

## Investment Fund Managers — Don't Miss New Deadline for Filing QST Returns by November 20

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If you are an investment fund manager that is not registered for QST purposes and you have investors in your funds that are located in Quebec, you may have to start making your QST remittances monthly or quarterly (instead of annually) under new legislation that became law on October 21, 2015. If these rules apply to you, you will have to file your QST returns for the current year within 31 days of October 21, 2015. Since that deadline falls on a Saturday, managers should file their QST returns no later than Friday November 20, 2015. As such, you must act now to make sure you file your QST forms on time.

Investment fund managers, including mutual and segregated fund managers, (managers) that may not have applied the QST rules correctly over the last few years must also act quickly to help limit the effect of possible interest and penalties now that the new legislation has been enacted.

Based on the new rules, many managers that have made the GST/HST compliance election known as the “tax adjustment transfer election” (TATE) with their investment plans (funds) now have to remit QST amounts to Revenue Quebec based on the same reporting periods they use for GST/HST (generally monthly or quarterly). Previously, managers that are not QST-registered had to remit QST amounts based on their funds’ reporting periods, which are generally annually.

These new QST filing rules may significantly increase managers’ time spent on tax compliance and the risk of making errors and, for some, could affect their cash flow.

### **Background**

The QST rules were further harmonized with the GST/HST rules effective January 1, 2013. As a result, many financial services became QST-exempt. Many financial institutions also became selected listed financial institutions (SLFIs) for QST purposes and subject to complex new rules that require complicated calculations.

These QST changes have particularly affected managers that have elected to make the GST/HST TATE election. While the election helps alleviate some of the compliance and cash flow burden on funds that are SLFIs, it also has significantly complicated many managers’ tax calculations and remittances. These managers use what is known as a “blended rate” to collect the GST/HST and QST from their funds. However, managers that are not SLFIs themselves cannot remit QST to the CRA with their GST/HST remittances;

they must remit QST to Revenue Quebec. Quebec introduced new filing rules for these managers, which were significantly changed in the October 21, 2015 legislation.

### **Reporting for GST/HST and QST**

Many managers that have made the TATE election for GST/HST with their funds are also considered to have made a similar election for QST purposes, even though many managers are not QST-registered.

In general, managers with a TATE election in place use a tax rate known in the industry as a “blended rate”, which is made up of two components:

- The GST/HST and QST, if applicable, charged by the manager to its funds that are SLFIs for its fees.
- The tax adjustments (i.e., an amount owing or a refund) transferred from the funds that are SLFIs to the managers, calculated based on the special attribution method (SAM) formula.

Where a TATE election is in place, the manager will generally calculate the amounts of GST/HST and QST that are transferred from the funds to the manager. In general, the manager must then include these transferred amounts in its GST/HST and QST returns. However, many managers are not QST-registered, which caused some uncertainty on how to remit these amounts.

### **Act now to meet new QST filing deadline**

With the October 21, 2015 legislation, Quebec changed the filing rules for managers that are not QST-registered and that have TATE elections with their funds. These managers are now required to file returns and remit QST amounts to Revenue Quebec on the same basis as their GST/HST reporting periods (e.g., GST/HST monthly or quarterly reporting periods).

Previously, these managers were required to file a form and remit the QST amounts no later than the day their funds had to file their GST/HST and QST returns. Since many funds have December 31 year-ends and are annual GST/HST and QST filers, these managers remitted the QST amounts once a year within the deadline of six months after year-end, (i.e., June 30, 2014 and June 30, 2015).

Under the new rules, the filing deadline is now based on the GST/HST reporting period of the manager and no longer based on the reporting period of its funds.

Managers must act quickly to address these new QST filing rules. Based on the previous rules, managers should have already filed the forms and paid QST amounts for the 2013 and 2014 years. For the 2015 year, managers should plan to file the returns that are outstanding as per the new rules and pay any QST owing no later than November 20, 2015. These

returns would generally cover the monthly reporting periods of January 1, 2015 to September 30, 2015. Managers with quarterly reporting periods have to follow similar rules.

At the time of writing, Revenue Quebec has not yet confirmed whether it will allow the Saturday deadline for these QST returns to be extended to the next business day. Until such time, managers subject to the new rules should plan to file their QST returns and pay any QST owing no later than Friday November 20, 2015.

### **Filing rules can cause confusion about where to file and remit tax**

As a reminder, while SLFI funds' tax filing is administered by the CRA for GST/HST and QST purposes, the administration of the tax filing for GST/HST and QST transferred to managers under TATE elections is based on the managers' own situation, including their SLFI status.

For example, if the manager's tax filing is administered by Revenue Quebec for GST/HST and QST, the manager will remit these transferred amounts to Revenue Quebec even though the transferred amounts originated from a fund whose tax filing is administered by the CRA.

If the manager is not registered for QST and is administered by the CRA for GST/HST purposes, the manager cannot remit the QST to the CRA. The manager must remit the QST to Revenue Quebec. If a manager has mistakenly remitted the QST to the CRA instead of Revenue Quebec, it should take steps to correct this error.

### **Costly penalties and interest can apply**

Quebec can impose costly penalties as well as interest on late QST remittances. For example, a person that fails to remit QST faces a 15% penalty where the amount is more than 14 days late in addition to the prescribed interest rate, which is currently at 6%.

### **We can help**

KPMG's Indirect Tax Financial Institution Team can help you:

- Review how the new QST filing rules apply to a manager and its funds
- Review the previously filed GST/HST and QST returns of the manager and its funds to ensure they comply with the rules
- Address taxes that may have been remitted to the wrong tax authorities
- Set up a process to deal with blended tax rates and related tax remittances
- Manage your GST/HST and QST risks and compliance requirements.

We can help you and your business review and understand how the complex SLFI rules for GST/HST and QST apply to your business. For more information, contact your KPMG adviser.

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