

Consumer Taxes

TVQ. 206.1-9 **Qualification as a small or medium-sized business or as a large business**
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Reference(s): *An Act respecting the Québec sales tax* (R.S.Q., c. T-0.1), ss. 199 and 206.1

Section 206.1 of the *Act respecting the Québec sales tax* (AQST) sets limits on the right of a large business to claim input tax refunds (ITRs). In order to determine whether such restrictions apply to a given business, it must be determined, for each fiscal period, whether the business is a small or medium-sized business (SMB) or a large business (LB). This bulletin sets forth the various factors that must be considered for any fiscal period that begins after July 1, 1999.

DEFINITIONS

1. For the purposes of this bulletin,

an “associate” is a particular person that is associated with another person for a particular fiscal period if,

- (1) in a case where the particular fiscal period of the other person is that person’s first fiscal period, the particular person is associated with the other person on the first day of the fiscal period;
- (2) in other cases, the particular person is associated with the other person on the last day of the fiscal period preceding the particular fiscal period of the other person;

a “threshold amount”, determined for a person’s particular fiscal period, is the aggregate of all amounts each of which is the value of the consideration that become due during the fiscal period of the person or of the person’s associate preceding the person’s particular fiscal period, or that was paid during the fiscal period of the person or of the person’s associate preceding the person’s particular fiscal period without having become due, for each of the taxable supplies made by the person or the person’s associate in Québec or in Canada outside Québec, as well as for taxable supplies made by the person or the person’s associate outside Canada through a permanent establishment of the person or of the person’s associate situated in Canada.

QUALIFICATION AS A SMALL OR MEDIUM-SIZED BUSINESS OR AS A LARGE BUSINESS¹

2. A person is an SMB throughout a particular fiscal period if the person's threshold amount, determined for the fiscal period, does not exceed \$10,000,000.

3. A person is an LB throughout a particular fiscal period if the person's threshold amount, determined for the fiscal period, exceeds \$10,000,000.

Furthermore, the following financial institutions, as well as all persons related to them, are LBs:

- (1) a bank;
- (2) a corporation authorized under the laws of Québec, another province, the Northwest Territories, the Yukon Territory, the Nunavut Territory or Canada to carry on in Canada a business of offering to the public its services as a trustee;
- (3) a credit union;
- (4) an insurer;
- (5) a segregated fund of an insurer;
- (6) the Autorité des marchés financiers;
- (7) the Canada Deposit Insurance Corporation;
- (8) an investment plan.

INTERPRETATION

Value of the consideration for the purposes of the threshold amount

Amounts included

4. Where the value of the consideration for the taxable supply of property that has been reduced pursuant to section 54.1 of the AQST due to the fact that other property has been given in exchange, the value must be increased as if no property had been exchanged.

5. The value of the consideration for the taxable supplies made between members of a closely related group that have made an election pursuant to section 334 of the AQST (election respecting supplies for nil consideration) must be included in the threshold amount.

Amounts excluded

6. The goods and services tax (GST) must be excluded from the value of the consideration for taxable supplies taken into account in calculating the threshold amount.

7. The value of the consideration attributed to the goodwill of a business pursuant to section 75.2 of the ASQT at the time of sale of the business must not be included in the threshold amount.

¹ An example is given in Schedule I.

8. The value of the consideration for taxable supplies of financial services must not be included in the threshold amount.

9. The value of the consideration for taxable supplies by way of sale of immovables that are capital property of a person must not be included in the threshold amount.

Amounts included or excluded: relation between a mandator and a mandatory

10. The value of the consideration for a taxable supply made within the context of a mandator/mandatory relationship must be determined without regard to the special rules prescribed in sections 41.0.1 ff. of the AQST in that respect. It must therefore be understood that a supply made through a mandatory is made by the mandator to the recipient for the consideration paid by the recipient to the mandator. Likewise, it should be considered that the mandatory makes a supply of a service to the mandator for the consideration paid by the latter to the former.

Threshold amount: special cases

First fiscal period of a new registrant²

11. The value of the consideration for taxable supplies made by the associates of a person that is a new registrant during the fiscal period preceding the person's first fiscal period must be included in the person's threshold amount.

New registrant not resident in Québec

12. The value of the consideration for taxable supplies made outside Québec but within Canada by a person that is a new registrant not resident in Québec, or by that person's associates, during the fiscal period preceding the fiscal period during which the person became a registrant, where the fiscal period in question is not the person's first fiscal period, must be included in the person's threshold amount.

First fiscal period of a corporation resulting from an amalgamation³

13. The threshold amount determined for the first fiscal period of a corporation resulting from an amalgamation must include the value of the consideration for the taxable supplies made by the amalgamated corporations during the fiscal period that ended before the amalgamation.

Fiscal period of less than 365 days

14. In a case where the fiscal period of a person or of the person's associate preceding a particular fiscal period of the person is less than 365 days, the aggregate of the amounts that must be included in the threshold amount must be adjusted to 365 days according to the following formula:

$$\text{Aggregate of the amounts to be included in the threshold amount} \times \frac{365}{\text{Number of days in the fiscal period preceding the particular fiscal period}}$$

² An example is given in Schedule II.

³ An example is given in Schedule III.

Special rules

Joint venture

15. An operator that acquires, or brings into Québec, a property or service on behalf of a co-venturer with which the operator made an election pursuant to section 346 of the AQST is an LB in respect of the property acquired, or brought into Québec, throughout a particular fiscal period in which the property is acquired, or brought into Québec, if the co-venturer was an LB on the last day of the co-venturer's fiscal period preceding the particular fiscal period.

Associate of a partnership

16. A person, other than an individual, that acquires, or brings into Québec, a property or service for consumption, use or supply in the course of the activities of a partnership with which the person is associated, but not on behalf of the partnership, is an LB at the time the tax related to the acquisition, or the bringing into Québec, becomes payable but is not paid, or at the time such tax is paid but has not become payable, in respect of the property or service, if the partnership is an LB.

Acquisition of control of an SMB by an LB before July 1, 2004⁴

17. In a case where the control of a corporation that is an SMB is acquired by an LB before July 1, 2004, the SMB as well as the corporations associated with it become LBs beginning on the day following the acquisition of control and until the end of the fiscal period that includes that day.

Acquisition of control of an SMB by an LB after June 30, 2004⁵

18. Upon the acquisition of control of a particular corporation by another corporation, it should be noted that the particular corporation's current fiscal period is deemed to end before the taking of control and that a new fiscal period is deemed to begin after the taking of control.

19. Where a corporation is an SMB and control of the corporation is acquired by an LB after June 30, 2004, the corporation must determine whether it remains an SMB or becomes an LB for the fiscal period that is deemed to begin after the taking of control. This determination must be made according to the rules set forth in points 2 and 3.

20. The value of the consideration for taxable supplies made by the LB for its fiscal period preceding the fiscal period of the SMB that is deemed to begin must not be included in the threshold amount of the SMB, since the two corporations were not associated during the preceding fiscal period.

21. In a case where the fiscal period of the SMB that is deemed to end has a duration of less than 365 days, the threshold amount of the SMB must be adjusted to 365 days according to the method set forth in point 14.

22. An SMB that is associated with an SMB whose control has been acquired remains an SMB until the end of its current fiscal period.

⁴ An example is given in Schedule IV.

⁵ An example is given in Schedule V.

23. Subject to the above-mentioned rules, an SMB whose control has been acquired will, as a rule, qualify as an SMB until the end of the fiscal period that is deemed to begin.

SCHEDULE I

QUALIFICATION AS AN SMB

Identification of the corporations	Corporation A	Corporation B
Associated corporations	AB	AB
End of the fiscal period preceding qualification	2004-06-30	2004-05-31
Consideration for the taxable supplies for the fiscal period preceding qualification		
1. Taxable supplies made in Québec	\$5,0 M	\$2,0 M
2. Taxable supplies made outside Québec but in Canada	\$1,0 M	\$1,0 M
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	Ø	Ø
TOTAL	\$6,0 M	\$3,0 M
Threshold amount	\$9,0 M	
Qualification of corporation A for the fiscal period beginning on July 1, 2004	SMB	

QUALIFICATION AS AN LB

Identification of the corporations	Corporation A	Corporation B	Corporation C
Associated corporations	ABC	ABC	ABC
End of the fiscal period preceding qualification	2004-06-30	2004-05-31	2004-06-30
Consideration for the taxable supplies for the fiscal period preceding qualification			
1. Taxable supplies made in Québec	\$5,0 M	\$2,0 M	\$1,5 M
2. Taxable supplies made outside Québec but in Canada	\$1,0 M	\$0,5 M	\$0,5 M
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	Ø	Ø	Ø
TOTAL	\$6,0 M	\$2,5 M	\$2,0 M
Threshold amount	\$10,5 M		
Qualification of corporation A for the fiscal period beginning on July 1, 2004	LB		

SCHEDULE II

FIRST FISCAL PERIOD OF A NEW REGISTRANT (other than a corporation resulting from an amalgamation)

Identification of the corporations	Corporation A	Corporation B	Corporation C
Associated corporations	ABC	ABC	ABC
First fiscal period of the corporations	2005-01-01	2002-01-01	2002-01-01
End of the fiscal period preceding qualification	N/A	2004-12-31	2004-12-31
Consideration for the taxable supplies for the fiscal period ended			
1. Taxable supplies made in Québec	Ø	\$2,0 M	\$9,0 M
2. Taxable supplies made outside Québec but in Canada	Ø	\$0,5 M	\$3,5 M
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	Ø	Ø	Ø
TOTAL	Ø	\$2,5 M	\$12,5 M
Threshold amounts	\$15,0 M	\$15,0 M	\$15,0 M
Qualification of the corporations for the fiscal period beginning on January 1, 2005	LB	LB	LB

SCHEDULE III

FIRST FISCAL PERIOD OF A CORPORATION RESULTING FROM AN AMALGAMATION

Situation before the amalgamation

Identification of the corporations	Corporation A	Corporation B	Corporation C
Associated corporations	AB	AB	AB
End of the fiscal period preceding qualification	2004-03-31	2004-03-31	2004-12-31
Consideration for the taxable supplies for the fiscal period preceding qualification			
1. Taxable supplies made in Québec	\$2,0 M	\$1,5 M	\$7,0 M
2. Taxable supplies made outside Québec but in Canada	\$1,0 M	\$0,5 M	Ø
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	Ø	Ø	Ø
TOTAL	\$3,0 M	\$2,0 M	\$7,0 M
Threshold amounts	\$5,0 M	\$5,0 M	\$7,0 M
Qualification of corporations A and B for the fiscal period beginning on April 1, 2004	SMB	SMB	
Qualification of corporation C for the fiscal period beginning on January 1, 2005			SMB

FIRST FISCAL PERIOD OF A CORPORATION RESULTING FROM AN AMALGAMATION (cont.)

Effect of an amalgamation on April 1, 2005

Identification of the corporations	Corporation A	Corporation B	Corporation C
End of the actual or deemed fiscal period of corporations A, B and C⁶	2005-03-31	2005-03-31	2005-03-31
Associated corporations	AB	AB	AB
Consideration for the taxable supplies for the fiscal period ended on March 31, 2005			
1. Taxable supplies made in Québec	\$2,1 M	\$1,3 M	\$2,0 M
2. Taxable supplies made outside Québec but in Canada	\$1,2 M	\$0,6 M	Ø
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	Ø	\$0,2 M	Ø
TOTAL (Corporations A et B)	\$3,3 M	\$2,1 M	
TOTAL ADJUSTED TO 365 DAYS (Corporation C)			\$8,1 M⁷

⁶ It should be noted that, when corporations are amalgamated, the current fiscal period of the amalgamated corporations is deemed to end before the amalgamation and a new fiscal period is deemed to begin after the amalgamation. In this example, the actual and the deemed end of the fiscal period for corporations A and B coincide.

⁷ $\$2,0 \text{ M} \times 365/90 = \$8,1 \text{ M}$

FIRST FISCAL PERIOD OF A CORPORATION RESULTING FROM AN AMALGAMATION (cont.)

Qualification of the corporation resulting from the amalgamation

Identification of the corporation resulting from the amalgamation	Corporation D
First fiscal period of the corporation	2005-04-01
End of the fiscal period	N/A
Consideration for the taxable supplies for the fiscal period preceding qualification	
1. Taxable supplies made in Québec	N/A
2. Taxable supplies made outside Québec but in Canada	N/A
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	N/A
Consideration for the taxable supplies for the last fiscal period of the amalgamated corporations	
- Corporation A	\$3,3 M
- Corporation B	\$2,1 M
- Corporation C	\$8,1 M
	TOTAL
	\$13,5 M
	Threshold amount
	\$13,5 M
Qualification of corporation D for the fiscal period beginning on April 1, 2005	LB

SCHEDULE IV

ACQUISITION OF CONTROL OF A CORPORATION BY AN LB BEFORE JULY 1, 2004

Situation before the acquisition of control

Identification of the corporations	Corporation A	Corporation B
Associated corporations	NO	NO
End of the fiscal period preceding qualification	2003-12-31	2004-03-31
Consideration for the taxable supplies for the fiscal period preceding qualification		
1. Taxable supplies made in Québec	\$6,0 M	\$10,0 M
2. Taxable supplies made outside Québec but in Canada	\$1,0 M	\$0,5 M
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	Ø	\$0,5 M
TOTAL	\$7,0 M	\$11,0 M
Threshold amounts	\$7,0 M	\$11,0 M
Qualification of corporation A for the fiscal period beginning on January 1, 2004	SMB	
Qualification of corporation B for the fiscal period beginning on April 1, 2004		LB

ACQUISITION OF CONTROL OF A CORPORATION BY AN LB BEFORE JULY 1, 2004 (cont.)

Effect of the taking of control of corporation A by corporation B on May 1, 2004

Identification of the corporation	Corporation A
End of the deemed fiscal period	2004-04-30
Corporation A associated with corporation B	NO ⁸
Consideration for the taxable supplies for the fiscal period ended on April 30, 2004	
1. Taxable supplies made in Québec	\$1,0 M
2. Taxable supplies made outside Québec but in Canada	\$0,2 M
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	\$0,3 M
	TOTAL
	\$1,5 M
	Threshold amount
	N/A ⁹
Qualification of corporation A for the fiscal period beginning on May 1, 2004	GE

⁸ For the fiscal period that is deemed to end on April 30, 2004, corporations A and B are not associates (see “associate” in point 1 above).

⁹ It is unnecessary to calculate the threshold amount for corporation A, since the Act provides that an SMB whose control is acquired by an LB before July 1, 2004, is an LB.

SCHEDULE V

ACQUISITION OF CONTROL OF A CORPORATION BY AN LB AFTER JUNE 30, 2004

Situation before the acquisition of control

Identification of the corporations	Corporation A	Corporation B	Corporation C
Associated corporations	AB	AB	AB
End of the fiscal period preceding qualification	2005-01-31	2005-01-31	2004-12-31
Consideration for the taxable supplies for the fiscal period preceding qualification			
1. Taxable supplies made in Québec	\$2,0 M	\$1,5 M	\$10,0 M
2. Taxable supplies made outside Québec but in Canada	\$1,0 M	0,5 M\$	\$0,5 M
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	Ø	Ø	\$0,5 M
TOTAL	\$3,0 M	\$2,0 M	\$11,0 M
Threshold amounts	\$5,0 M	\$5,0 M	\$11,0 M
Qualification of corporations A and B for the fiscal period beginning on February 1, 2005	SMB	SMB	
Qualification of corporation C for the fiscal period beginning on January 1, 2005			LB

ACQUISITION OF CONTROL OF A CORPORATION BY AN LB AFTER JUNE 30, 2004 (cont.)

Effect of the taking of control of corporation A by corporation C on April 1, 2005

Identification of the corporations	Corporation A	Corporation B	Corporation C
Deemed end of the fiscal period of corporation A	2005-03-31		
Associated corporations	AB ¹⁰	AB	AB
Consideration for the taxable supplies for the fiscal period deemed ended on March 31, 2005			
1. Taxable supplies made in Québec	\$0,4 M	N/A	N/A
2. Taxable supplies made outside Québec but in Canada	\$0,15 M	N/A	N/A
3. Taxable supplies made outside Canada through a permanent establishment situated in Canada	Ø	N/A	N/A
TOTAL	\$0,55 M	N/A	N/A
Total adjusted to 365 days:	\$3,4 M ¹¹	N/A	N/A
Consideration for the taxable supplies for the fiscal period of corporation B preceding qualification of corporation A (January 31, 2005)		\$2,0 M	N/A
Threshold amount of corporation A	\$5,4 M	N/A	N/A
Qualification of corporation A for the fiscal period deemed to begin on April 1, 2005	SMB	N/A	N/A

¹⁰ For the fiscal period that is deemed to end on March 31, 2005, corporations A and B are not associated with corporation C (see “associate” in point 1 above). Consequently, the consideration for the taxable supplies for the fiscal period of corporation C preceding qualification of corporation A for the fiscal period deemed to begin on April 1, 2005, is not to be taken into account.

¹¹ $\$0.55 \text{ M} \times 365/59 = \3.4 M