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Consumer Taxes

Number: TVQ. 212-4
Date: December 20, 2013
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Act(s): *Act respecting the Québec sales tax (CQLR, c. T-0.1), sections 206.1,¹ 211, 212 and 457.1.4*

Subject: **QST Factor Method**

This bulletin clarifies the application of Revenu Québec's administrative policy concerning the calculation method that may be used by employers to determine the input tax refunds (ITRs) to which they are entitled in respect of expenses they have reimbursed to their employees, where the expenses were incurred by the employees on or after January 1, 2014. The calculation methods that may be used where the expenses were incurred before that date are discussed in the various versions of interpretation bulletin TVQ. 212-1.

APPLICATION OF THE ACT

1. Under section 212 of the *Act respecting the Québec sales tax (AQST)*, where expenses incurred by employees in activities of an employer are reimbursed by the employer, the Québec sales tax (QST) included in the amounts reimbursed is deemed to have been paid by the employer.
2. An employer referred to in section 212 of the AQST may either do an exact calculation of the QST in accordance with that section or use the QST factor method to determine the ITRs that may be claimed in respect of expenses incurred by employees on or after January 1, 2014.

ADMINISTRATIVE POLICY – QST FACTOR METHOD

3. Subject to certain aspects of the QST factor method, the latter is harmonized with the factor method used under the goods and services tax (GST) system, as described in GST/HST Memorandum 9.4, *Reimbursements*, published by the Canada Revenue Agency.
4. Those aspects of the QST factor method are as follows:
 - The factor applicable to a reimbursement is 9/109.
 - All or substantially all of the expenses reimbursed must be expenses relating to taxable supplies, other than zero-rated supplies, of property or services acquired by an employee in Québec.
 - Small and medium-sized businesses are subject to a limit on entertainment expenses that varies between 1.25% and 2% of their gross revenue, pursuant to section 457.1.4 of the AQST.

¹ Section 206.1 of the *Act respecting the Québec sales tax* was repealed for small and medium-sized businesses as of August 1, 1995, and was supposed to be repealed for large businesses as of November 30, 1996 (S.Q. 1995, c. 63, s. 350). However, generally speaking, the repeal of that section in respect of large businesses was initially postponed until March 31, 1997 (*Budget Speech and Additional Information*, May 9, 1996, Appendix A, p. 11), and subsequently postponed indefinitely (*Budget Speech and Additional Information*, March 25, 1997, Appendix A, p. 204, and S.Q. 1997, c. 85, s. 729).

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- Large business must respect the ITR restrictions under section 206.1 of the AQST. Those restrictions apply, for example, to expenses related to the use of road vehicles weighing less than 3,000 kilograms and the fuel used to power the engines of such vehicles, as well as food, beverage and entertainment expenses.

5. The table below summarizes the principal ITRs that businesses may claim in respect of expenses incurred by employees on or after January 1, 2014.

Examples of categories	Large businesses (LBs)		Small and medium-sized businesses	
	Actual amount of QST paid	QST factor method	Actual amount of QST paid	QST factor method
Meals	No ITR (restriction applicable to LBs)	No ITR (restriction applicable to LBs)	QST paid subject to any restrictions that may apply	9/109 of the reimbursement subject to any restrictions that may apply
Lodging	QST paid	9/109 of the reimbursement	QST paid	9/109 of the reimbursement
Transportation (train, bus, airplane)	QST paid	9/109 of the reimbursement	QST paid	9/109 of the reimbursement

6. Revenu Québec grants persons who use the QST factor method the same exemption from documentary requirements as is provided for in GST/HST Memorandum 8.4, *Documentary Requirements for Claiming Input Tax Credits*, published by the Canada Revenue Agency.

7. Furthermore, the QST factor method does not apply to expense allowances. Therefore, ITRs can be claimed in respect of allowances paid on or after January 1, 2014, only in accordance with section 211 of the AQST.

8. The table below summarizes the principal ITRs that businesses may claim in respect of allowances paid to employees on or after January 1, 2014.

Examples of categories	Large businesses (LBs)	Small and medium-sized businesses
Meals	No ITR (restriction applicable to LBs)	9.975/109.975 of the allowance subject to any restrictions that may apply
Kilometres travelled	No ITR (restriction applicable to LBs)	9.975/109.975 of the allowance
Lodging	9.975/109.975 of the allowance	9.975/109.975 of the allowance
Transportation (train, bus, airplane)	9.975/109.975 of the allowance	9.975/109.975 of the allowance

9. This bulletin also applies (with such adjustments as are necessary) to expense reimbursements made by a partnership to one of its members or by a charity or a public institution to a volunteer.