

Consumer Taxes

TVQ. 457.1-1 Entertainment Expenses
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Reference(s): *An Act respecting the Québec sales tax* (R.S.Q., c. T-0.1), section 457.1
 Taxation Act (R.S.Q., c. I-3), sections 421.1 and 134

This bulletin discusses how section 457.1 of the *Act respecting the Québec sales tax* (the “Act”) applies with respect to the restrictions on obtaining an input tax refund (ITR) in respect of an entertainment expense.

APPLICATION OF THE ACT

1. Section 457.1 of the Act provides that where a registrant is the recipient of a supply of food, beverages or entertainment and section 421.1 of the *Taxation Act* applies in respect of the supply, an amount corresponding to 50% of the total of all amounts each of which is an input tax refund claimed in respect of the supply shall be added in determining the net tax.
2. Under section 421.1 of the *Taxation Act*, an amount paid or payable in respect of food, beverages or entertainment consumed or enjoyed by a person is deemed to be equal to 50% of the lesser of the amount paid or payable in respect thereof, and the amount that would be reasonable in the circumstances.
3. Section 457.1 of the Act merely refers to section 421.1 of the *Taxation Act* without taking into account the other provisions of the *Taxation Act* that could apply to a particular expense and modify its deductibility for income tax purposes.
4. For example, the rental of an outfitter’s lodge constitutes an entertainment expense within the meaning of section 421.1 of the *Taxation Act*. In other respects, this expense is not deductible under section 134 of the *Taxation Act*. In fact, section 134 of the *Taxation Act* provides that no amount disbursed or expended by the taxpayer for the use of a yacht, a lodge, a camp or a golf course or facility may, in general, be deducted in computing the income from a business.
5. In this case, section 457.1 of the Act applies, since the rental expense is deemed, under section 421.1 of the *Taxation Act*, to correspond to 50% of the lesser of the amount paid or payable and the amount that would be reasonable in the circumstances. Consequently, the registrant who incurs this expense may, subject to the conditions provided for in the QST system, claim an ITR in respect of this expense. In accordance with section 457.1 of the Act though, 50% of the amount of the ITR claimed shall added in determining his net tax.