving the gifts.

The tables below set out the various federal and provincial tax regulations pertaining to gifts for employees:

FEDERAL REGULATIONS[10]		
Cash or near-cash gifts and awards	▪ Tax treatment ▪ Cash or near-cash	▪ Taxable ▪ Cash, gift certificate, gift card, gold nuggets, securities, stocks or any other item that is easily converted to cash
Non-cash gifts and awards	▪ Tax treatment ▪ Limit (number) ▪ Limit (value) ▪ Consequence ▪ Reason for gift ▪ Reason for award	▪ Not taxable ▪ No limit on number ▪ The total value of gifts and awards shall not exceed $500 per year ▪ Any amount of the total value exceeding $500 is taxable ▪ For a special occasion (religious holiday, anniversary, wedding, birth of a child) ▪ In recognition of an employment-related accomplishment (years of service, employees' suggestions or meeting or exceeding safety standards)
Non-cash long-service or anniversary awards	▪ Tax treatment ▪ Limit (number) ▪ Limit (value)	▪ Not taxable ▪ Maximum of one every five (5) years ▪ Non-cash value must be less than $500

[8]Paragraph 6(1)b) *Income Tax Act* (Canada)
[9]Paragraph 6(1)b) *Income Tax Act* (Canada)
[10]CRA, Income Tax Technical News No. 40

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	▪ Consequence ▪ Reason for award	▪ Any amount exceeding $500 is taxable ▪ Given in recognition of years of service or long-service anniversary (the anniversary award must be for a minimum of five years' service, and it has to be at least five years since the last long-service or anniversary award)

PROVINCIAL REGULATIONS - QUEBEC		
Cash or near-cash gifts and awards	▪ Tax treatment ▪ Cash or near-cash ▪ Not cash or near-cash	▪ Taxable ▪ Cash or other items easily converted to cash ▪ Gift vouchers, gift certificates, chip cards
Non-cash gifts	▪ Tax treatment ▪ Limit (number) ▪ Limit (value) ▪ Consequence ▪ Reason for gift	▪ Not taxable ▪ No limit on number ▪ The total value of gifts shall not exceed $500 (including tax) ▪ Any amount exceeding $500 is taxable ▪ Must be given for a special occasion (Christmas, anniversary, wedding or other similar occasion)
Non-cash awards	▪ Tax treatment ▪ Limit (number) ▪ Limit (value) ▪ Consequence ▪ Reason for award	▪ Not taxable ▪ No limit on number ▪ The total value of awards shall not exceed $500 (including tax) ▪ Any amount exceeding $500 is taxable ▪ Must be given in recognition of certain accomplishments (years of service, meeting or exceeding safety requirements or meeting similar objectives)

2.3 PROFESSIONAL MEMBERSHIP DUES

In many cases, payment of employees' professional membership dues by their employer triggers a taxable benefit for the employees. However, federal and provincial regulations differ in this regard.

FEDERAL[11]

When the employer is the primary beneficiary of the payment of an employee's professional membership dues, there is no resulting taxable benefit.

Payment of such dues is usually considered to be primarily of benefit to the employer when the employee's membership in the professional association concerned is an essential condition of their employment. However, when membership in the professional association is not an essential condition of their employment, it does not automatically mean that the payment of the dues constitutes a taxable benefit for the employee. In this case, the

[11] CRA, Income Tax Technical News No. 15 and IT-158R2

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employer needs to analyse the facts to determine whether it is the employer or the employee who is the primary beneficiary of the professional membership.

QUEBEC[12]

As a rule, payment of an employee's professional dues by their employer constitutes a taxable benefit since the member of the professional association in question is the employee and not the employer.

However, in exceptional circumstances, where it can be demonstrated that the employer enjoyed all or substantially all of the benefit from the payment of the dues, it may not constitute a taxable benefit. *Revenu Québec* considers that the employer enjoys all or substantially all of the benefit of the professional membership when they require an employee who was not hired as a professional to maintain their professional status for some reason, such as prestige, for example.

2.4 AUTOMOBILES

AUTOMOBILE SUPPLIED BY THE EMPLOYEE

When an employee uses their own private vehicle to travel in the course of their employment and the employer pays an allowance for the use of this vehicle, that allowance may be considered a taxable allowance.

There are several ways in which an employer can compensate an employee for the use of his personal vehicle for business travel. The two main types of compensation are a per-kilometre allowance and a flat-rate allowance.

PER-KILOMETRE ALLOWANCE	FLAT-RATE ALLOWANCE
▪ It is not taxable if it is reasonable. ▪ The employee claims no automobile expenses and personally bears all costs related to their automobile. ▪ The employer may deduct a maximum of $0.54 for the first 5,000 km driven and $0.48 per kilometer after that. These amounts are a good indicator of what is reasonable. However, an allowance must not be considered unreasonable simply because it is higher than the indicated amounts.	▪ It is taxable to the employee. ▪ The employee claims the expenses they have incurred for their automobile. ▪ The employer pays the employee additional wages or a monthly allowance to help them to cover their automobile expenses.
Tip This method of compensation is beneficial in situations where an employee drives great distances for business purposes and has a vehicle in good condition. If the rate is deemed to be unreasonable, either because it is too low or too high, the allowance is taxable.	**Tip** This method of compensation is beneficial for employees who do not drive far for business purposes, even though they may often use their own automobile and for employees who own a vehicle with high operating expenses.

It is also possible to combine allowance types. When the combination of allowances is used, a portion of the amount paid is flat-rate while another portion is calculated on a per-kilometre basis. As a rule, this type of allowance is to be included in the employee's income when both types of allowance cover the same vehicle use.

[12]Interpretation bulletin IMP. 37-2/R2, Payment or reimbursement by an employer of the amounts to be paid by an employee as a member of a professional association.

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This applies when the employer pays a flat rate per day to compensate for expenses related to the use of the vehicle and also pays another amount calculated on a per-kilometre basis in order to cover operating costs.

However, the combination allowance would not be taxable in cases where the employer pays a flat-rate allowance to compensate the employee for costs they have incurred for travel within city limits and a reasonable allowance based on the number of kilometres driven outside the city.

AUTOMOBILE SUPPLIED BY THE EMPLOYER

When an employee uses an automobile provided by the employer for personal reasons, this is considered to be a taxable benefit[13]. In this situation, the employer must add two (2) taxable benefits to the employee's income:

<table>
<tr><th>DESCRIPTION</th><th>PURCHASED AUTOMOBILE</th><th>LEASED AUTOMOBILE</th></tr>
<tr><td>▪ Standby charge</td><td>▪ 2% x purchase cost x number of months
or
▪ (2% x purchase cost x number of months) x (number of personal km/1,667 km x number of months)*</td><td>2/3 x lease cost x number of months
or
▪ (2/3 x lease cost x number of months) x (number of personal km/1,667 km x number of months)*</td></tr>
<tr><td></td><td colspan="2">Tips
▪ The standby charge benefit must be calculated when the employer's vehicle is made available to the employee and does not take into account the number of personal kilometres travelled. However, when the employee never drives the vehicle for personal use and the vehicle is returned to the employer's place of business at the end of the day, there is usually no taxable benefit for standby.
▪ Any reimbursement to the employee, other than the reimbursement of expenses related to operation of the automobile, will result in a lower taxable benefit for operating costs.
▪ 50% reduction (purchased or leased automobile)
▪ The taxable benefit for standby is reduced when more than 50% of the distance travelled by the automobile was business-related and when the distance travelled for personal reasons is less than 1,667 km/month (20,000 km/year).
▪ When the employee uses the vehicle for personal reasons more than 50% of the time, be it 55% or 95%, the amount of the standby benefit is the same.
▪ Leased automobile only
▪ When an employee is not entitled to the reduction in the taxable benefit for use of a vehicle leased by their employer for personal reasons, tax law assumes that the personal use is 66 2/3%. So, although the percentage of use for personal reasons is higher, the taxable benefit does not increase.
▪ Purchased automobile only
▪ The formula used to determine the standby benefit does not take vehicle depreciation into account. Accordingly, when the automobile is purchased, the benefit is always calculated based on its purchase cost and not on its value.</td></tr>
<tr><td>▪ Operating costs</td><td>▪ $0.27 x number of personal kms
or</td><td>▪ $0.27 x number of personal kms
or</td></tr>
</table>

[13]Paragraphs 6(1)(*e*) and 6(1)(*k*), *Income Tax Act* (Canada)

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	▪ 50% of standby charge	▪ 50% of standby charge
	Tips ▪ Included in operating costs are gas, oil, maintenance, repairs and insurance. ▪ The taxable benefit for operating costs is reduced if more than 50% of the distance travelled by the automobile was for business purposes. ▪ Employees must submit written notice indicating their choice to opt for the 50%-of-the-standby-charge alternative. ▪ If the employee reimburses their employer the full amount of operating expenses associated with their personal use of a motor vehicle belonging to the employer, there will be no taxable benefit for operating costs providing the reimbursement occurs during the year or within 45 days of the end of the year. Should the employee only reimburse a portion of the operating costs, the benefit decreases accordingly.	

For the purposes of calculating the percentage of automobile use for business purposes, it must be remembered that the distance travelled between an employee's residence and the employer's place of business constitutes use for personal reasons. However, the distance the employee travels to get from their residence to a client's is considered to be business related.

To help taxpayers to calculate the taxable benefit, the Government of Canada has posted an automobile benefits calculator online. The calculator can be found at the following link:

http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/bc-eng.html

TRIP LOG[14]

When an employer makes an automobile available to an employee (or a person related to the employee), the employee is required to give a copy of the logbook in which the employee has kept a record of trips made using the motor vehicle within the prescribed timeline. A log must be kept in order to segregate business and personal travel. Employees who fail to comply with this rule are subject to a $200 fine (in Quebec only).

The prescribed timelines are as follow~~s~~:

On or before the 10th day following:

- the last day of the year in which the automobile was made available;
- the end of the period during which the automobile was made available if that period ends before the end of the year.

For the trip log, or kilometre logbook, to be completed, it must contain the following information:

- the business destination;
- the trip date;
- client's name and address;
- the distance travelled on each trip and
- the number of days when the vehicle was made available to the employee.

[14] Section 41.1.4 *Taxation Act* (Quebec)

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THE LOGBOOK MYTH[15]

There is a widespread belief that rules about maintaining a logbook were simplified to allow businesses to keep a log for a 12-month sample period, and, thereafter, to keep a log for only three (3) continuous months of the year. According to this widespread belief, to enjoy the relaxed rule, businesses need only to demonstrate that the use of the motor vehicle in question for the continuous three-month period is comparable (within 10%) to the use recorded for the same vehicle for the 12-month base year.

However, the CRA has clarified that this simplification applies only to self-employed individuals[16]. Indeed, businesses are not entitled to use this relaxed rule and must continue to keep a mileage log throughout the year.

This is a sample trip log:

15 Section 41.1.4 *Taxation Act* (Quebec)

16 Canadian Tax Highlights, Volume 19, Number 4, April 2011.

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Monthly trip log
January

Date	Place of departure	Place of arrival	Odometer		Total kilometres travelled	Business kilometres	Personal kilometres	Reason for trip
			Start km	End km				
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								
31								
				Total for the month:				

Number of days in the month when automobile is made available to employee:

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LEASE OR BUY

When the time comes to decide between using a motor vehicle supplied by the employer or one provided by the employee, the primary consideration is most certainly the degree to which it will be used for personal travel.

As a rule, it is better for the employee to have their employer lease the automobile that is being made available to them than to have the employer purchase the vehicle, for the following reason:

- Tax rules governing the standby charge benefit for an automobile have not been amended in many years, whereas interest rates have dropped considerably, with the result that monthly vehicle leasing payments are lower than they used to be, while the purchase price for that same vehicle has not decreased.

EXAMPLE

- Vehicle purchase cost of $30,162 (taxes included)
- Lease: $402/ month (taxes included)
- 48-month term
  - Based on a real example from 2013

VEHICLE PURCHASE		VEHICLE LEASE	
Annual taxable benefit (standby charge):		Annual taxable benefit (standby charge) :	
(2% x $30, 162 x 12 months)	$7,239	(2/3 x $402 x 12 months)	$3,216
Annual difference in taxable benefit (standby charge):			$4,023
Benefit difference after 4 years (standby charge):			$16,092
Employee's tax savings after 4 years (rate of 49.97%):			$8,041

As shown above, leasing rather than purchasing a vehicle usually significantly reduces the taxable benefit related to the automobile standby charge.

2.5 SPECIAL CLOTHING AND UNIFORMS[17]

Where the employer supplies or reimburses the cost of a distinctive uniform or special clothing for employees who are required to wear such clothing in the performance of their work or for protection from the specific dangers of the employment, it is not considered to be a taxable benefit.

Nor does the payment of dry cleaning of these uniforms or special clothing by the employer constitute a taxable benefit to the employee.

In the event that the employer pays the employee an allowance to purchase special protective clothing, without a requirement for the employee to submit a receipt, this allowance shall not constitute a taxable benefit providing:

- protective clothing is required by law;
- the employee has purchased the clothing and
- the amount of the allowance is reasonable.

[17] Interpretation bulletin IT-470R, Employees' Fringe Benefits and subsection 6(6) *Income Tax Act* (Canada)

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2.6 MEALS[18]

Reasonable meal allowances paid by an employer may not be taxable to the employees concerned if they work overtime on an occasional basis. In order to qualify for the exemption from income tax, the following conditions must be met:

- the value of the meal or meal allowance is reasonable (the CRA considers a value of up to $17 to be reasonable);
- the employee receiving the allowance works two (2) or more hours of overtime right before or right after their scheduled hours of work (in Quebec, it is a minimum of three (3) consecutive hours of overtime);
- the overtime is infrequent and occasional in nature (for tax authorities, less than three (3) times a week constitutes infrequent or occasional overtime);
- employees are reimbursed for meals for which they present proof of payment (additional requirement by Revenu Québec).

If overtime occurs on a frequent basis or becomes the norm, the overtime meal allowances are a taxable benefit to the employee receiving them.

In the case of free meals or subsidies provided by the employer, such as meals served in the cafeteria at the place of business, the taxable benefit to the employee amounts to the cost of the food, its preparation and service minus the amount paid by the employee.

2.7 RECREATIONAL FACILITIES AND CLUB DUES (GOLF, GYM)

As a rule, when an employer pays for the cost of a membership at a club that offers recreational facilities to their employees, it is considered to be a taxable benefit to those employees.

However, there is an exception to this rule. When the membership is principally for the employer's advantage, there is no taxable benefit to the employee (this is a rare exception**).** Nor is there any taxable benefit to employees when they are able to use the employer's recreational facilities or in-house fitness equipment free of charge and these facilities are intended specifically for this purpose and available to all employees.

2.8 SPECIAL EVENTS

When an employer covers the cost of food, beverages and entertainment for special occasions, there is no taxable benefit to employees when the food, beverages and entertainment are made available to all employees and the cost is reasonable under the circumstances. In 1998, the CRA decided that $100 per employee constituted a reasonable amount. Unfortunately, the amount has remained unchanged since that time.

2.9 BUSINESS TRAVEL

When an employer pays for the expenses incurred during business travel, it does not constitute a taxable benefit to the employee if their presence is required for the employer's business and this function is the main purpose of the trip. No benefit will be associated with the employee's travelling expenses necessary to accomplish the trip if the expenditures are reasonable.

However, where a spouse accompanies an employee on a business trip, and there is no justifiable business reason for their presence, it is considered to be a taxable benefit to the employee. The amount of the benefit corresponds to the portion of the travel costs attributable to the spouse.

[18]CRA, Income Tax Technical News No. 40.

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There is also a taxable benefit to the employee should that employee extend business travel for their own personal pleasure.

2.10 TUITION AND TRAINING COSTS

There is no taxable benefit to the employee if the principal beneficiary of the training is the employer, regardless of whether or not the training leads to a diploma or certificate. However, costs paid by the employer for courses taken primarily for the employee's benefit are a taxable benefit to the employee.

Courses that employees take to maintain or upgrade skills directly related to the employer's business are considered to benefit primarily the employer. Costs incurred by the employer for general business-related courses or training are not usually taxable for the employee, even though they may not pertain directly to the employer's business. Such business-related training might include courses in stress management, language training, or employment equity, for example.

Costs incurred by the employer to offer courses on topics of personal interest or training in skill areas completely unrelated to the employer's business or to the business world generally constitute a taxable benefit to the employee. In fact, these courses are always considered to benefit principally the employee and not the employer.

2.11 CONFERENCES

As a rule, there is no taxable benefit to employees whose employer requests that they attend a conference and reimburses them a reasonable amount for the costs associated with their attendance.

2.12 CELL PHONE

There is usually no taxable benefit to employees when their employer reimburses them or pays for their cell phone service plan. In fact, when the employer pays for an employee's cell phone air time and the phone is required to perform job-related duties, no taxable benefit should be added to the employee's income even if they use some of the air time for personal reasons, providing the use is within the limits of the chosen plan.

However, when the employee's personal use of the cell phone results in additional charges for the employer and/or the air time plan is not reasonable given the employee's professional requirements, a taxable benefit must be calculated for the employee.

2.13 PUBLIC TRANSIT PASSES

The cost of passes paid by an employer for employees to travel to work using public transit (subway/metro, commuter train, ferry, etc.) is usually treated as a taxable benefit to these employees.

3. RECORD-KEEPING

As a rule, a business is required to keep all records, books of account and vouchers necessary to verify its tax obligations as well as the credits to which it is entitled for a period of **six (6) years from the end of the last taxation year to which the records and books of account relate**[19]. In the case of late filing of an income tax return, the records and books of account must instead be kept for six (6) years from the day the return was filed.

[19] Subsection 230(4) *Income Tax Act* (Canada).

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Financial records having to do with long-term acquisitions and disposal of property, the share registry and other historical information that could affect the sale or liquidation of a business must be kept **indefinitely**.

When the business incurs an expense, it is important not only to keep the receipt or monthly credit card statements, but also to keep the actual purchase receipt or sales slip proving the transaction occurred. In the event of an audit, tax authorities usually disallow expenses for which the only proof is the transaction record.

These documents and records include, among other things:

- financial statements, income tax returns and tax reports;
- daily income reports and vouchers (sales invoices, cash register slips, contracts, etc.);
- daily expense reports and vouchers (sales invoices, receipts, cheques, contracts, purchase orders, etc.);
- trip logs (kilometre logbook);
- capital expenditures;
- invoices and monthly credit card statements;
- record of employees including wages/salaries and source deductions for each one;
- etc.

Failure to keep these documents can result in disallowance of expenses and penalties.

4. CONSUMER TAXES (GST AND QST)

4.1 REGISTRATION

Any person or related people engaged in commercial activities who have taxable sales of more than $30,000 in any previous four (4) consecutive calendar quarters is required by law to register for GST/QST[20]. The $30,000 threshold must be reviewed every quarter.

4.2 CLAIMING ITRs AND ITCs

A GST/QST registrant may claim input tax credits (ITCs) and input tax refunds (ITRs) to recover the amount of tax paid on goods and services that were purchased to use, consume or supply in the course of commercial activities, providing that, prior to making the claim, they have obtained sufficient information to establish the amount of the credit/refund, including the information required by regulation[21].

[20] Sections 240 and 166 *Excise Tax Act* (Canada)
[21] Subsection 169(4) *Excise Tax Act* (Canada)

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The table below summarizes the information required to make an ITC-ITR claim:

	Sale below $30	Total sale of $30 to $150	Total sale of more than $150
Supplier's name or company/business name	✓	✓	✓
Date of sales invoice	✓	✓	✓
Total amount of sales invoice	✓	✓	✓
The amount of applicable tax or a statement indicating that the prices include tax	✓ (QST only)	✓	✓
Supplier registration numbers for GST and QST purposes*		✓	✓
Name of purchaser			✓
Conditions of sale (cash or credit)			✓
A description of the products or services provided	✓ (QST only)	✓ (QST only)	

* *In the eyes of tax authorities and the courts, it is up to the purchaser to validate the supplier's tax registration numbers at the time of the transaction.*

Purchasers can go to the following websites to verify the tax registration numbers of a business:
- GST: http://www.cra-arc.gc.ca/esrvc-srvce/tx/bsnss/gsthstrgstry/menu-eng.html
- QST: http://www.revenuquebec.ca/en/sepf/services/sgp_validation_tvq/default.aspx

4.3 RESTRICTIONS FOR LARGE BUSINESSES

DEFINITION OF LARGE BUSINESS

For the purposes of *An Act Respecting the Québec Sales Tax* (LTVQ), a registrant is considered to be a large business throughout a given financial period when total taxable sales (including zero-rated sales), other than financial services and the supply of immovables, made by the registrant or by related persons during their previous financial year, exceed $10 million.

RESTRICTIONS

The LTVQ stipulates that a large business shall not claim an ITR for certain specific expenses, whether or not those expenses were incurred in the course of the registrant's commercial activities. The excluded expenses are as follow:

- a road vehicle weighing less than 3,000 kg, that requires a licence to travel on public roadways;
- goods and services related to the aforementioned vehicle purchased within the 12 months following the acquisition of said vehicle;
- fuel used by these vehicles, with the exception of fuel oil;
- electricity, gas and fuel;
- telephone and telecommunication services and
- food, beverages and entertainment that are, by law, only 50% deductible.

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4.4 RECENT AMENDMENTS

Prior to January 1st, 2014, the LTVQ allowed a large business to recover a portion of the QST paid on employee allowances and expense reimbursements, even where restricted expenses were concerned. Accordingly, large businesses that used the simplified ITR method could recover up to 5% of the QST paid on all employee allowances and expense reimbursements.

Effective January 1st, 2014, this method was abolished and replaced with a simplified method (the QST factor method) whereby the factor applicable to a reimbursement is 9/109. However, this specified factor does not apply to expenses that are subject to the restrictions for large businesses. Accordingly, a large business cannot recover a portion of the QST paid on expenditures included in the restrictions listed above.

As a result of this amendment, it is generally not worthwhile for a large business to use the QST factor method to recover sales tax rather than going with the exact amount of tax paid.

It should be noted that the change of method only applies at the start of each reporting period.

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