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QST: Simplified method eliminated – What this means for large businesses

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In brief

Starting January 1, 2014, large businesses can no longer use the simplified method (5%) to calculate input tax refunds (ITRs) in respect of expense reimbursements and allowances paid to employees. This change was announced in a Revenu Québec bulletin issued on October 10, 2013. Its implications are considered below.

In detail

Expense reimbursements

Generally, businesses that are involved in taxable commercial activities will be able to claim ITRs in respect of reimbursements of expenses incurred by an employee[1] after December 31, 2013, by using:

1. the actual amount of QST paid, subject to the ITR restrictions that apply to large businesses (see below), or
2. the QST factor method

The method chosen must be used consistently within each category of reimbursed amounts (e.g. airfare, hotel, food and beverages, etc.) throughout the fiscal year. If the factor method is used, the same documentary requirements will apply for GST and QST purposes.

QST factor method

The factor method used to claim GST input tax credits will also be available for ITR claims, but certain rules that are unique to the QST regime will apply:

- the factor will be 9/109 of the amount reimbursed
- at least 90% of the expenses reimbursed must relate to taxable (other than zero-rated) supplies of property or services acquired by an employee in Quebec
- large businesses – the ITR restrictions that apply to them must be adhered to (e.g. expenses related to the use of road vehicles weighing less than 3,000 kilograms, fuel used to power the engines of these vehicles, telecommunication services, and certain food, beverages and entertainment expenses)[2]
- small and medium-sized businesses – the limit for entertainment costs, which varies from 1.25% to 2% of gross revenues, must be complied with

Expense allowances

The QST factor method cannot be used to calculate an ITR in respect of an allowance paid to taxable expenses, an ITR equal to 9.975/109.975 of the allowance may be claimed under certain conditions.

Once again, large businesses must respect the ITR restrictions that apply to them.

1. These rules also apply to reimbursements and allowances paid to partners of a partnership and volunteers of a charity or public institution.

2. Several exceptions and qualifying conditions apply in respect of ITR restrictions. For a specific issue, a separate analysis should be performed.

Actions required

Large businesses should prepare for this change and adjust expense reports and ITR calculations accordingly.

In some cases, this new method requires changes to the company's systems and/or matrices for expense reports.

Special rules may apply to determine if a business is eligible to use the factor method and if an arrangement is considered to be in the nature of qualifying reimbursements.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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