INTERPRETATION AND ADMINISTRATIVE BULLETIN CONCERNING THE LAWS AND REGULATIONS

Consumer Taxes

TVQ. 16-25 **The Long Term Leasing of Vehicles Assigned to Interprovincial Transportation**
Date of publication: **February 26, 1999**

Reference(s): *An Act respecting the Québec sales tax* (R.S.Q., c. T-0.1), section 16
Regulation respecting the Québec sales tax (c. T-0.1, r.1: O.C. 1607-92, as amended)

This bulletin replaces interpretation bulletin TV. 203 of November 30, 1988, and applies, taking into account the implementation of the harmonized sales tax (HST), effective April 1, 1997, to all leasing made before March 1, 1999. Starting March 1, 1999, the current version of interpretation bulletin TVQ. 16-18 (article 53) should be consulted in this respect.

This bulletin states how the *Regulation respecting the Québec sales tax* applies when vehicle leasing companies carry out the long term leasing (i.e. a period of more than 30 days) of road tractors, trucks or trailers to interprovincial carriers that do not hold an MRQ permit for interprovincial carriers or broker drivers (the “customers”).

APPLICATION OF THE ACT

Methods for Calculating the Tax

Since January 1, 1987, the sales tax on the lease charge of vehicles leased to the customers is calculated according to two methods, the choice of which is up to the leasing company.

First Method

The leasing company collects the entire tax on the lease charge of the vehicles under the responsibility, in Québec, of the customers.

These carriers, who do not hold an MRQ permit for interprovincial carriers or broker drivers, then pay the portion of the tax owing to the other provinces, in general at the time of vehicle registration. It is then calculated on the lease charge until renewal of the CAVR registration (“Canadian Agreement on Vehicle Registration” - also called the “Proportional Reciprocity Plan”).

Lastly, the carriers or broker drivers apply for a refund of the tax paid in excess to Québec at the end of the distribution year June 30).

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Second Method

The leasing company collects and prorates the taxes to all the participating provinces, including Québec, on the lease charge of the vehicles leased to the customers. Hence, the customers do not have to apply for a refund of the tax paid in excess.

To pass the benefit of this method on to its customers, the leasing company must:

- apply for registration or renewal of the leased vehicles with the authorities of the Canadian Agreement on Vehicle Registration;
- at the time of leasing, have the vehicles registered with the CAVR authorities in the name of the lessor and the lessee;
- register with the tax authorities of all participating provinces in which the leased vehicles are operated;
- segregate on the invoices the amount of sales tax collected for each province;
- keep records of the distances travelled by the vehicles in each province and records of the tax calculations and remittances;
- account for the tax according to this second method for all customers who are carriers that do not hold an MRQ permit for interprovincial carriers or broker drivers.

The portion of tax payable to each province is calculated as follows:

$$\text{Lease charge (including distance charges)} \times \frac{\text{Distance travelled in the province}}{\text{Total distance travelled}} \times \text{Rate of provincial tax}$$

When this formula is used for a power unit, “Total distance travelled” corresponds to the distance travelled by the leased unit’s fleet for the preceding distribution year as reported on the CA-1 Application Form plus the distance travelled in the United States for the same period. When this formula is used for a trailer, the distance travelled by the power units used for international and intra-provincial transportation for the same period is added to the total distance.

If the prorata percentages thus obtained are based on estimated distance, an adjustment of the tax remitted to the provinces is necessary when the actual figures for the first year indicate different percentages.

Furthermore, if a leased vehicle is subsequently sold to the lessee under a purchase option but remains in the same fleet, the leasing company must also prorate and remit tax on the sale price of the vehicle based on the fleet distribution percentages in effect at the time of sale. If the vehicle is withdrawn from the fleet to be used exclusively in Québec, full Québec sales tax must be collected and remitted by the leasing company on the vehicle’s sale price.

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