



Pension Investment
Association of Canada
Association canadienne des
gestionnaires de caisses de retraite

Le 25 janvier 2012

Madame Josée Morin
Sous-ministre adjoint au droit fiscal et à la fiscalité
Ministère des Finances du Québec
12, rue Saint-Louis, étage B
QUÉBEC (QC) G1R 5L3

Objet : Harmonisation de la TVQ à la TPS

Madame,

L'association canadienne des gestionnaires de fonds de retraite, communément appelée PIAC, est le porte-parole national des gestionnaires de portefeuilles de placement des principales caisses de retraite du Canada depuis sa fondation en 1977. Ses membres représentent de nombreuses caisses de retraite gérant collectivement plus d'un billion de dollars pour le bénéfice de plusieurs millions de participants. La mission de PIAC consiste à favoriser la sécurité financière des bénéficiaires de caisses de retraite par le biais de politiques et pratiques saines en matière de placement et de gouvernance.

Après analyse du protocole d'entente intervenu entre les gouvernements du Canada et du Québec, le chapitre québécois de PIAC a évalué que l'harmonisation de la TVQ à la TPS pourrait avoir un coût important chez plusieurs de ses membres. Ce constat réalisé par les membres est étayé par un communiqué émis par la firme Ernst & Young que vous trouverez ci-joint.

Nous considérons qu'il s'agirait là d'une conséquence imprévue et non-souhaitable de l'harmonisation tout particulièrement en raison de la période très difficile que traversent les caisses de retraite. Il est prévu que le ministère des Finances du Québec fera d'autres annonces pour préciser les répercussions de l'harmonisation de la TVQ d'ici le 1er juin 2012. Nous souhaitons que vous puissiez vous assurer que l'harmonisation n'entraînera aucune charge fiscale supplémentaire pour les caisses de retraite puisque celles-ci constituent une forme d'épargne importante pour une grande partie de la population québécoise.

Si vous le désirez, il nous fera plaisir de venir vous rencontrer afin de discuter de la situation et des solutions possibles.

Cordialement,

Jean-Yves Paquette

Président
Chapitre québécois de PIAC
Tél. (514) 280-5802

cc : Mme Julie Cays, Présidente, PIAC
M. Roland Villeneuve, Vice-président aux politiques et aux programmes, Régie des rentes du Québec

Tax Alert – Canada

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 Ernst & Young advisor.

QST harmonization could trigger additional costs for registered pension plans

On 30 September 2011, the Quebec and federal finance ministers signed a memorandum of agreement regarding sales tax harmonization that provides for further harmonization of the QST and GST. This harmonization could trigger additional QST costs for registered pension plans (RPPs).

Reduction in QST rebate

A key change that will occur with QST harmonization is that financial services will become exempt supplies. Typically, an RPP that is a trust or corporation (where the participating employer is not a public service body) may recover 100% of the QST paid on its expenses. In contrast, it may claim only 33% of the GST/HST paid on expenses.

Under QST harmonization as of 1 January 2013, the RPP QST recovery will likely be reduced to 33%. This rebate will apply to both the QST paid by the RPP as well as the deemed QST payable by the sponsoring employer.

As a result, there will be an additional QST cost representing 67% of the QST paid in respect of RPP activities.

Where the sponsoring employer invoices the RPP for costs the sponsoring employer incurs in relation to RPP activities, it is important to remember that appropriate tax adjustment notes must be issued to avoid paying the QST twice in respect of the same expense so that QST costs do not increase any more than required (assuming the QST rules will follow the GST/HST rules).

More Quebec-based RPPs will have SLFI status

RPPs whose participating employees reside in multiple HST-participating provinces, or in a participating province and a non-participating province, are subject to the special attribution method (SAM) calculation in computing the provincial portion of HST payable, provided that the RPP is considered an investment plan for GST/HST purposes. The SAM calculation can be very time consuming and also requires the gathering of information that likely is not readily available. This creates an added administrative burden for RPPs.

The financial impact of the SAM calculation is usually minimal. However, keep in mind that it can generate a tax payable amount or a tax rebate for the RPP.

On 28 January 2011, the federal minister of finance announced a relief measure. Where the RPP has less than 10% of its members residing in a participating province, and the value of assets attributable to these members is less than \$100 million, the RPP will not be considered to be a selected listed financial institution (SLFI) and, therefore, will not be required to do the SAM calculation.

Harmonizing the QST should give Quebec a similar status to the participating provinces, currently consisting of British Columbia, New Brunswick, Newfoundland and Labrador, Nova Scotia and Ontario. Accordingly, RPPs in Quebec will likely not be permitted to benefit from this relief as a result of Quebec's new status.

The status of your RPP should be reviewed to determine whether it constitutes an SLFI for SAM application purposes when further details are announced.

Self-assessment

At present, RPPs are not required to self-assess tax for QST purposes since they are entitled to a 100% QST rebate. This will no longer be the case once the QST has been harmonized as of 1 January 2013. A pension plan without SLFI status will be required to self-assess tax on all

purchases of taxable goods and services made outside Quebec (unless the QST has already been collected by the supplier).

It is worth noting that an RPP with SLFI status will presumably pay QST on its purchases of taxable goods and services made outside Quebec through its SAM calculation.

Clarifications on RPP rules

Note that between now and 1 June 2012, the Quebec minister of finance will make other announcements to clarify the impact of harmonizing the QST, which could bear on the comments in this Tax Alert. It is also understood that our comments are made subject to the legislation to be adopted.

Learn more

For more background, see our Tax Alert 2011 Issue No. 35, [Changes to QST – a step toward harmonization](#).

And for more information on this matter, or for other indirect tax news, contact your Ernst & Young advisor or one of the following professionals:

East

Jean-Hugues Chabot

514 874 4345 | jean-hugues.chabot@ca.ey.com

Manon Jubinville

514 874 4391 | manon.jubinville@ca.ey.com

Daniel Legault

514 879 8176 | daniel.p.legault@ca.ey.com

Pierre Cormier

506 388 7721 | pierre.cormier@ca.ey.com

Mary Anne McMahon

613 598 4266 | maryanne.mcmahon@ca.ey.com

Central

Mike Robillard

416 943 3169 | mike.a.robillard@ca.ey.com

Bruce Goudy

416 943 2592 | bruce.r.goudy@ca.ey.com

Alison Pavlin

416 943 5315 | alison.j.pavlin@ca.ey.com

West

Ken Ghag

604 643 5459 | ken.k.ghag@ca.ey.com

David Robertson

403 206 5474 | david.d.robertson@ca.ey.com

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, visit ey.com/ca. Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients.

About Ernst & Young's Tax Services Ernst & Young's tax professionals across Canada provide you with deep technical knowledge, both global and local, combined with practical, commercial and industry experience. We offer a range of tax-saving services backed by in-depth industry knowledge. Our talented people, consistent methodologies and unwavering commitment to quality service help you build the strong compliance and reporting foundations and sustainable tax strategies that help your business achieve its potential. It's how we make a difference.

For more information, visit ey.com/ca/Tax.

About Couzin Taylor

Couzin Taylor LLP is a national firm of Canadian tax lawyers, allied with Ernst & Young LLP, specializing in tax litigation and tax counsel services.

For more information, visit couzintaylor.com.

ey.com/ca

© 2011 Ernst & Young LLP. All rights reserved.

A member firm of Ernst & Young Global Limited.

This publication contains information in summary form, current as of the date of publication, and is intended for general guidance only. It should not be regarded as comprehensive or a substitute for professional advice. Before taking any particular course of action, contact Ernst & Young or another professional advisor to discuss these matters in the context of your particular circumstances. We accept no responsibility for any loss or damage occasioned by your reliance on information contained in this publication.