Pension Investment Association of Canada

Association canadienne des gestionnaires de caisses de retraite

January 25, 2012

Ms Josée Morin
Assistant Deputy Minister, droit fiscal et à la fiscalité
Ministère des Finances du Québec
12, rue Saint-Louis, étage B
QUÉBEC (QC) G1R 5L3

Re: Harmonization of the TVQ and the GST

Madam,

The Pension Investment Association of Canada, commonly known as PIAC, has been the national voice for Canadian pension funds since 1977. Senior investment professionals employed by PIAC's member funds are responsible for the oversight and management of over $1 trillion in assets on behalf of millions of Canadians. PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

The Quebec Regional Council of PIAC examined the memorandum of agreement between the Québec and the Federal governments regarding the harmonization of the QST and the GST. It concluded that the harmonization could have a significant cost for certain of its members. This conclusion is reinforced by a bulletin issued by Ernst & Young that is also attached to this letter.

We view these added cost as an unforeseen and most unfortunate consequence of the harmonization of the sales taxes, especially considering the difficult period the pension fund industry is enduring. The Québec Finance Ministry has planned further announcements in order to clarify the impacts of the harmonization of the QST to the GST. We would request that you ensure that the harmonization will not result in any charges to the pension funds as they constitute an important source of savings for a large proportion of the Québec population.

We would be pleased to meet with you should you consider useful to discuss any aspect of this letter in further detail.

Yours sincerely,

Jean-Yves Paquette
Chair
PIAC Québec Chapter

Phone (514) 280-5802
cc : Mme Julie Cays, Chair, PIAC
M. Roland Villeneuve, Vice-président aux politiques et aux programmes, Régie des rentes du Québec

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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).

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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:

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