

REVENU
QUÉBEC



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GUIDE

**BUSINESS AND
PROFESSIONAL
INCOME**

2017

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**AS THE SOLE PROPRIETOR
OF A BUSINESS OR A
MEMBER OF A PARTNERSHIP,
YOU PLAY A VITAL ROLE
IN QUÉBEC'S ECONOMY.**

This guide will help you calculate the business income to report in your tax return and claim all the deductions you are entitled to.

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This is the version of the guide to use for 2017. It does not take into account legislative amendments announced after October 30, 2017. You must therefore make sure that the information in this guide follows the legislation in effect. Go to revenuquebec.ca to see the post-publication changes.

The information in this guide does not constitute a legal interpretation of the *Taxation Act* or any other legislation. For more information, contact us at one of the numbers or addresses given at the end of this guide.



NEW FOR 2017

Additional capital cost allowance of 35%

If you acquired new class 50 or 53 property after March 28, 2017, you may be able to claim an additional capital cost allowance of 35%. See the information concerning class 50 and 53 property in section 6.22.6.

New class of depreciable property

Beginning in 2017, incorporeal capital property falls under a new class of depreciable property (class 14.1). For more information about the property included in this class and its characteristics, see sections 6.22.6 and 6.23.

Disposition of incorporeal capital property

If you disposed of incorporeal capital property in 2017, special rules apply. See section 6.23.

Income averaging for forest producers

If you are a certified forest producer (or a member of a partnership that is a certified forest producer) regarding a private forest, you can request that a portion of your net income from the sale of timber be averaged. See section 4.1.6.

Work in progress

For taxation years beginning after March 21, 2017, accountants, chiropractors, dentists, lawyers, notaries, physicians and veterinarians can no longer exclude from their income the value of work in progress at the end of the fiscal period.

A transitional measure allows professionals who had been excluding their work in progress income to include it over the first four fiscal periods beginning after March 21, 2017. See section 5.2.



1 GENERAL INFORMATION

1.1 Is this guide for you?

If you carry on a business as a sole proprietor or as a member of a partnership, this guide will help you calculate the business income to be entered in your income tax return.

You are considered to be carrying on a business if you are engaged in an activity with a view to making a profit. This is the case, for example, if you:

- engage in commercial activities;
- carry on e-commerce (business transactions conducted over the Internet, by telephone or fax, or using any other electronic device);
- operate a manufacturing or service business;
- exercise a trade;
- practise a profession;
- are a self-employed person who works on a commission basis;
- dispose of property that is produced or acquired solely in order to make a profit from its sale or resale;
- are engaged in an adventure or concern in the nature of trade, undertaken for the sole purpose of making a profit;
- provide childcare services (see IN-189-V, *Home Childcare Providers*, which is available on our website);
- practise hunting and trapping;
- actively speculate in the stock market;
- repeatedly sell your personal residences.

To understand the distinction between business income, property income and capital gains, see Part 2.

The expression “carry on a business” is used for all situations covered in this guide. The expression “practise a profession” is used in more specific contexts.

This guide **is not intended** for individuals whose business income is derived from farming, fishing, insurance, lending money, logging or mining operations, or (financial) market making.

1.2 Documents to enclose with the income tax return

1.2.1 You are a sole proprietor

If you are reporting business income in your income tax return, you must enclose either your financial statements or form TP-80-V, *Business or Professional Income and Expenses*. Separate financial statements (or a separate copy of form TP-80-V) must be filed for each business and, where applicable, for each fiscal period ended in 2017.

You must also enclose form TP-80.1-V, *Calculation of Business or Professional Income, Adjusted to December 31*, if:

- in 2017, the fiscal period of the business you carried on ended on a date other than December 31; or
- in 2017, you began carrying on a business and the first fiscal period for which you earn income from the business ends in 2018.

1.2.2 You are a member of a partnership

If you are a member of a partnership (other than a limited or silent partner), you can use form TP-80-V to calculate your income and expenses. However, the documents you are required to enclose with your income tax return and how you complete the form will vary according to whether or not you received an RL-15 slip from the partnership.

NOTE

You will receive an RL-15 slip if the partnership of which you are a member is required to file the *Partnership Information Return* (form TP-600-V) for the fiscal period. For more information about the filing requirement for this return, refer to the *Guide to Filing the Partnership Information Return* (TP-600.G-V).

If you received an RL-15 slip, you are not required to enclose form TP-80-V or the partnership’s financial statements with your income tax return. You must report in your return the partnership’s gross income and your share of the net income (or net loss) shown on the RL-15 slip.

However, if you are deducting expenses that you incurred to earn partnership income (and that were not reimbursed to you by the partnership), enclose form TP-80-V with your return. Complete form TP-80-V as follows:

- Complete Part 1.
- Enter the amount from box 1 of the RL-15 slip on line 252.
- Complete Part 7 and, if applicable, Part 8.
- Calculate your net income (or net loss) for the fiscal period.

If you did not receive an RL-15 slip and you are not submitting your financial statements with your income tax return, enclose form TP-80-V with your return. In this case, complete form TP-80-V as follows:

- Complete Part 1.
- Enter the additional information about the partnership in Part 2.
- In Part 3, calculate the partnership’s income and expenses and your net income (or net loss) for the fiscal period.
- Complete Part 6 and any other parts that apply to your situation.



1.3 Useful documents

The documents below are referred to in this guide and may be useful to you.

Forms

LM-53-V	<i>Insurable Earnings Under the QPIP and Pensionable Earnings Under the QPP of a Person Responsible for a Family-Type Resource or an Intermediate Resource</i>
RL-1	<i>Relevé 1 – Revenus d'emploi et revenus divers</i>
RL-3	<i>Relevé 3 – Revenus de placement</i>
RL-15	<i>Relevé 15 – Montants attribués aux membres d'une société de personnes</i>
RL-23	<i>Relevé 23 – Reconnaissance des services de relève bénévole</i>
RL-27	<i>Relevé 27 – Paiements du gouvernement</i>
RL-29	<i>Relevé 29 – Rétribution d'une ressource de type familial ou d'une ressource intermédiaire</i>
TP-1.R-V	<i>Request for an Adjustment to an Income Tax Return</i>
TP-80-V	<i>Business or Professional Income and Expenses</i>
TP-80.1-V	<i>Calculation of Business or Professional Income, Adjusted to December 31</i>
TP-157-V	<i>Eligibility Certificate for Renovation or Alteration Expenses</i>
TP-358.0.1-V	<i>Disability Supports Deduction</i>
TP-726.30-V	<i>Income Averaging for Forest Producers</i>
TP-1012.A-V	<i>Carry-Back of a Loss</i>
TP-1026-V	<i>Calculation of Instalment Payments to Be Made by Individuals</i>
TP-1079.6-V	<i>Statement of Losses, Deductions and Tax Credits Respecting a Tax Shelter</i>
TP-1086.R.23.12-V	<i>Costs Incurred for Work on an Immovable</i>

Other publications

IN-105-V	<i>Instalment Payments of Income Tax</i>
IN-117-V	<i>Guide to Filing the Income Tax Return of a Deceased Person</i>
IN-120-V	<i>Capital Gains and Losses</i>
IN-189-V	<i>Home Childcare Providers</i>
IN-253-V	<i>Taxable Benefits</i>
TP-1015.G-V	<i>Guide for Employers: Source Deductions and Contributions</i>

1.4 Abbreviations

ACB	Adjusted cost base
CCA	Capital cost allowance
CNESST	Commission des normes, de l'équité, de la santé et de la sécurité du travail
CRA	Canada Revenue Agency
EICA	Eligible incorporeal capital amount
FMV	Fair market value
GST	Goods and services tax
HST	Harmonized sales tax
ITC	Input tax credit
ITR	Input tax refund
LNG	Liquefied natural gas
NEQ	Québec enterprise number
QPIP	Québec parental insurance plan
QPP	Québec Pension Plan
QST	Québec sales tax
UCC	Undepreciated capital cost

2 BUSINESS INCOME, PROPERTY INCOME AND CAPITAL GAINS

It is important to distinguish between business income, property income and capital gains, as each has its own tax benefits (deductible expenses, deductions, exemptions, etc.) and is subject to different rules.

2.1 Business income and property income

Business income is earned when you devote time and effort to carrying on an activity, whereas **property income** is derived from earnings on invested capital. The most common types of property income are interest, dividends, royalties and rental income.

NOTE

Business income does not include income from an office or employment.

Deducting a loss

Before deducting a business or property loss, you must consider whether the business or property income is derived from an activity sufficiently commercial to be considered a source of income. You can deduct a loss only if it is related to an activity that is a source of income.

An activity is **commercial** if you or persons related to you do not carry on the activity for personal or recreational purposes. If a portion of the activity is carried on for personal or recreational purposes, you must demonstrate that the commercial portion of the activity is predominant, with reference to all of the following criteria:

- the profit and loss situation in past years;
- your training;
- your intended course of action;
- the capacity of the business as capitalized to show a profit;
- your anticipated capital gain (not merely the potential capital gain);
- the reasonable expectation of profit.

To determine whether there is a **reasonable expectation of profit**, you must take into account the following criteria:

- the time required to make an activity of that nature profitable;
- the presence of the factors necessary to potentially realize profits;
- the profit and loss situation for the years subsequent to the years in question;
- the number of consecutive years during which losses were incurred;
- the increase in expenses and decrease in income in the course of the relevant periods;
- the persistence of the factors causing the losses;
- the absence of planning;
- ineffective business conduct;
- the scale of the activities;
- the persons involved;
- the context.

2.2 Capital gain

Generally, a **capital gain** is the proceeds of disposition (for example, the proceeds of a sale) of capital property **minus** the ACB of the property and any expenses incurred to dispose of it. Capital property is property not usually sold in the course of a business's activities (for example, land, buildings, equipment, debts or shares). The ACB of a property is, in general, its purchase price **plus** the expenses incurred to purchase it. Only a portion of the capital gain must be included when calculating income. For more information, consult the guide *Capital Gains and Losses* (IN-120-V).

In general, where an individual habitually carries on activities that require time or effort, the income or loss that results is considered business income or a business loss, not a capital gain or loss. Likewise, where an individual carries on such an activity infrequently, or even only once, if it can be shown that the individual is carrying on an adventure or concern in the nature of trade, the income or loss that results is considered business income or a business loss, not a capital gain or loss.

We use the criteria set forth by the CRA in order to determine whether a transaction is an adventure or concern in the nature of trade. These criteria, which are grouped under three main headings ("Taxpayer's Conduct", "Nature of the Property" and "Taxpayer's Intention"), are presented in Interpretation Bulletin IT-459, *Adventure or Concern in the Nature of Trade*, which is available at canada.ca/taxes.



3 REPORTING BUSINESS OR PROFESSIONAL INCOME

3.1 Fiscal period

Fiscal period

A period of no more than one year, at the end of which the person carrying on a business closes the books and prepares financial statements.

NOTE

A fiscal period cannot be longer than 12 months, but can be shorter in the year in which a business begins or ceases its activities.

Normally, the fiscal period of a business must end on December 31 and you must report your business income in the calendar year in which you earned it (see section 3.2). This rule applies to businesses operated by individuals or by partnerships whose members include an individual or another partnership to which this rule applies.

You cannot, for the purposes of your **Québec income tax return**, elect a date other than December 31 as the end date of your fiscal period. However, if you elect to have a fiscal period end on a date other than December 31 for the purposes of your **federal income tax return**, such an election will also apply with respect to your Québec return, given that the end date of a fiscal period used for Québec income tax purposes must be the same as that used for federal income tax purposes.

NOTE

A change in the end date of your fiscal period may lead to a change in your QST reporting periods, filing deadlines and remittance dates.

3.1.1 Conversion to a fiscal period ending on December 31

The rules in this section apply only if you carried on a business whose fiscal period ended on a date other than December 31 and if, in 2017, you cancelled this election for the purposes of your federal income tax return. An election made for federal income tax purposes automatically applies for Québec income tax purposes.

If you changed your fiscal period so that it ends on December 31, 2017, your income and expenses for this fiscal period are calculated in the same way as your income and expenses for the previous fiscal period ending in 2017. However, please note the following:

- The income for the fiscal period ending on December 31, 2017, includes all the reserves you claimed for the previous fiscal period.
- Your opening inventory for the fiscal period ending on December 31, 2017, is the same as your closing inventory for the previous fiscal period. Similarly, your closing inventory for the fiscal period ending on December 31, 2017, is the same as your opening inventory for the fiscal period that begins in 2018.
- The value of your work in progress at the beginning of the fiscal period ending on December 31, 2017, is the same as its value at the end of the previous fiscal period.
- The UCC of the business's depreciable property at the beginning of the fiscal period ending on December 31, 2017, is the same as the UCC of this property at the end of the previous fiscal period. The maximum CCA that can be claimed for the fiscal period ending on December 31, 2017, is prorated according to the ratio between the number of days in the period and 365.
- For your fiscal period ending on December 31, 2017, you can claim all allowable expenses related to the business use of your home that you were unable to deduct for the previous fiscal period. Any allowable expenses of this type that you are unable to claim for the fiscal period ending on December 31, 2017, can be carried forward to the fiscal period ending on December 31, 2018.

Documents to file

If you elect to change the end date of your fiscal period, you must provide separate financial statements or a separate copy of form TP-80-V for each fiscal period ended in 2017. You must also provide form TP-80.1-V to make adjustments for the fiscal period ended in 2017 on a date other than December 31, as well as a copy of business income reconciliation form T1139, which you filed with the CRA.



3.1.2 Fiscal period ending on a date other than December 31

Fiscal period that ends in 2017 on a date other than December 31

If your business's fiscal period ends on a date other than December 31, and **you kept the same end date**, the business income you must report for a given year is the net income (or loss) for the year adjusted to December 31, using the following calculation found in form TP-80.1-V:

Net income (or net loss) for the fiscal period(s) ending in the year on a date other than December 31	+	Estimated additional income for the period between the end of the fiscal period(s) ended in the year and January 1 of the next year	-	Estimated additional income included in the previous year's income
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Calculate the estimated additional income for the year using the following formula:

$$(A - B) \times C / D,$$

where

- A** is your net income for the fiscal period(s) ending during the year on a date other than December 31 (if you are a member of a partnership, take into account any amounts deductible in the year from your share of the partnership's income);
- B** is the lesser of the following amounts:
 - the portion of amount A that is considered to be a taxable capital gain for the purposes of the capital gains deduction, or
 - the capital gains deduction claimed for the year;
- C** is the number of days you carried on the business after the fiscal period(s) ending in the year;
- D** is the number of days you carried on the business in the fiscal period(s) ending in the year.

First fiscal period beginning in 2017 and ending before December 31

If you began carrying on your business in 2017, and the first fiscal period for which you earned income **ended before December 31**, the adjustment consists only in adding the estimated additional income for the period that began after the end of the fiscal period and that ends on December 31.

First fiscal period beginning in 2017 and ending in 2018

If you began carrying on the business in 2017 but the first fiscal period for which you earn income **ends in 2018 and not on December 31, 2017**, you can elect to include an amount of estimated additional income in your business income for the period ending December 31. The amount so included **must not exceed** the result of the following calculation, found in form TP-80.1-V:

$$A \times (C / D),$$

where

- A** is your net business income for the first fiscal period ending during the following year (see the note below);
- C** is the number of days you carried on the business during the year that are included in the fiscal period ending the following year;
- D** is the number of days you carried on the business during the fiscal period.

NOTE

If you do not know what these amounts are, use estimates. Once you know the amounts, redo your calculations. If you obtain an amount that is not more than the amount already reported in your 2017 income tax return, amend your return using form TP-1.R-V, *Request for an Adjustment to an Income Tax Return*.

A negative result produced by either of the above calculations is considered to be equal to zero. Estimated additional income that is reported for a given year can be subtracted from business income for the following year.

Documents to file

If, for the purposes of your federal income tax return, you elect to have a fiscal period end on a date other than December 31, you must complete and submit form TP-80.1-V, along with a copy of the T1139 form filed for that purpose with your federal income tax return.

If you are a member of a partnership that makes such an election, you must complete form TP-80.1-V every year to calculate your net income (or net loss) adjusted to December 31. You must enclose with your Québec income tax return form TP-80.1-V and a copy of the T1139 form you filed with the CRA.

If the partnership's members include a **testamentary trust**, you must submit form TP-80.1-V and a copy of form T1139 to us no later than the earliest date on which a member of the partnership is required to file an income tax return.

If you are completing the return of a **person who died** in 2017, and that person carried on a business whose fiscal period ended on a date other than December 31, refer to the *Guide to Filing the Income Tax Return of a Deceased Person* (IN-117-V).



3.2 Method of accounting

You must use the **accrual method of accounting** to report your business income. This means:

- reporting all income in the fiscal period during which it was earned, regardless of whether you have actually received the income; and
- deducting all expenses in the fiscal period during which they were incurred, regardless of whether you have actually paid the expenses.

NOTE

If you are a **self-employed person who works on a commission basis**, you can use the **cash method of accounting** to report your income and expenses, provided this method gives an accurate account of your income for the year. This means:

- reporting all income in the fiscal period during which you received it; and
- deducting all expenses in the fiscal period during which you paid them.

3.3 GST/HST and QST

Do not include the GST/HST or the QST you collected in your gross income.

If you are registered for the GST/HST and the QST, you can claim input tax credits (ITCs) and input tax refunds (ITRs). The amounts paid or credited to you as ITCs and ITRs reduce the amount of the expense, or the capital cost of the property, on which you paid the tax.

If you are not registered for the GST/HST and the QST, and your gross income reached \$30,000 during the past 12 months, contact us.



4 CARRYING ON A BUSINESS

4.1 Income

4.1.1 Sales

You must include in your business income the proceeds (including commissions) of **all** your sales, whether payment was made in money or an equivalent form (for example, points that have monetary value), or in property or services (as in a barter transaction). The value of the exchanged property or services must be included in your income if the exchange relates to the activity of your business.

Barter

The exchange of property or services for other property or services, without the use of money.

4.1.2 Reserves claimed in the previous year

Your income for the year must also include any reserves you claimed in the previous year, such as:

- reserves for doubtful debts;
- reasonable reserves for property to be delivered or services to be rendered after the end of the fiscal period;
- reserves for warranties given to customers, if the amount of each warranty does not exceed the amount paid by the customer in advance;
- amounts receivable under an insurance policy or from any other source, as compensation for damage done to your depreciable property, if the amounts are used to repair the damage;
- reserves for amounts received in advance as rent or remuneration for the possession or use of property;
- reserves for deposits received on returnable containers (other than bottles);
- reserves for accounts receivable, if all or part of the outstanding amount is not payable in the two years following the date of sale.

4.1.3 Other income

In the calculation of your business income, you must also take into account all amounts or benefits you received during the year, such as:

- the value of vacation trips or gifts offered as incentives or as remuneration for work carried out by your business;
- the assistance, grants, subsidies or other financial incentives that you received from a government, a government agency or a non-government agency, except:
 - an amount that you already included in your income or deducted in the calculation of a balance of expenses for the current taxation year or a previous taxation year,
 - an amount used to reduce the cost of property or the amount of an expense;
- amounts recovered in the year that were deducted as bad debts for a previous year;
- grants received in the year under a prescribed home insulation or energy conversion program;
- copyright income, if the copyright pertains to works created in the course of your professional activities; and
- interest.

When calculating your business income using the applicable method of accounting (see section 3.2), you must also include any amounts received from a Québec government department, agency or enterprise as a contract payment or as a grant or subsidy. Such amounts received during the calendar year are shown in boxes A and B of the RL-27 slip, *Paiements du gouvernement*. Include the amount from box B only if it represents business income.

However, if you carry on your professional activities in a professional corporation of which you are a shareholder, you may not have to include the amounts shown on the RL-27 slip if they are already included in the corporation's income.

NOTE

If you normally deduct returns from your sales as soon as the articles are returned, and normally deduct discounts from your sales as soon as you give the discounts, you can enter the amount of net sales. Otherwise, you must enter returns and discounts separately.



4.1.4 Income derived from artistic activities

If you are a **recognized artist**, that is, a professional artist within the meaning of the *Act respecting the professional status of artists in the visual arts, arts and crafts and literature, and their contracts with promoters*, or an artist within the meaning of the *Act respecting the professional status and conditions of engagement of performing, recording and film artists*, you may be entitled to a deduction for copyright income (line 297 of the income tax return) and to a deduction for the purchase of an income-averaging annuity for artists (line 250).

Deduction for copyright income

In order for your copyright income to be eligible for the deduction, you must be the first owner of the copyright. Copyright income includes public lending rights received from a federal program administered by the Public Lending Right Commission; you can include them in the calculation of the deduction for copyright income.

Furthermore, if you are a **performing artist**, the following income is eligible for the deduction for copyright income:

- income derived from your copyright in your performance;
- income derived from your right to equitable remuneration for a sound recording; and
- income derived from your right to remuneration for the private copying of sound recordings.

To calculate the deduction, you must take into account copyright income that is eligible for the deduction and included in your business income, or shown in box H-2 of your RL-3 slip, along with any expenses incurred to collect that income.

The deduction, which cannot be more than \$15,000, is applicable only if the amount of **copyright income** is not more than \$60,000. The deduction is equal to the lesser of A and B, where:

- A** is the copyright income eligible for the deduction (minus any expenses incurred to collect the income);
- B** is the result of the following calculation:
 $\$15,000 - [0.5 \times (A - \$30,000)]$.

To calculate the deduction, use Work Chart 297 in the “Forms” booklet of the income tax return.

Deduction for the purchase of an income-averaging annuity for artists

If you are a recognized artist, you can deduct, on line 250 of your income tax return, an income-averaging annuity acquired during the year or the first 60 days of the following year. The income eligible for averaging is the portion of your income derived from artistic activities that is more than the total of the following amounts:

- \$25,000;
- the deduction for copyright income to which you are entitled in the year.

Your annuity payments, which may be spread over a period of no more than seven years, are income that must be included on line 154 of your return. Furthermore, these payments are subject to a special tax of 25.75% to be withheld at source. However, if you are resident in Québec at the end of the year, you are entitled to claim, on line 462 of your return, a refundable tax credit equal to the amount of this special tax.

4.1.5 Family-type lodging resources

In the health and social services sector, there are various types of non-institutional living environments.

Some of these resources operate in a family-type setting, that is, foster families (which take in children) and foster homes (which take in adults or elderly persons). There are also intermediate resources. Such resources must have reached an agreement with an institution in accordance with the provisions of the *Act respecting health services and social services* and the *Act to Modify the Organization and Governance of the Health and Social Services Network, in Particular by Abolishing the Regional Agencies*.

Foster homes also take in offenders, so they may devote themselves to activities intended for their reintegration.

If you operate such a lodging resource, **you are not required to include** the following amounts in the calculation of your income:

- amounts you received in accordance with the rates or the scale of rates of compensation determined under the *Act respecting health services and social services* or an Order in Council made under the *Act respecting health services and social services for Cree Native persons*, if:
 - you are an intermediate resource or family-type resource within the meaning of the *Act respecting health services and social services*, or you act as a foster family within the meaning of the *Act respecting health services and social services for Cree Native persons*, and
 - throughout the period for which you receive the amount, you take in at your principal place of residence a maximum of nine persons referred to you by a public institution within the meaning of the *Act respecting health services and social services* or entrusted to you through a social service centre within the meaning of the *Act respecting health services and social services for Cree Native persons*, or you maintain your principal place of residence to be used as the residence of such persons;



- amounts you received under a service contract entered into with the Minister of Public Security to establish a foster home and facilitate the reintegration of the persons required to live there, if:
 - you maintain the foster home in your principal place of residence, and
 - a maximum of nine persons live there.

NOTE

You cannot deduct, from your income, expenses incurred to receive amounts that you are not required to include in your income.

Insurable earnings under the QPIP and pensionable earnings under the QPP of a family-type resource or an intermediate resource

If you receive an RL-29 slip, enter on line 40 of Schedule L of your income tax return the amount of your insurable earnings and pensionable earnings that you calculated on form LM-53-V, *Insurable Earnings Under the QPIP and Pensionable Earnings Under the QPP of a Person Responsible for a Family-Type Resource or an Intermediate Resource*. You will not be required to pay income tax on this amount, as it is tax-exempt. You will, however, use the amount to calculate your Québec Pension Plan (QPP) contribution and Québec parental insurance plan (QPIP) premium on income from self-employment.

Optional QPP contribution by a family-type or intermediate resource

If you want to make a QPP contribution on income on which you did not originally make a contribution, you have until June 15 of the second year following the year for which you want to make the contribution to do so.

4.1.6 Recognized forest producers

Income averaging for recognized forest producers

If, under the *Sustainable Forest Development Act*, you are a certified forest producer (or a member of a partnership that is a certified forest producer) regarding a private forest, you can request that part of your income from certified commercial activities be averaged over a period of up to seven years.

The expression “certified commercial activities” refers to the non-retail sale of timber from a private forest to a buyer with an establishment in Québec. The sale of firewood to individuals is not a certified commercial activity.

Income averaging allows you to deduct, from your income for a given year, part of your net income from certified commercial activities. To calculate the amount to deduct on line 297 of your return, complete form TP-726.30-V, *Income Averaging for Forest Producers*. You will then have to include, when calculating your taxable income for one or more of the seven subsequent years, at least 10% of the amount you deducted. The full amount must be included by the seventh year following the year of the deduction.

Shortened averaging period

The averaging period for a private forest ends if you (or the partnership of which you are a member) sell the private forest (or if you cease to be a member of the partnership) before the end of the averaging period or the end of the sixth year following the year of the deduction. When this happens, you must include, in your income for the year (or the year in which the partnership’s fiscal period ends) the amount by which the deducted amount exceeds the amounts included in your income for a previous taxation year.

Contact us for more information.

Supporting documents

Enclose the following with your return:

- a copy of a valid certificate issued to you and attesting that you are a certified forest producer regarding the private forest for which you are claiming the deduction or issued to the partnership of which you are member and attesting that this partnership is certified as such; and
- form TP-726.30-V, *Income Averaging for Forest Producers*.

4.2 Cost of goods sold

If you carry on a business that manufactures goods for sale or purchases goods for resale, you must deduct the cost of these goods in the fiscal period in which you sold or resold them.

To calculate the amount you can deduct respecting the cost of goods sold, you need to know:

- the value of your inventory at the beginning of the fiscal period (opening inventory, corresponding to the value of your inventory at the end of the previous fiscal period);
- the value of your inventory at the end of the fiscal period (closing inventory);
- the total cost of your purchases for the year (including GST/HST and QST, unless the taxes have been paid or credited to you as ITCs and ITRs).

Both the opening inventory and the closing inventory of a business that manufactures goods must include raw materials, goods in process and finished goods.



4.3 Inventory

4.3.1 Taking inventory

You must take inventory at the end of each fiscal period, unless you use a perpetual inventory system and periodically verify inventory.

You must also maintain an inventory record and keep it with your other books and records.

4.3.2 Inventory valuation methods

You can determine the value of your inventory using either of the following methods:

- You can value the entire inventory based on its fair market value (FMV).
- You can value individual items or groups of items based on their cost or FMV, whichever is less.

Fair market value (FMV) of an item

The amount it would cost to replace an item, or the amount the owner would receive if he or she sold the item in an ordinary commercial transaction.

Cost of an item

The price paid or billed for an item, plus any costs incurred to take the item to its current location and put it into its current condition.

For the first year in which you carry on your business, you can choose either of the aforementioned inventory valuation methods. You cannot change the method chosen in a subsequent fiscal period unless circumstances require that you do so. The value of inventory at the beginning of a given fiscal period must be the same as its value at the end of the previous fiscal period. Note that you are not required to report an opening inventory in your first year of business.

If your business is an adventure or concern in the nature of trade, you cannot use these inventory valuation methods. Instead, you must determine the value of the items in your inventory on the basis of their acquisition cost.

4.3.3 Self-employed artists

If you are a self-employed artist who creates paintings, prints, etchings, drawings, sculptures or similar works of art, and you elect to value your year-end inventory at nil for the purposes of your federal income tax return, your election will automatically apply for Québec income tax purposes.

Such an election remains in effect for all subsequent years, unless you revoke it. You must let us know that you have made or revoked such an election in a letter (or in your financial statements) enclosed with your Québec income tax return.

4.4 Purchases

The cost of goods purchased for resale or for use in manufacturing other goods intended for sale includes the cost of delivery, freight and messenger services. The amount of the net purchases is the amount of your purchases, minus returns and any discounts or rebates you received.

If you make personal use of goods purchased by the business, you must subtract the full cost of the goods from the amount of your purchases.

4.5 Subcontracting costs

The cost of goods intended for resale includes costs incurred to have a third party carry out, in accordance with the instructions received, work related to the manufacture of the goods.

4.6 Direct labour costs

In the case of a business that manufactures goods intended for sale, the cost of the goods must include direct labour costs (that is, the remuneration paid to employees who work directly in the manufacture of the goods). However, the cost of the goods does not include indirect labour costs, the salary of the owners or members of a partnership, or withdrawals of money or goods made by the owners or members of a partnership.



5 PRACTISING A PROFESSION

5.1 Income

In general, you must calculate professional income according to the rules that apply to any other business (see section 4.1). A separate income statement must be prepared for each profession you practise.

Your total professional income for the current year is equal to:

- all amounts received during the current year for professional services, whether the services were provided before or during the current year, or are to be provided after the current year;
plus
- all amounts receivable at the end of the current year for professional services provided during the current year;
minus
- all amounts that were receivable at the end of the previous year.

If your income includes an amount received during the current year for services to be provided after the end of the year, you can deduct a reasonable amount as a reserve for these services.

Your professional income includes all your professional fees, whether you receive payment in money or an equivalent form, or in property or services as in a barter transaction (see the definition of “barter” in section 4.1.1). Your income for the year must include any reserves you claimed in the previous year.

5.2 Work in progress

You must include in your income the value of work in progress at the end of the fiscal period and exclude the value of work in progress at the beginning of the fiscal period.

The value of work in progress is equal to:

- the amount that would have been charged for the services if the services had been billed; or
- the expenses incurred for the services provided.

Professionals

If you are an accountant, chiropractor, dentist, lawyer, notary, physician or veterinarian, you must include in your income the value of your work in progress at the end of the fiscal period.

However, a transitional measure allows professionals who had been excluding their work in progress income to begin including it in their income progressively. For taxation years beginning after March 21, 2017, the amount to include is as follows:

- 20% of the cost or the FMV of your work in progress at the end of the first taxation year starting after this date;
- 40% of the cost or the FMV of your work in progress at the end of the second taxation year starting after this date;
- 60% of the cost or the FMV of your work in progress at the end of the third taxation year starting after this date; and
- 80% of the cost or the FMV of your work in progress at the end of the fourth taxation year starting after this date.

For subsequent fiscal periods, you must include either the cost or the FMV of your work in progress at the end of the period, whichever is less.



6 DEDUCTIONS

6.1 Expenses qualifying for a deduction

As a rule, if you carry on a business, you can deduct any reasonable expense incurred to earn business income for the taxation year, unless the expense does not qualify for a deduction under the *Taxation Act*.

The following are non-deductible expenses:

- investments;
- capital expenditures or capital losses;
- reserves (also called “contingent accounts” or “sinking funds”), unless their deduction is expressly permitted under the *Taxation Act*;
- expenses incurred to establish a business before operations actually begin.

You cannot deduct personal expenses. If an expense is incurred for both personal and business purposes, you must make a reasonable allocation between personal use and business use. Only the portion used for business purposes can be deducted.

6.2 Advertising

You can generally deduct advertising expenses such as:

- the cost of radio, television and newspaper ads;
- the cost of business cards.

6.3 Bad debts

You can deduct the amount of a debt only if:

- you included the amount in your income for the current year or a previous taxation year; and
- you have determined that the amount is a bad debt for the current year.

A debt is considered a bad debt when all prescribed collection measures have been used without success.

6.4 Business taxes and licences

You can deduct the fees paid for licences and permits required to carry on your business or professional practice.

However, you **cannot deduct** your contribution to the Office des professions du Québec, annual dues paid to a professional association for the purposes of maintaining a recognized professional status (except the portion that covers professional liability insurance), annual membership dues paid to a recognized artistic association, or dues paid to an association of home childcare providers recognized under the *Act respecting the representation of certain home childcare providers and the negotiation process for their group agreements*. These contributions and dues entitle you to non-refundable tax credits, which reduce the amount of income tax payable (line 373 of the income tax return). Amounts paid to a professional association for a purpose other than that of maintaining a legally recognized professional status remain deductible.

If the partnership of which you are a member pays the above-mentioned contributions or dues on your behalf, the share of the contributions or dues paid on your behalf is considered to be an amount incurred by you in the year in which the fiscal period of the partnership ended and entitles you to a non-refundable tax credit. The partnership cannot deduct the contributions or dues from its income. It can, however, deduct any portion of the professional dues that covers professional liability insurance.

6.5 Delivery, freight and messenger services

You can deduct all expenses for delivery, freight and messenger services that you paid in order to earn business income.

6.6 Fuel and oil (not used in motor vehicles)

You can deduct all costs incurred for fuels and lubricants required to operate your business’s equipment, such as gasoline, diesel fuel, propane or motor oil. For information on motor vehicle expenses, see section 6.12.

6.7 Insurance premiums

You can deduct all ordinary commercial insurance premiums respecting the buildings, machinery and equipment used in your business. You cannot deduct disability or life insurance premiums. However, you can deduct premiums on a term life insurance policy assigned to a lender as collateral on a loan contracted for business purposes. For information about insurance premiums respecting the portion of your home used for business purposes, see section 6.27.



6.8 Interest

As a rule, you can deduct interest that **you are required to pay** when you borrow money in order to carry on a business or in order to purchase property to be used in the business. For further information about interest on the purchase of a motor vehicle, see section 6.12.2. For information about interest on a mortgage loan respecting the portion of your home used for business purposes, see section 6.27.

You can deduct the interest that **you paid** on a loan granted against an insurance policy, provided the interest was not added to the adjusted cost base of the policy.

6.9 Maintenance and repairs

You can deduct the cost of labour and equipment required for the maintenance and repair of property used to earn business income. However, you cannot deduct the value of work you do yourself.

You cannot deduct the cost of repairs carried out for the purpose of making an addition or improvement to property. Such costs are not considered deductible expenses in the calculation of business income. Instead, they must be added to the cost of the property. Each year you can claim capital cost allowance for a portion of the cost of the property (see section 6.22).

6.9.1 Renovation or alteration of a building to meet the needs of mobility impaired or physically impaired persons

You can deduct (rather than add to capital cost) any amount paid in the year for eligible renovations or alterations of a building primarily used for earning business or property income, if the renovations or alterations ensure that persons with a mobility impairment have access to the building or that such persons are able to move about inside the building. The following are **eligible renovations or alterations**:

- installation of hand-activated power door openers, as well as indoor and outdoor ramps;
- alterations to washrooms and widening of elevators and doorways, to facilitate their use by persons in wheelchairs;
- renovations or alterations for which you hold an eligibility certificate (form TP-157-V) signed by an architect, an engineer or a professional technologist certifying that the renovations or alterations comply with the barrier-free design standards set out in the *Construction Code* of Québec. The expenses incurred for these renovations or alterations must have been incurred after March 23, 2006.

The eligibility certificate must also specify the types of specialized or adapted equipment installed during such renovations or alterations (for example, a specialized sign device, adapted seating or a telecommunications system) and the portion, indicated as a percentage, of the renovations or alterations made to the building that is reasonably attributable to the execution of the barrier-free design (for example, to adapt the height of switches or widen access points).

You can also deduct any amount paid in the year to acquire or install the following **eligible devices and equipment** that meet the needs of persons who have a physical impairment:

- elevator car-position indicators (such as braille panels and audio indicators);
- visual fire alarm indicators;
- telephone devices designed for persons with a hearing impairment.

6.9.2 Work on an immovable

If you incurred labour costs (other than salaries or wages paid to your employees) to renovate, improve, maintain or repair a building, structure or land located in Québec and used to carry on a business, you must complete form TP-1086.R.23.12-V, *Costs Incurred for Work on an Immovable*. On the form, you must identify the person (other than an employee) who carried out the work, and enter the amounts this person billed. You are liable to a penalty if you do not complete the form.

If the labour costs were incurred by a partnership of which you are the designated member, you must complete the form on behalf of the partnership.

6.10 Management and administration fees

You can deduct management and administration fees, as well as bank charges, that you incurred to carry on your business. These costs do not include salaries or wages paid to employees, property taxes or rent.

6.11 Meal and entertainment expenses

You can deduct meal and entertainment expenses that you incurred to earn business income.

Meal expenses include costs incurred for food and beverages. Entertainment expenses include the cost of tickets or admission fees to a show or sporting event, gratuities and the cost of rooms rented for entertainment purposes (such as private boxes at sports facilities or hospitality suites).



6.11.1 Deductible amount

The deduction you can claim for meal and entertainment expenses is **limited** to the lesser of the following amounts:

- 50% of the amount actually incurred and reasonable under the circumstances (hereinafter the “50% limit”). For meals purchased by certain truck drivers, the 50% limit is replaced by a specified percentage (see “Meal expenses of truck drivers” in this section);
- the ceiling based on the business’s sales.

These limits also apply to the cost of meals taken while travelling to attend a convention (see section 6.14), seminar or other similar meeting.

However:

- in some cases, the deductible amount is not subject to the ceiling based on sales (see section 6.11.2); and
- in other cases, the deductible amount is not subject to the 50% limit (or specified percentage) nor to the ceiling based on the business’s sales (see section 6.11.3).

NOTE

If you are a member of a partnership and you incurred entertainment expenses in the course of the partnership’s business, you cannot deduct these expenses if they are subject to the 50% limit (or the specified percentage).

The **ceiling** applicable to entertainment expenses is based on the business’s annual sales. If you carry on more than one business, calculate the ceiling separately for each one.

Sales correspond to all revenues attributable to the business, other than capital gains. However, if your business is a sales agency or similar business (that is, a business whose sole activity is the sale of goods in inventory in exchange for a commission), the sales concerning the portion of the income that consists of commissions is calculated as follows:

$$\frac{\text{Amount of the commission}}{\text{Percentage of the commission}}$$

The ceiling based on sales corresponds to either a percentage of the **annual** sales or to a fixed amount of \$650, as shown in the table below.

Annual sales	Ceiling
\$32,500 or less	2%
More than \$32,500 but less than \$52,000	\$650
\$52,000 or more	1.25%

Example

A business’s fiscal period is from January 1 through December 31. Its sales total \$50,000. The 50% limit applies to entertainment expenses of \$2,000. The deductible amount for entertainment expenses is calculated as follows:

- 50% limit: $\$2,000 \times 50\% = \$1,000$
- ceiling based on sales, determined using the table above: \$650

The amount that can be claimed for this period is the lesser of the following amounts:

- the 50% limit: \$1,000;
- the ceiling based on sales, determined using the table above: \$650.

The deductible amount for the fiscal period (from January 1 through December 31) is \$650.

Since you determine the ceiling on the basis of your annual sales, if your fiscal period is **shorter than 365 (or 366) days**, you must first calculate your sales on an annual basis. Then, you must determine the corresponding ceiling. If the ceiling is a percentage of sales, multiply the actual sales by the percentage. If the ceiling is \$650, prorate this amount on the basis of the number of days in the fiscal period.

Example

A business’s fiscal period is from December 1 through June 30 (212 days). Its actual sales for this period total \$32,000. The 50% limit applies to entertainment expenses of \$2,000. The deductible amount for entertainment expenses is calculated as follows:

- 50% limit: $\$2,000 \times 50\% = \$1,000$
- amount of sales on an annual basis:
 $\$32,000 \times (365 / 212) = \$55,094$
- the ceiling based on annual sales, determined using the table above: 1.25%
- ceiling as determined by the actual sales:
 $1.25\% \times \$32,000 = \400

The amount that can be claimed is the lesser of the following amounts:

- the 50% limit: \$1,000;
- the ceiling based on actual sales: \$400.

The deductible amount for the fiscal period (from December 1 through June 30) is \$400.



6.11.2 Deductible amount not subject to the ceiling based on sales

The deduction of meal expenses you incurred in the course of activities related to your business is subject to the 50% limit (or the specified percentage), but not to the ceiling based on sales if the activities take place at least 40 km away from your place of business and are usually (that is, on a regular and ongoing basis) carried on at such a distance from your place of business.

Meal expenses of truck drivers

In general, the amount that can be deducted for meal expenses (food and beverages) incurred to earn business income, including meal expenses incurred by truck drivers, cannot be more than the lesser of the following amounts: the 50% limit and the ceiling based on sales.

However the ceiling based on sales does not apply to truck drivers who normally travel to destinations at least 40 km away from their place of business.

In addition, if you are a long-haul truck driver, neither the ceiling based on sales nor the 50% limit apply to the amount that you can claim for meal expenses incurred to earn business income during eligible periods of travel. For meal expenses incurred in or after 2011, the specified percentage is 80%.

Long-haul truck driver

An individual whose principal business is to drive long-haul trucks for the purpose of transporting goods.

Long-haul truck

A truck or tractor that:

- is designed for hauling freight;
- is primarily used to earn income from hauling freight;
- has a gross vehicle weight rating (as specified by the manufacturer to be the loaded weight of the vehicle) that is over 11,788 kg.

Eligible periods of travel

A period of at least 24 hours during which the following conditions apply:

- the long-haul truck driver is away from the municipality where he or she resides; and
- the driver's trip is for the purpose of transporting goods to, or from, a location outside a radius of at least 160 km from the driver's residence.

6.11.3 Deductible amount not subject to the set limits

Neither the 50% limit (or specified percentage) nor the ceiling based on sales applies to the deduction of your meal and entertainment expenses in the following cases:

- You incurred the expenses in the ordinary course of your business, which consists in providing food, beverages or entertainment to customers for consideration (if you are in the restaurant or hotel business).
- You billed the expenses to a customer, as shown on the customer's bill.
- You included the expenses in one of your employees' salary or wages, or, if you did not include them, the employee worked at a special work site or at a location so remote that the employee could not reasonably be expected to establish his or her home there (in this case, the expenses do not constitute a taxable benefit). The work site must be located in Canada, at least 30 km from an urban area with a population of 40,000 or more.

If you are a producer in the cultural field and you pay an allowance for meal expenses to an artist who is self-employed, the latter will be considered an employee for the purposes of the deduction for entertainment expenses (but only regarding you). Consequently, if, as an employee, the artist had to report the value of the benefit represented by the allowance as taxable income (or did not have to report it because he or she had to work at a special work site or at a remote location), no limit would apply to the amount you can deduct. However, this exception will apply only where the allowance is paid under a group or individual agreement binding an artist and a producer. The agreement must be entered into in compliance with the *Act respecting the professional status and conditions of engagement of performing, recording and film artists*.

The rules concerning the deductibility of entertainment expenses remain unchanged for an artist who receives an allowance from a producer.

- You incurred the expenses to provide meals to an employee housed at a work camp so remote that the employee cannot reasonably be expected to return home daily. The camp must be temporary and must have been constructed or installed for the purpose of providing meals and accommodation to employees working at a construction site.
- You incurred the expenses to celebrate Christmas or a similar event, and all of your employees who work at a particular place of business were invited to the celebration. You cannot deduct expenses for more than six such events in a calendar year.
- You incurred the expenses in connection with an activity organized principally for the benefit of a registered charity.



- You incurred the expenses for the purchase of a subscription or for the bulk purchase of tickets to:
 - concerts of a symphony orchestra or a classical music or jazz ensemble;
 - opera performances;
 - concerts of a vocal artist (excluding concerts that take place in a venue normally used for sports);
 - dance performances;
 - plays;
 - various types of performing arts (for example, comedy shows and musical comedies); or
 - museum exhibits.

The subscription must include at least three different performances that take place in Québec, and the cost must not include expenses for food or beverages. As well, tickets purchased in bulk must represent all or almost all of the tickets for a performance.

6.11.4 Use of recreational property

Unless the purpose of your business is to supply recreational property, you cannot deduct expenses incurred for the use or maintenance of the following property:

- a pleasure craft (such as a yacht);
- a lodge;
- a hunting or fishing camp;
- a golf course;
- a recreational facility.

You also cannot deduct membership dues or initiation fees paid to a club whose main purpose is to offer its members dining, recreational or sporting facilities.

However, the membership dues or initiation fees paid to a club are deductible and not subject to the 50% limit or the ceiling based on sales if they are offered to an employee:

- for a special occasion (such as Christmas, a birthday, a wedding or a similar occasion); or
- in recognition of certain accomplishments (such as reaching a certain number of years of service).

These gifts and rewards are taxable benefits for the employee. For more information about employee benefits, see IN-253-V, *Taxable Benefits*.

6.12 Motor vehicle expenses

You can deduct certain expenses related to a motor vehicle used for business purposes. However, if the vehicle you use is classed as an automobile, a limit may apply to the amounts you can deduct as interest, leasing expenses and capital cost allowance (see sections 6.12.2, 6.12.6 and 6.12.7). It is therefore important to determine the type of vehicle for which you are claiming a deduction. See the definitions listed in this section.

Motor vehicle

An automotive vehicle designed or adapted for use on highways and streets.

Automobile

A motor vehicle that is used to carry individuals and that has a seating capacity for not more than the driver and eight passengers.

The following vehicles are not considered to be automobiles:

- an ambulance;
- a clearly marked emergency medical response vehicle used to carry paramedics and their emergency medical equipment;
- a motor vehicle acquired or leased for use primarily (more than 50%) as a taxi;
- a bus used in a business of transporting passengers;
- a hearse used in a funeral home business;
- a motor vehicle used to transport passengers in a funeral home business;
- a motor vehicle acquired or leased to be sold or leased in a business that sells or leases motor vehicles;
- a pickup truck, van or similar vehicle that, in the taxation year in which it is acquired, is used entirely or almost entirely (90% or more) to transport goods, equipment or passengers in order to earn or produce income;
- a pickup truck, van or similar vehicle that has a seating capacity for not more than the driver and two passengers and that, in the taxation year in which it is acquired, is used primarily (more than 50%) to transport goods or equipment in order to earn or produce income; and
- an extended cab pickup truck that:
 - has seating for the driver and more than two passengers,
 - in the taxation year in which it is acquired or leased, is used primarily (more than 50%) to transport goods, equipment or passengers in the course of earning or producing income at one or more places in Canada, and
 - is used to transport at least one passenger who works at a special work site where he or she performs temporary duties, or at a location so remote that he or she cannot reasonably be expected to establish his or her home there (the work site or remote location must be at least 30 km from an urban area with a population of 40,000 or more).

Deductible motor vehicle expenses include:

- registration fees;
- the cost of a driver's licence;
- insurance premiums;
- interest (see section 6.12.2);
- fuel costs;
- maintenance costs (for example, washing, lubrication and tune-ups);
- repair costs (see section 6.12.3);
- parking fees (see section 6.12.4);
- supplementary insurance premiums (see section 6.12.5);
- leasing expenses (see section 6.12.6);
- capital cost allowance (see section 6.12.7).

If you use more than one motor vehicle to earn business income, the expenses for each vehicle **must be calculated separately**. You must also determine the percentage of business use for each vehicle. This percentage is determined on the basis of the ratio between the number of kilometres travelled for business purposes in your fiscal period and the total kilometres travelled in that fiscal period.

To help with the calculations, you can keep a logbook containing the following information:

- the total number of days during the year that the automobile was made available to you (or to a person related to you);
- the total number of kilometres travelled (on a daily, weekly or monthly basis) during the number of days in question.

You should also record the following information daily for each business trip:

- the points of departure and arrival;
- the number of kilometres travelled;
- any information establishing that the trip was made for business purposes.

Simplified logbook

To make it easier to compile motor vehicle expenses, you can keep a logbook for each vehicle for a sample period of at least three consecutive months from which you can then extrapolate the percentage of business use for the entire year. To use a simplified logbook, the following conditions must be met:

- You kept a comprehensive logbook of your motor vehicle use over a typical 12-month period (known as the "base year"), which has since served as a reference period for subsequent years. This period does not have to correspond to a calendar year.
- The percentage of business use for the sample period for the year is within 10 percentage points of that determined for the same period in the base year (known as the "period in the base year").
- The percentage of business use for the year is within 10 percentage points of that determined for the base year.

The percentage of business use for the year is determined using the following formula:

$$\frac{\text{Percentage of business use (sample period)}}{\text{Percentage of business use (period in the base year)}} \times \text{Percentage of business use determined for the base year}$$

Example

You use an automobile for both business and personal purposes. You kept a logbook of your motor vehicle use over a 12-month period in 2016 (the base year) and determined that you used the automobile for business purposes 60% of the time during that year.

In 2017, you kept a logbook during a three-month sample period (July, August and September), which revealed that you used the automobile for business purposes 65% of the time during that period. For the same three-month period in the base year, the automobile was used for business purposes 57% of the time. The percentage of business use for the sample period (65%) is therefore within 10 percentage points (not less than 47% and not more than 67%) of the percentage of business use determined for the period in the base year (57%).

The percentage of business use for the automobile for 2017 is determined using the formula above:

$$(65\% / 57\%) \times 60\% = 68\%.$$

The percentage of business use (68%) is **acceptable** because it lies within 10 percentage points (not less than 50% and not more than 70%) of the percentage of business use determined for the base year (60%).

6.12.1 Expenses for travel between your home and your place of business

You can deduct your travel expenses for motor vehicle travel between your various premises or places of business. However, you cannot deduct the expenses incurred to travel between your home and your various places of business, unless your principal place of business is your home. If you have a fixed office or place of business other than your home, your home is not usually considered your principal place of business.



Your home may be considered your principal place of business if you are in a situation similar to the following:

- You are an anesthetist and you receive all work-related telephone calls and do all clerical work connected with your profession at home. You do not have an office or other premises in a hospital or elsewhere, and you provide your services to patients in one or more hospitals.
- You are an independent real estate agent and you maintain an office in your home. You do not have any other business premises, and you provide your services to clients in their own homes or at the listed properties.
- You are a plumber, electrician or painter, you have an office in your home and you keep all your equipment in your home. You do not have any other business premises, and you carry out your work wherever customers require your services.

Your expenses for travel between businesses you operate are personal expenses and therefore do not qualify for a deduction.

6.12.2 Interest respecting the purchase of a motor vehicle

You can deduct the interest on a loan contracted to purchase a motor vehicle that you use to earn business income. However, in the case of an **automobile** (see the definition in section 6.12), the deduction of interest on the loan is limited. The amount you deduct cannot be more than \$10 multiplied by the number of days for which interest was paid or payable.

NOTE

To calculate the amount of interest you can deduct, you must take into account the percentage of use of the motor vehicle for business purposes.

6.12.3 Repair costs following an accident

Repair costs incurred following an accident, whether to repair damage to the vehicle you were driving or to the property of another person, are entirely deductible if the vehicle was being used for business purposes at the time of the accident. Repair costs do not include costs for which you were reimbursed or are entitled to be reimbursed pursuant to an insurance claim or a claim in damages, unless the amount of the reimbursement is included in your income.

Repair costs are **not deductible** if the vehicle was being used for personal purposes at the time of the accident.

6.12.4 Parking fees

Fees paid during a fiscal period to park or store an automobile used for business purposes are deductible for that period.

NOTE

Parking fees at your place of residence are considered a personal expense and are therefore not deductible, unless your residence is the main location at which you carry on your business.

6.12.5 Supplementary insurance premiums

You can deduct the entire cost of supplementary insurance premiums for the motor vehicle you use for business purposes.

6.12.6 Leasing expenses

You can deduct the cost of leasing a motor vehicle that you use to earn business income. However, if you lease an **automobile** (see the definition in section 6.12), the leasing expenses you can deduct are limited. To determine the amount of eligible leasing expenses, complete the work chart on the next page for each automobile.

When calculating the deductible portion of eligible automobile leasing expenses, you must take into account the proportion in which the vehicle is used for business purposes.



WORK CHART – Eligible automobile leasing expenses

Amount of daily leasing expenses for the automobile ¹			1
Number of days the vehicle was leased, from the date the contract took effect	×		2
Multiply line 1 by line 2.	=		3
Total leasing expenses deducted for previous fiscal periods		4	
Total interest considered to have been earned, concerning a refundable amount, from the date the contract took effect ²	+	5	
Total refunds of leasing expenses (other than GST/HST or QST rebates) to which you have been entitled, from the date the contract took effect	+	6	
Add lines 4 through 6.	=		7
Subtract line 7 from line 3.	=		8
Leasing expenses incurred for the automobile during the fiscal period ³			9
Manufacturer's suggested retail price ⁴ for the automobile (not including taxes)	÷		10
Divide line 9 by line 10.	=		11
Maximum price for the automobile ⁵	×		12
Multiply line 11 by line 12.	=		13
Enter the amount from line 9 or 13, whichever is less .			14
Total interest considered to have been earned during the fiscal period, concerning a refundable amount ⁶		15	
Total refunds of leasing expenses (other than GST/HST or QST rebates) to which you are entitled for the fiscal period	+	16	
Add lines 15 and 16.	=		17
Subtract line 17 from line 14.	=		18
Enter the amount from line 8 or 18, whichever is less .			19
Eligible automobile leasing expenses			

1. Add sales taxes to the following amount and enter the result on line 1: \$26.67, for a leasing contract signed after 2000.

Sales taxes include GST/HST and QST (or any other provincial sales tax) calculated on the monthly payment at the rate in effect at the time the monthly payment is made.

2. Enter the amount of interest that would be earned on refundable amounts, except on the first refundable \$1,000, if the interest was payable at a prescribed rate. The refundable amounts must be paid for leasing the automobile. They include all amounts that the lessor is required to repay you under the leasing contract (for example, a deposit that lowered the lease payments), but do not include GST/HST or QST rebates.

To determine the amount of interest to enter on lines 5 and 15, calculate the interest at the prescribed rate (see the following list of rates for 2016 and 2017), either for all fiscal periods ended since the amount became refundable (line 5) or for the fiscal period concerned (line 15). To find out the interest rates in effect before January 1, 2016, contact us.

Prescribed rate

	2016	2017
January 1 to March 31	1%	1%
April 1 to June 30	1%	1%
July 1 to September 30	1%	1%
October 1 to December 31	1%	1%

3. Leasing expenses include taxes, insurance premiums and maintenance costs incurred during the fiscal period under the leasing contract.
4. If the amount on line 10 is equal to or less than the maximum price for the automobile (see note 5), carry the amount from line 9 directly to line 14. Otherwise, complete lines 11 through 13.
5. The maximum price for the leased automobile is \$35,294, plus sales taxes on this amount.
- Sales taxes include GST/HST and QST (or any other provincial sales tax) calculated on the amount at the rate in effect at the time the leasing contract was entered into.
6. See note 2.



6.12.7 Capital cost allowance (CCA) of a motor vehicle

As with all other durable goods, you cannot deduct the cost of a motor vehicle used to earn business income in the year of purchase. However, given that motor vehicles depreciate over the years, you can claim an amount as capital cost allowance (CCA) each year (the general rules regarding CCA are explained in section 6.22).

The **capital cost** of a motor vehicle is generally the total purchase price, which includes:

- the trade-in amount granted by the vendor for a used vehicle;
- the cost of all accessories and equipment installed before or after delivery of the vehicle;
- the GST/HST and the QST (or any other provincial sales tax) paid on the vehicle, minus any input tax credits (ITCs) and input tax refunds (ITRs) paid or credited to you.

If, during the year, you began to use, for business purposes, a motor vehicle that you previously used only for personal purposes, the capital cost of the vehicle corresponds to the lesser of the following amounts:

- its fair market value when you began to use it for business purposes; or
- its original cost.

NOTE

If you use a motor vehicle less than 90% of the time for business purposes, you must calculate the ITCs and ITRs on the basis of the CCA for the motor vehicle and subtract them from the undepreciated capital cost (UCC) at the beginning of the taxation year following the year for which CCA is being claimed.

Class 10 and class 10.1 property—30% rate

All motor vehicles are class 10 or 10.1 depreciable property, with the exception of taxis, vehicles rented on a daily basis and heavy trucks, which are included in class 16.

For most classes of depreciable property, all the property in the class must be grouped together. Class 10.1, however, is different. You must calculate the CCA separately for every vehicle in this class. If you have more than one class 10.1 vehicle, you must create a separate class 10.1 for each one.

Include in a separate class 10.1 each **automobile** purchased after 2000 for over \$30,000.

In determining whether an automobile belongs to class 10.1, you must take into account the purchase cost, excluding sales taxes (GST/HST and QST or any other provincial sales tax).

Furthermore, the capital cost that you use to calculate the CCA of a class 10.1 automobile must not exceed \$30,000 plus the portion of the sales taxes (GST/HST and QST or any other provincial sales tax) related to that amount that have not been refunded to you.

Example

In 2016 or 2017, you purchased an automobile that cost \$43,000. The capital cost that you take into account is limited to \$30,000, plus the non-refundable taxes calculated on the \$30,000.

If you sell a class 10.1 automobile that you owned at the end of the previous fiscal period, you can claim, for the fiscal period in which you make the sale, 50% of the CCA to which you would have been entitled had you not sold the automobile. Do not include in your business income an amount of CCA recapture and do not deduct from your business income a terminal loss. The rules pertaining to the recapture of CCA and terminal losses do not apply to class 10.1 motor vehicles (see sections 6.22.4 and 6.22.5).

Include in class 10 all motor vehicles, other than class 10.1 automobiles, taxis, vehicles rented on a daily basis and heavy trucks.

If you buy a class 10 vehicle, the CCA for the fiscal period during which the purchase was made is limited to 30% of half the capital cost. For subsequent fiscal periods, the CCA is limited to 30% of the undepreciated capital cost (UCC) of the vehicle.

If you change your vehicle in a fiscal period and replace it with another class 10 vehicle, the CCA you can claim for the new vehicle in the year you acquire it equals the result of the following calculation:

$$\left[\begin{array}{c} \text{Capital cost of} \\ \text{the vehicle that} \\ \text{you acquired} \end{array} \right] - \left[\begin{array}{c} \text{Proceeds of} \\ \text{disposition of the} \\ \text{vehicle that you} \\ \text{disposed of} \end{array} \right] \times 50\% \times 30\%$$

As regards the vehicle you disposed of, the CCA you can claim is equal to 30% of its UCC at the start of the fiscal period.

If, at the end of the fiscal period, you have no other class 10 property and:

- the value of the UCC is negative, see section 6.22.4;
- the value of the UCC is positive, see section 6.22.5.

Vehicle used for both business and personal purposes

If you use a vehicle for both business and personal purposes, the base amount used to calculate the CCA must include both the business portion and the personal portion of the capital cost or UCC, as applicable. The CCA that can be claimed generally corresponds to the ratio between the distance travelled for business purposes in the fiscal period and the total distance travelled in that period.

Example

You operate a furniture-making business.

At the end of the fiscal period ended on December 31, 2016, the UCC of class 10 property (a truck used solely for business purposes) amounted to \$17,850.

In 2017, you bought an automobile at the price of \$23,500 (including taxes) that you used for business purposes 40% of the time (10,800 km for business purposes out of a total 27,000 km).

The base amount used in calculating the CCA that can be claimed for the year of purchase is reduced by half, in accordance with the half-year rule (see section 6.22).

For 2017, the CCA can be calculated as follows:

CCA for the automobile ($\$23,500 / 2$) \times 30%		\$3,525
CCA for the truck ($\$17,850 \times 30\%$)	+	\$5,355
Total CCA	=	\$8,880
Portion of CCA related to personal use of the automobile ($\$3,525 \times 60\%$)	-	\$2,115
CCA for 2017	=	\$6,765
The UCC at the end of 2016 is calculated as follows:		
Automobile portion of the UCC ($\$23,500 - \$3,525$)		\$19,975
Truck portion of the UCC ($\$17,850 - \$5,355$)	+	\$12,495
UCC at the end of 2017	=	\$32,470

6.12.8 Joint ownership or lease

If you and one or more other persons jointly own or lease a vehicle, the amount of CCA, interest and leasing expenses deducted by all the owners or lessees cannot be more than the maximum that one person owning or leasing the vehicle could deduct.

6.13 Office expenses

You can deduct the cost of your office supplies (for example, stationery, stamps, directories and magazines). Office supplies do not include articles such as calculators, filing cabinets and chairs. These are considered capital expenditures and are therefore not deductible in the year in which you purchase them (see section 6.22). Office expenses do not include expenses related to the use of your home for business purposes (see section 6.27).

6.14 Convention expenses

You can deduct the cost (registration fees, living and travel expenses) of attending a maximum of two conventions during the year, provided the conventions:

- relate to your business; and
- are held by a business or professional organization at a place that can reasonably be considered to be in the geographical area in which the organization conducts its business.

The second condition does not apply if the convention is sponsored by an organization based in a country other than Canada and is related to your business or profession.

If convention expenses include food, beverages or entertainment, and the cost of these is not indicated separately on your supporting documents, subtract \$50 from the convention expenses for each day these items were provided.

The daily amount of \$50 can be deducted as meal and entertainment expenses, subject to the limits described in section 6.11.

6.15 Supplies

You can deduct the cost of items, products and materials used indirectly in the production of goods and services. For example, a veterinarian can deduct expenditures for medicine, syringes and other supplies, whereas an actor can deduct the cost of materials used to assist him or her in playing a role.

Note that if you are a self-employed performing artist, you can deduct the cost of clothing purchased for public performances. You can deduct 50% of the cost of clothing that may be worn for other purposes than performing and 100% of the cost of clothing that cannot be worn for other purposes than performing.

If you are not a performing artist, you can only deduct the cost of **clothing that you wear** to earn business income or a combination of business income and income from another source. In such a case, you can deduct clothing expenses from your business income.

6.16 Legal and accounting fees

You can deduct the fees you paid to an outside firm (such as a legal, accounting or architectural firm) for advice, services or assistance relating to your business.

Accounting or auditing fees paid to have your financial statements prepared or certified are deductible. You can also deduct legal, accounting or other fees incurred to have legislation reviewed or an objection or appeal prepared against a notice of assessment regarding QST, income tax payable, Employment Insurance or QPIP premiums, contributions to the Canada Pension Plan, the QPP or the health services fund, or contributions related to labour standards.



Legal fees are deductible, provided you incurred them to earn business income. Legal fees include amounts paid to have contracts prepared for the purpose of obtaining guarantees, and expenses incurred to recover accounts receivable or to prepare financial documents.

You cannot deduct legal fees and other expenses incurred to acquire capital property. Instead, add these expenses to the cost of the property.

6.17 Property taxes (municipal and school taxes)

You can deduct property taxes relating to property (land and buildings) used to carry on your business. Property taxes include municipal taxes and school taxes, minus any refundable portion of the taxes. Municipal taxes include:

- taxes for water, sewers, garbage collection and upkeep of roads and streets;
- taxes for a specific sector to cover public services and facilities; and
- financing taxes levied by municipalities and urban communities.

However, municipal taxes do not include transfer duties. For information about property taxes respecting the portion of your home used for business purposes, see section 6.27.

6.18 Rent

You can deduct rent relating to property (land and buildings) used to carry on your business. A partnership that uses an individual's home to carry on a business can also deduct as rent the expenses attributable to the use of the individual's home, subject to the limits applicable to an individual who is deducting an expense related to the business use of his or her home.

If you are the sole proprietor, your rent does not include expenses related to the use of your home for business purposes (see section 6.27).

6.19 Salaries or wages, benefits and employer contributions

You can deduct salaries or wages (including commissions) paid to employees, as well as your share of premiums and contributions that you paid as an employer, such as Employment Insurance or QPIP premiums, QPP contributions, the contribution to the health services fund, the contribution related to labour standards and the employer contribution to the Commission des normes, de l'équité, de la santé et de la sécurité du Travail (CNESST).

However, if you carry on a manufacturing business, do not include the remuneration paid to employees who work directly in the manufacture of goods (that is, direct labour costs); such remuneration must be included in the cost of goods sold.

You can also deduct premiums paid on behalf of your employees for a plan providing health insurance, accident insurance, disability insurance or wage loss insurance.

You can deduct **the salary or wages paid to your child**, provided:

- you actually paid the salary or wages;
- the work done by your child was necessary for you to earn business income (you would have had to hire someone else had you not hired your child); and
- the salary or wages were reasonable given your child's age and represent the amount you would have paid someone else.

You must keep all documents substantiating the salary or wages paid to your child. If you paid by cheque, keep the cancelled cheques. If you paid in cash, ask your child for a receipt.

If you paid your child with a product from the business rather than in cash, you can deduct as an expense the value of the product that replaced your child's salary or wages. In this case, your child is required to include the value of the product in his or her income, and you must add the same amount to your income.

The salary or wages paid to your spouse are also deductible. The rules applicable to the salary or wages paid to a child also apply to salary or wages paid to a spouse.

You must report the salary or wages paid to your child or spouse on an RL-1 slip, as you would for any other employee. However, **you cannot deduct** the value of meals or accommodation you provided to your child or spouse.

You cannot deduct any remuneration you paid to yourself. Such remuneration constitutes a withdrawal by the owner and is not a deductible expense.

For further information about your responsibilities as an employer, see the *Guide for Employers* (TP-1015.G-V).

Transit passes for employees

Benefits granted to your employees are deductible in calculating your business income. You can deduct the amount you reimbursed your employees for expenses they incurred to use a public transit service to travel to their workplace or the cost of providing them with transit passes.



You can also deduct from your business income an additional amount equal to 100% of:

- any amount granted to one of your employees as a total or partial reimbursement of the cost of an eligible transit pass taking the form of a **subscription** for a period of at least one month or the cost of an eligible **paratransit pass**, if the employee purchased the pass to travel between his or her residence and workplace; or
- the cost for you of an eligible transit pass or paratransit pass, if the pass is provided to one of your employees primarily to travel between his or her residence and workplace.

Eligible transit pass

A transit pass that allows the use of a public transit service, other than a paratransit service, provided by a public entity authorized by Québec law to organize such a service.*

Eligible paratransit pass

A transit pass that allows the use of a paratransit service provided by a public entity authorized by Québec law to organize such a service.*

- * Public entities authorized by Québec law include municipal bodies, inter-municipal transit bodies, the Agence métropolitaine de transport and the authorities referred to in the Act respecting public transit authorities, such as the transit authorities of Laval, Lévis, Longueuil (RTL), Montréal, Outaouais, Québec (RTC), Saguenay, Sherbrooke and Trois-Rivières.

NOTE

An individual does not have to include the value of the benefit related to transit passes described above in calculating his or her income from an office or employment, provided the benefit was received because of or in the course of that office or employment.

Public transportation organized by employers

If you are an employer that organizes, alone or jointly with other employers, a public transportation service for employees who live outside the local municipal territory where the establishment they normally work at is located, you can deduct, in calculating your income from a business for a given taxation year, an additional amount equal to 100% of the amount otherwise deductible for the setting up and operation of such a service, if you meet the following conditions:

- You provide the transportation service at least five days a week, except during holidays or a slowdown in the business's activities.
- You transport the employees in a vehicle with a design capacity of at least 15 people (coach, minibus or van).
- The employees can get on and off the vehicle only at predetermined places.

If you are an employer that owns the vehicle used to provide the inter-municipal transportation service to your employees, the portion of the additional amount of the deduction that is attributable to an amount deducted as depreciation of the vehicle will not be recaptured following the disposition of the property.

In addition, your employees will not be required to include, in calculating their income from an office or employment, the value of the benefits relating to the use of an inter-municipal transportation service organized by you, where the service gives entitlement to the additional deduction of 100%.

6.20 Travel expenses (other than motor vehicle expenses)

You can deduct travel expenses (including the cost of meals, accommodation and public transportation) incurred to earn business income.

The amount you deduct for expenses incurred for food, beverages and entertainment is generally subject to limits (for more information on these limits, see section 6.11).

However, these limits do not apply if you travel by plane, train or bus to earn business income and the food, beverages and entertainment provided on board are included in the price of the ticket. You can include the full price of the ticket in your travel expenses.

6.21 Telecommunications, electricity, heat and water

You can deduct expenses for utilities (electricity, heat and water) and the following telecommunications expenses incurred **to earn business income**:

- charges for long-distance calls;
- charges for cellular calls (including costs incurred to acquire a package or prepaid air time, provided you calculate such costs in proportion to your use of the telephone for business purposes and that the charges are deducted in the fiscal period in which you receive the service);
- Internet charges (including costs incurred to acquire a package or costs billed on a per-usage basis).

You can deduct the following expenses **only if** they were incurred **exclusively** for business purposes:

- basic monthly charge for telephone service;
- the monthly charge for Internet access;
- the charges for an Internet connection;
- the cost of leasing a paging device;
- the cost of having a cellular telephone licensed or connected.

You **cannot deduct** the purchase price of a cell phone. However if you use the phone for business purposes **only**, you can claim a portion of its cost as capital cost allowance each year (see section 6.22).



6.22 Capital cost allowance

You cannot deduct the cost of property that is furniture, equipment, a building, a motor vehicle or capital property in the year of purchase. However, as such property wears out or becomes obsolete over time, you can deduct a portion of its cost each year (generally for as long as you own the property). This deduction is called capital cost allowance (CCA).

The amount on which you can initially (in the first year) claim CCA is called the capital cost of the property. It includes the purchase price of the property, legal and other fees related to the purchase of the property, transportation costs and the GST/HST and QST, minus the ITCs and ITRs received or credited. The result obtained when the CCA claimed is subtracted from the capital cost of the property constitutes the undepreciated capital cost (UCC).

Property on which you can claim CCA is called depreciable property. Depreciable property is normally grouped into classes, and a specific CCA rate generally applies to each class. For information on the principal classes of depreciable property, see section 6.22.6.

You should also keep the following points in mind:

- You do not have to claim the maximum amount of CCA to which you are entitled in a given year. You can claim any amount up to the maximum.
- For most classes of property, CCA is generally calculated according to the declining balance method. This simply means that it is calculated on the UCC, which decreases over the years as CCA is claimed at the end of each fiscal period.
- As a rule, if you claim CCA in the year the property was purchased, you can calculate the CCA only on 50% of the capital cost of the property. This limit is called the “half-year rule.”
- If your fiscal period is less than 12 months, the CCA claimed must be prorated to the length of the fiscal period.
- You cannot claim CCA with respect to land, plants (trees, shrubs, etc.) or animals. The only exception to this rule is that CCA can be claimed on timber limits, cutting rights and timber resource property.

NOTE

For information about claiming CCA on:

- a motor vehicle, see section 6.12.7;
- capital property, see section 6.23.

6.22.1 Grants and subsidies

If you receive or are entitled to receive a grant, subsidy or other form of assistance from a government or a government agency for property you purchased, you must subtract the assistance, grant or subsidy from the capital cost of the property before calculating CCA.

If you receive an inducement or incentive from a non-government agency for the purchase of depreciable property, you must either include the amount in your income or subtract it from the capital cost of the property.

If you receive or are entitled to receive government assistance or a federal investment tax credit for property that belongs to a given class and that was disposed of in a previous year, recapture of CCA may occur (see section 6.22.4).

6.22.2 The available-for-use rule

Generally, you can claim CCA on property only when the property is considered available for use, that is, ready to be used to earn business or property income.

Property (other than an immovable) is generally considered to be available for use at the earliest of the following times:

- the time at which you first use the property to earn income;
- the beginning of the second taxation year following the taxation year in which you acquired the property (for example, in 2017, if you acquired the property in 2015);
- the time immediately prior to the time at which you dispose of the property;
- the time at which the property is delivered to you or placed at your disposal, provided it can be used to produce goods or supply a marketable service.

A building is generally considered to be available for use at the earliest of the following times:

- the time at which you begin to use all or substantially all (90% or more) of the building for the purposes for which it was acquired;
- the beginning of the second taxation year following the taxation year in which you acquired the property (for example, in 2017, if you acquired the property in 2015);
- the time at which construction of the building is completed;
- the time immediately before the time at which you dispose of the property.

NOTE

Where the available-for-use rule applies, a renovation, alteration or addition to a building is considered to be a separate property.

The half-year rule (see section 6.22) does not apply in the calculation of CCA if, because of the available-for-use rule, you cannot claim CCA before the second taxation year following the taxation year in which you acquired the property (for example, if you acquired the property in 2015 but were unable to use it to earn income until 2017).

6.22.3 Non-arm's-length transactions

A non-arm's-length transaction includes a transaction between members of the same family (between spouses or de facto spouses, between a parent and a child, etc.) or between a shareholder and a corporation controlled by the shareholder. When you purchase property in a non-arm's-length transaction, special rules apply to the calculation of the capital cost of the property. For more information on how to calculate capital cost in such cases, contact us.

6.22.4 Recapture of CCA

Generally, recapture of CCA occurs if the value of the UCC (after purchases and dispositions for the fiscal period) is negative. You must include the recapture of CCA in your business income.

Recapture of CCA can occur if the proceeds from the disposition of depreciable property exceed the sum of:

- the UCC of the class of property at the beginning of the fiscal period; plus
- the capital cost of acquisitions during the fiscal period.

NOTE

If, in 2017, you disposed of qualified capital property that you owned before January 1, 2017, see section 6.23.2.

Recapture of CCA can also occur if you receive or are entitled to receive government assistance or a federal investment tax credit for the property and if the amount of the assistance or tax credit received exceeds the total of the two above-mentioned amounts.

This rule does not apply to class 10.1 motor vehicles as there is no recapture of CCA for this type of property (see section 6.12.7).

6.22.5 Terminal loss

A terminal loss occurs if, at the end of a fiscal period, you have no more property in a given class, but an amount remains for which you have not claimed CCA. You can deduct the terminal loss from your business income.

This rule does not apply to class 10.1 motor vehicles as there is no terminal loss for this type of property (see section 6.12.7).

6.22.6 Description of certain classes of property

Class	Rate
1	4%

Class 1 property includes most buildings acquired after 1987, including component parts such as electrical wiring, lighting fixtures, plumbing, sprinkler systems, heating and air-conditioning equipment, elevators and escalators.

Additions made to class 3 buildings must be included in class 1 if the cost of the additions exceeds the lesser of the following amounts:

- \$500,000;
- 25% of the building's capital cost on December 31, 1987, unless the building was under construction on that date. In that case, calculate 25% of the building's capital cost on the date construction was completed.

Supplementary deduction

Class 1 buildings acquired after March 18, 2007 (including a new building if any portion of it was acquired after that date, where the building was under construction on March 19, 2007), and not used or acquired for use before that date, qualify for a supplementary deduction if:

- the building is a non-residential building, that is, at least 90% of the building (in surface area) is used for non-residential purposes at the end of the taxation year; and
- the building is included in a separate class.

The supplementary deduction is:

- 6% for a building where at least 90% (in surface area) is used for manufacturing or processing, in Canada, goods for sale or lease;
- 2% for other non-residential buildings.

Therefore, the total deduction rate is 10% for buildings used for manufacturing or processing and 6% for other non-residential buildings.

To be entitled to the supplementary deduction, you must also include the building in a separate class; otherwise, only the 4% CCA rate will apply.

The half-year rule applies to the supplementary deduction. This rule stipulates that CCA can be calculated only on one-half of the capital cost of a property in the year it is acquired.

Class	Rate
3	5%

Class 3 property includes most buildings acquired after 1978 but before 1988, except those specifically included in another class. Also included are the component parts of these buildings: electrical wiring, lighting fixtures, plumbing, sprinkler systems, heating and air-conditioning equipment, elevators and escalators. Certain additions made after 1987 must be included in class 1.



Class	Rate
6	10%

Class 6 property includes buildings of frame, log, stucco on frame, galvanized sheet metal or corrugated metal, and their component parts, if the buildings were:

- acquired before 1979; or
- built without footings or other base support below ground level.

However, certain additions or alterations made to class 6 buildings after 1978 may be included in class 3 rather than class 6. If you acquired a building before 1979, you can include in class 6 the first \$100,000 of the cost of additions and alterations made after 1978, and any amount in excess of the first \$100,000 in class 3.

If the building has no footings or other base support below ground level, include the total cost of the additions and alterations in class 6.

Class	Rate
7	15%

Class 7 property includes canoes, rowboats and most other vessels, as well as the equipment attached to the property.

Class	Rate
8	20%

Class 8 includes property not included in any other class, for example, furniture, appliances, telephones, calculators, tools costing \$500 or more (\$200 or more if they were purchased before May 2, 2006), fixtures, advertising poster panels, bulletin boards, electric advertising signs, machinery and equipment (including data network infrastructure equipment acquired before March 23, 2004). Certain property may be included in a separate class 8 (see section 6.22.7).

NOTE

- Data network infrastructure equipment acquired after March 22, 2004, must be included in class 46.
- Works by artists who were Canadian when they created them that are acquired after April 21, 2005, for display at a place of business must be included in class 8.1.

Class	Rate
8.1	33 1/3%

Class 8.1 property includes property acquired after April 21, 2005, for display at a place of business, where such property consists of drawings, prints, etchings, sculptures, paintings or any other work of art of a similar nature created by an artist who was Canadian at the time he or she created the work of art.

Class	Rate
10	30%

Class 10 includes property not included in any other class, for example, motor vehicles (see section 6.12.7) and automotive equipment.

Class	Rate
10.1	30%

Class 10.1 includes motor vehicles that are classed as automobiles and whose cost exceeds a maximum amount, for example, \$30,000 if they were acquired after 2000 (see section 6.12.7).

Class	Rate
12	100%

Class 12 includes property not included in any other class, for example:

- software (other than system software) acquired after May 25, 1976;
- kitchen utensils, medical or dental instruments, and tools (except for electronic communication devices and electronic data processing equipment), if the cost is less than \$500 (less than \$200 if they were purchased before May 2, 2006);
- linens, uniforms, apparel and costumes.

The half-year rule does not apply to CCA claimed with respect to class 12 property listed in points (b) and (c).

Class	Rate
13	—

Class 13 includes the capital cost of improvements to leased property, that is, the capital cost that a tenant incurs in order to make improvements or alterations to leased property.

However, class 13 does not include the cost of alterations made to a leased building or structure that substantially changed the nature of the property, the cost of a building or structure built on leased land, or the cost of an addition to a leased building or structure. This type of cost constitutes property that must be included in class 1, 3 or 6 as a building or structure.

The capital cost of improvements incurred in a particular year with respect to a particular leased property is considered to be a unit of capital cost. The capital cost incurred in a subsequent year with respect to the same property represents another unit of capital cost. The CCA for each unit must be calculated separately. Furthermore, costs incurred in the same year must also be calculated separately with respect to each property.



The maximum amount of CCA in a year for each unit of capital cost is equal to the lesser of the following amounts:

- 1/5 of the unit of capital cost;
- the amount determined by dividing the unit of capital cost by the number of 12-month periods (not more than 40 periods) in the period commencing at the beginning of the year in which the capital cost was incurred and ending on the day on which the lease is to end (or if the tenant has the right to renew the lease, the day on which the first renewal period ends).

Under the half-year rule, only 50% of the unit of capital cost is to be taken into account in the calculation of CCA for the year in which the improvements to leased property are made.

Class	Rate
14	—

Class 14 includes patents, franchises, concessions or licences of limited duration, but does not include:

- a concession or licence in respect of minerals, petroleum, natural gas, other related hydrocarbons or timber and related property;
- a leasehold interest in leased corporeal property;
- property included in either class 12 or class 44;
- a licence to use computer software.

The maximum amount of CCA in the year is equal to the lesser of the following amounts:

- the capital cost of the property spread out over the life of the property;
- the UCC of the property in the class at the end of the fiscal period.

The half-year rule does not apply to class 14 property.

Class	Rate
14.1	5%

A separate class 14.1 must be created for each of your businesses.

Class 14.1 includes:

- goodwill for **one** of your businesses;
- capital property you owned on January 1, 2017;
- property related to the business acquired **after** 2016, except:
 - tangible and corporeal property,
 - property not acquired to earn business income,
 - property in respect of which an amount can be deducted in calculating business income for a reason other than the fact it is class 14.1 property,

- property in respect of which an amount cannot be deducted in calculating business income because of a provision of the *Income Tax Act* (other than paragraph 18(1)(b)) or the *Income Tax Regulations*,
- interest in a trust,
- interest in a partnership,
- shares, bonds, debentures, hypothecary claims, notes, instruments and similar property, and
- interest or, for civil law purposes, rights to any of the above-mentioned property or rights to acquire such property.

The half-year rule does not apply to class 14.1 property.

Additional deduction

For taxation years ending before 2027, expenses incurred before January 1, 2017, may entitle you to an additional deduction. See section 6.23.1.

Class	Rate
16	40%

Class 16 includes, for example:

- taxis and vehicles for lease or rent, if the lease provided for a same lessee is not more than 30 days within a 12-month period;
- coin-operated video games and pinball machines;
- trucks and tractors acquired after December 6, 1991, that are designed and used to haul freight and whose gross vehicle weight is more than 11,788 kg. Such vehicles, if acquired after March 30, 2010, and if new at the time they are acquired, must be included in class 18.

Class	Rate
17	8%

Class 17 includes sidewalks and parking areas acquired after May 25, 1976.

Class	Rate
18	60%

Class 18 includes trucks and tractors designed and used for hauling freight and whose gross vehicle weight is more than 11,788 kg, provided that they are acquired after March 30, 2010, and are new at the time they are acquired. Class 18 also includes additions and modifications made to such a truck or tractor to enable it to run on liquefied natural gas (LNG).

The half-year rule applies to class 18 property.



Additional deduction

Trucks and tractors that are eligible for the 60% CCA rate and run on LNG are also eligible for an **additional deduction equal to 85%** of the amount of CCA claimed for the year, provided the following conditions are met:

- The vehicle was acquired after March 30, 2010, but before January 1, 2017.
- The vehicle is fuelled by LNG at the time it is acquired, or additions or modifications are made to the vehicle to enable it to run on LNG within 12 months following its acquisition.
- For a period of 730 consecutive days following the day it is first used, the taxpayer or a person with whom the taxpayer does not deal at arm's length uses the vehicle mainly for hauling freight, except in the case of loss or involuntary destruction of the property by, for example, an accident or theft, or in the case of a major breakdown of the property.

Additions or modifications made to such a truck or tractor to enable it to run on LNG are eligible for the additional deduction only if the vehicle itself is eligible for the additional deduction.

A taxpayer cannot, however, claim the additional 85% deduction in the case of eligible property acquired from a person or partnership with whom the taxpayer is not dealing at arm's length at the time the property is acquired, if the additional deduction has already been claimed with respect to the property.

All property belonging to a taxpayer and giving entitlement to the additional deduction must be included in a separate class 18.

The additional deduction is not subject to recapture of CCA following the disposition (for example, the sale) of the property. However, a truck or tractor that is not fuelled by LNG at the end of the 12-month period following its acquisition is deemed to have never been included in the separate class 18. The same applies to a truck or tractor that does not meet the requirements pertaining to the 730-day minimum period of use.

Class	Rate
43.1	30%

Class 43.1 includes electric vehicle charging stations designed to provide between 10 and 90 kilowatts of continuous power that were acquired to be made available for use after March 21, 2016, and were not acquired or used before March 22, 2016.

The half-year rule applies to class 43.1 property.

Class	Rate
43.2	50%

Class 43.2 includes electric vehicle charging stations designed to provide 90 kilowatts or more of continuous power that were acquired to be made available for use after March 21, 2016, and were not acquired or used before March 22, 2016.

The half-year rule applies to class 43.2 property.

Class	Rate
46	30%

Class 46 includes data network infrastructure equipment that controls, transfers, modulates or directs data, and that operates in support of advanced telecommunications applications, such as email, Web searching and Web hosting, instant messaging, and audio and video over Internet protocol, if such property is acquired after March 22, 2004. If such property was acquired before March 23, 2004, it must be included in class 8.

This equipment includes data switches, multiplexers, routers, hubs, modems and domain name servers used to control, transfer, modulate or direct data.

Not included are telephones, cell phones, fax machines, equipment such as Web servers (which are now considered computers) as well as wires, cables and structures.

Class	Rate
50	55%

Class 50 includes general-purpose electronic data processing equipment (such as computers), related systems software, and ancillary data processing equipment.

The half-year rule applies to class 50 property.

Additional deduction

If the conditions below are met, class 50 property entitles you to an additional deduction equal to 35% of the CCA for the year:

- The property was acquired after March 28, 2017, but before April 1, 2019.
- The property was put to use within a reasonable amount of time after being acquired.
- The property is new.
- You use the property mainly in Québec in the course of carrying on a business throughout a period of 730 consecutive days following the day it is first put to use.

You can claim the additional deduction for both the taxation year in which the property was first put to use and the following year.

The additional deduction is not subject to CCA recapture.

NOTE

If you claim an additional deduction for class 50 property and do not use the property mainly in Québec in the course of carrying on a business throughout a period of 730 consecutive days following the day it is first put to use, you will have to repay the amount of the deduction you received in the form of a special tax.



Class	Rate
53	50%

Class 53 includes machinery and materials acquired after 2015 but before 2026 and used in Canada mainly to manufacture and process property intended for sale or lease.

The half-year rule applies to class 53 property.

Additional deduction

If the conditions below are met, class 53 property entitles you to an additional deduction equal to 35% of the CCA for the year:

- The property was acquired after March 28, 2017, but before April 1, 2019.
- The property was put to use within a reasonable amount of time after being acquired.
- The property is new.
- You use the property mainly in Québec in the course of carrying on a business throughout a period of 730 consecutive days following the day it is first put to use.

You can claim the additional deduction for both the taxation year in which the property was first put to use and the following year.

The additional deduction is not subject to CCA recapture.

NOTE

If you claim an additional deduction for class 53 property and do not use the property mainly in Québec in the course of carrying on a business throughout a period of 730 consecutive days following the day it is first put to use, you will have to repay the amount of the deduction you received in the form of a special tax.

6.22.7 Election to have property included in a separate class

You may elect to include in a separate class certain class 8 property such as photocopiers, fax machines and telephone equipment, provided the unit cost of the property is at least \$400.

The creation of a separate class does not change the CCA rate applicable to the property in question, but it allows you to do a separate CCA calculation for the property belonging to that class over a period of no more than five taxation years. In this way, when the property is sold, the UCC of the class to which it belongs is fully deductible as a terminal loss.

Moreover, the half-year rule does not apply to property that you elected to include in a separate class. Such an election therefore allows you to increase the CCA claimed on the property for the year in which it is acquired.

To make the election, enclose a letter with your income tax return for the year in which the property is acquired.

NOTE

If you still have the property in question at the beginning of the sixth taxation year, you must transfer the UCC to the class in which the property would normally have been included.

6.23 Incorporeal capital property

Incorporeal capital property includes incorporeal property such as trademarks, patents, franchises, concessions or licences of **unlimited** duration, goodwill, customer lists and farm quotas. Beginning in 2017, incorporeal capital property is considered a new class of depreciable property (class 14.1) that is subject to specific rules. See section 6.22. Businesses can only have one class 14.1, which includes goodwill.

At the end of December 31, 2016, you were required to transfer the balance of your eligible incorporeal capital amount (EICA) to class 14.1. The opening balance (UCC) of your class 14.1 respecting incorporeal capital property that you owned before January 1, 2017, corresponds to the balance of your EICA at the end of 2016.

Moreover, beginning in 2017, new rules apply to incorporeal capital property that is goodwill, as well as to capital expenditures made in order to earn business income. Transitional rules also apply.

Transitional rules

Special rules apply if your fiscal period ending in 2017 includes December 31, 2016. This is the case, for example, if:

- during the year, you received (or are deemed to have received) amounts in respect of property that was incorporeal capital property before January 1, 2017;
- during the year, you had cash receipts that related to expenses incurred before January 1, 2017;
- during the fiscal period that included December 31, 2016, you disposed of incorporeal capital property.

Goodwill, capital expenditures and receipts

When you carry on particular business, there is deemed to be a single goodwill property in respect of the business. If, as part of your business operations, you acquired part of another business in operation, you are considered to have acquired the corresponding part of the business's goodwill. This will affect the cost of the goodwill and therefore increase the UCC of your business's class 14.1.

When you incur an expense or make a capital expenditure in order to earn business income, the expense or expenditure is equal to the cost of the goodwill if it:

- does not represent the cost (or part of the cost) of property;
- cannot be deducted from your business income; and
- does not represent an amount paid or payable to a creditor because or in settlement of a debt.

Such a capital expenditure increases the UCC of your business's class 14.1.

6.23.1 CCA of incorporeal capital property

You cannot deduct the cost of incorporeal capital property in the year you acquire it. However, you can deduct a portion of its capital cost each year by claiming CCA.

The acquisition of incorporeal capital property constitutes a capital expenditure. The **full acquisition cost** entitles you to 5% CCA.

CCA of property acquired before January 1, 2017

Property acquired before January 1, 2017, entitles you to an additional 2% CCA for taxation years ending before 2027.

Moreover, if the **total** of the amount you can deduct as 5% CCA **and** the additional 2% deduction for property acquired before 2017 is less than \$500, you can increase the amount of the additional deduction such that the total CCA equals the lesser of the following:

- \$500; or
- the UCC balance for the class on January 1, 2017, **minus** the total deduction claimed for the class.

The additional deduction cannot make the total deduction for all class 14.1 property exceed the UCC balance on January 1, 2017.

Example

On January 1, 2017, the class 14.1 UCC balance for property acquired before 2017 was \$900. No CCA was claimed on this amount.

The total CCA **for 2017** is the result of the following calculation:
 $(\$900 \times 5\%) + (\$900 \times 2\%) = \$45 + \$18 = \$63$

Because it less than \$500, the CCA can be increased. For 2017, the amount that can be claimed is \$500, which is the lesser of the following:

- \$500
- \$900

On January 1, 2018, the UCC is \$400—the UCC on January 1, 2017, **minus** the total CCA claimed in 2017 (\$900 – \$500).

The total CCA **for 2018** is the result of the following calculation:
 $(\$400 \times 5\%) + (\$400 \times 2\%) = \$20 + \$8 = \$28$

Because it less than \$500, the CCA can be increased. For 2018, the amount that can be claimed is \$400, which is the lesser of the following:

- \$500
- \$400

Do the calculations for each of your businesses that owns class 14.1 property. If a business's fiscal period has fewer than 365 days, you must prorate the CCA accordingly.

See class 14.1 in section 6.22.6 for more information.

Class 14.1 UCC on January 1, 2017

The EICA balance at the end of 2016 constitutes a business's class 14.1 UCC at the beginning of 2017. This is the amount to enter in column 2 of the table in Part 5 of form TP-80-V.

6.23.2 Disposition of incorporeal capital property

Beginning in 2017, if you dispose of incorporeal capital property (for example, by selling it) the gain realized on the disposition (or deemed disposition) may result in CCA recapture, a terminal loss or a capital gain (see section 6.22).

If you disposed of incorporeal capital property whose cost was included in your EICA before December 31, 2016, or if you received amounts that do not represent the proceeds of disposition of property acquired before 2017, you will have to adjust your business's class 14.1 EICA.

If the amounts you received exceed the CCA you claimed, they will be recaptured (see section 6.22). If they exceed the capital cost of the goodwill, the excess will constitute a capital gain (see IN-120).

Note

If, in 2017, you disposed of property that you had included in your EICA at the rate of 75% before 2017, you must add 25% of the lesser of the following amounts to your class 14.1 UCC:

- the proceeds of disposition of the property;
- the capital cost of the property.

The purpose of this rule is to avoid excessive recapture in respect of the property.

Election

If December 31, 2016, is included in your fiscal period and, in the fiscal period ending in 2017, you:

- acquired class 14.1 property or are deemed to have acquired goodwill, you can elect to defer the deemed capital gain or the amount to include in your income at the time of the disposition; or
- disposed of incorporeal capital property before January 1, you can elect to consider the gain realized on the disposition as either a capital gain or business income.

If you make this election with the CRA in your federal income tax return, it will automatically apply for Québec income tax purposes. The election must be made with the CRA to apply.

If you make the election with the CRA, you must notify us in writing and send us a copy of any relevant document sent to the CRA by the later of the following dates:

- the 30th day following the date of the election; or
- June 15 of the year of the election.

If you do not send us the documents by the deadline, you will be liable to a penalty of \$25 per day, up to a maximum of \$2,500.



6.24 Other expenses

The most common types of expenses qualifying for a deduction in calculating business income are described in the preceding pages and listed on form TP-80-V. On line 246 of the form, you can enter the deductions that you cannot deduct elsewhere on the form (for example, education expenses and reserves).

Education expenses

Education refers to any course taken in order to retain, update or improve an ability already acquired as part of the carrying on of business activities.

In general, expenses incurred to take education courses, such as registration fees, travel expenses and living expenses, constitute expenses giving entitlement to a deduction, provided:

- the expenses are reasonable;
- the courses do not lead to any particular degree or professional certification (if a course leads to a particular degree or certification, the related expenses are considered capital expenditures and not current expenses);
- the duration of the course(s) allows you to continue carrying on your business;
- the course or courses are held in a place that generally corresponds to your geographical territory. If not, the course(s) must be for business purposes, such as to expand your network or contacts, and no similar course can be offered in your area.

You **cannot** deduct tuition fees paid to educational institutions such as universities or colleges. However, you can claim a non-refundable tax credit for these fees on line 398 of your income tax return.

Reserves

You can deduct reserves pertaining to amounts included in business income that can be regarded as unearned income or future liabilities. However, any reserves deducted in the year must be added to your income for the following year. For more information on reserves, see section 4.1.2.

Political contributions

You cannot deduct political contributions made after March 17, 2016, from your business income.

6.25 GST/HST or QST rebate received as a member of a partnership

If, during the year, you received a GST/HST or QST rebate with respect to expenses you incurred personally in order to earn income from a partnership of which you are a member, you must include in your business income (line 253 of form TP-80-V) the portion of the rebate that pertains to expenses other than CCA. The portion of the rebate that pertains to the CCA of property must be subtracted from the UCC of the property in question as determined at the beginning of the year in which the rebate was received.

6.26 Expenses incurred to earn partnership income

You can deduct from your share of the partnership's income (or loss) the expenses you incurred with respect to that income (or loss), provided the expenses are not included in the partnership's expenses, are deductible only by you, and are not reimbursed to you. You cannot deduct entertainment expenses that you incurred if they are subject to the 50% limit or the specified percentage (see section 6.11).

6.27 Expenses related to the business use of your home

You can deduct expenses relating to the business use of a portion of your home, provided one of the following conditions is met:

- That portion of your home is your principal place of business.
- You use that portion of your home only to earn business income, and you meet clients, customers or patients there on a regular and ongoing basis.

These expenses are divided into general expenses, which apply to the entire home, and expenses related only to the portion of the home used for business purposes (referred to as the "office" in the sections below).

6.27.1 General expenses

These expenses, which apply to both the office and the rest of your home, include:

- heating;
- lighting;
- insurance premiums;
- maintenance and repairs;
- mortgage interest, property taxes and CCA related to the home, if you own or co-own the home;
- rent, if you rent the home.

Only the portion of the general expenses that relates to the office is deductible.

Percentage of your home used as an office

To determine the deductible portion of an expense, you must first determine the portion of the expense that is for the office portion of your home. This must be done using a reasonable basis, such as the percentage of the total surface area occupied by the office. For instance, if your office occupies 20% of the surface area of your home, you can base the deduction for rent (or, if you own your home, the deduction for your property taxes and mortgage interest) on that percentage. However, your basis of calculation must take into account that your office (if it is your principal place of business) may be used for other purposes, such as personal purposes or the purposes of carrying out of another business.

You must then multiply the percentage so determined by 50% in the case of insurance premiums, expenses for maintenance and repair, mortgage interest, property taxes and rent. This is because, to a large extent, these expenses are incurred for personal purposes. In the case of expenses that are specifically related to the use of the office (in particular, the cost of heating and lighting), the **50% limit does not apply**.

Capital cost allowance

If you own or co-own your home, you cannot deduct an amount with respect to the rental value of the office, since only expenses actually incurred are deductible. An expense related to the cost of your home (excluding the land) is referred to as a capital expenditure, and qualifies for CCA.

NOTE

If you claim CCA on the office portion of your home, that portion is no longer considered part of your principal residence. When you sell your home, the **capital gain** realized on that portion of the home will be subject to income tax, and the rules respecting recapture of CCA will apply.

To determine the capital cost deemed related to your office, you must first determine the percentage of your home used as your office, using a reasonable basis of calculation (such as the surface area). The amount of capital expenditures qualifying for CCA is determined based on this percentage. However, capital expenditures that relate to both the office and the other portion of your home must be further reduced by half (the 50% reduction does not apply if the expenditures relate only to the office).

The capital cost for the office is **considered equal** to the result of the following formula:

$$(A \times 50\%) + B,$$

where

- A** is the amount of capital expenditures qualifying for CCA and relating to both the office and the other portion of the home;
- B** is the amount of capital expenditures qualifying for CCA and relating exclusively to the office.

Example

An office occupies 25% of the surface area of a home that was acquired at a cost of \$100,000 (excluding the land). The office is used exclusively (100%) for business purposes. Improvements were made only to the office at a cost of \$4,000.

Amount of capital expenditures qualifying for CCA and relating to both the office and the other portion of the home: \$100,000 × 25%	A	\$25,000
		× 50%
Amount A multiplied by 50%		= \$12,500
Amount of capital expenditures qualifying for CCA and relating exclusively to the office: \$4,000 × 25%	B	+ \$1,000
Capital cost considered related to the office		= \$13,500

If you claimed CCA and later sold the home, the portion of the selling price used to calculate recapture of CCA is reduced by 50%, and takes into account the ratio between the amount of capital expenditures that qualify for CCA and relate to both the office and the other portion of the home, and the total amount of capital expenditures that qualify for CCA.

The proceeds of disposition considered related to the office are calculated as follows:

$$(C \times 50\%) + D$$

where

- C** is the portion of the proceeds of disposition related to the office multiplied by the result of the following calculation: $A / (A + B)$, where A and B are as defined in the above formula for determining the capital cost for the office. The calculation is thus made by dividing the amount of capital expenditures qualifying for CCA (and relating to both the office and the other portion of the home) by the total amount of capital expenditures qualifying for CCA;
- D** is the portion of the proceeds of disposition related to the office multiplied by the result of the following calculation: $B / (A + B)$, where A and B are as defined in the above formula for determining the capital cost for the office. The calculation is thus made by dividing the amount of capital expenditures qualifying for CCA (and relating exclusively to the office) by the total amount of capital expenditures qualifying for CCA.

NOTE

The proceeds of disposition obtained in the above calculation must not be used to calculate the capital gain resulting from a disposition.



Example (continued)		
Proceeds of disposition of the home		\$102,000
Portion of the proceeds of disposition related to the office (\$102,000 × 25%)		\$25,500
Accumulated CCA at the time of sale		\$540
Portion of the proceeds of disposition related to the office, multiplied by the result of A / (A + B) : \$25,500 × \$25,000 / \$26,000	C	\$24,520
	×	50%
Amount C multiplied by 50%	=	\$12,260
Portion of the proceeds of disposition related to the office, multiplied by the result of B / (A + B) : \$25,500 × \$1,000 / \$26,000	D	\$981
Proceeds of disposition considered related to the office	=	\$13,241
Capital cost considered related to the office		\$13,500
Accumulated CCA	–	\$540
Undepreciated capital cost (UCC)	=	\$12,960
Proceeds of disposition considered related to the office	–	\$13,241
Recapture of CCA related to the office	=	–\$281

The above-mentioned 50% limit on current and capital expenditures applies to taxation years or fiscal periods that began after May 9, 1996. However, the limit does not apply if:

- you use a portion of your home as a private residential home (since 2005, this type of residence is no longer subject to the 50% limit); or
- you use a portion of your home to operate a tourist home, a bed and breakfast establishment, or a participating establishment in a hospitality village, and either you hold a classification certificate of the appropriate class, issued under the *Act respecting tourist accommodation establishments*, or you are a participant in a hospitality village covered by such a permit.

If the 50% limit applies, the amount of CCA claimed (respecting a capital expenditure related to both the office and the other portion of the home) for a taxation year or fiscal period that began before May 10, 1996, is considered to be equal to 50% of the amount concerned for the purposes of calculating the UCC for a taxation year or fiscal period that began after May 9, 1996. This ensures that the disposition of the home does not give rise to a recapture of CCA resulting solely from the application of the 50% limit to the proceeds of disposition for the office portion of the home.

6.27.2 Expenses related to the office only

Current expenses pertaining **only** to the office portion of your home are fully deductible. For example, you can deduct 100% of the cost of having your office walls painted, if that room is used exclusively for work.

However, if the office portion of your home is also used for other purposes, you must adjust your calculations accordingly. For example, if the office mentioned in the previous paragraph is used 15% of the time for other purposes, you can only deduct up to 85% of the expenses.

6.27.3 Maximum amount deductible for a taxation year

The amount you deduct for a particular year as expenses related to the use of your home for business purposes (including expenses you could not deduct in previous years because of this limit) **must not exceed** your business income, calculated before deduction of the expenses and before taking into account the amount to be included or deducted as additional income. Consequently, you cannot use the expenses to create or increase a business loss. However, you can carry to subsequent taxation years any portion of the amount that you cannot deduct for a given taxation year because of this limit.

6.27.4 Partnerships

Where a partnership of which you are a member carries on a business in your home, the aforementioned rules also apply.

The partnership of which you are a member can deduct the rent relating to an office or other work space that it uses in your home if that portion of your home is the partnership's principal place of business or is used exclusively by the partnership to earn income from a business and to meet clients, customers or patients on a regular and ongoing basis. The amount deducted must not exceed 50% of the rent that the partnership could otherwise deduct for the fiscal period concerned.

The rent deducted for a given fiscal period must not exceed the partnership's business income for that period, calculated before the deduction. However, any portion of the rent that is non-deductible for a given fiscal period solely because of this rule can be carried to subsequent fiscal periods.



7 NET INCOME OR NET LOSS

Once you are familiar with the various types of deductible expenses, you must calculate your deductions and determine the net income of your business for the fiscal period.

Your business income must be reported in Schedule L of your income tax return. Enter your gross income on line 12, 15 or 16 of Schedule L and your net income (or net loss) on line 22, 25 or 26, as applicable. Furthermore, if your fiscal period ends on a date other than December 31, you must complete form TP-80.1-V to adjust your net income (or net loss). This is the case if

- in 2016, you carried on a business whose fiscal period ended in 2017;
- in 2017, you began carrying on a new or existing business and the first fiscal period for which you earned income from the business ended in 2017, on a date other than December 31; or
- in 2017, you began carrying on a new or existing business and the first fiscal period for which you earned income from the business ends in 2018.

The amount of a loss must be entered following a minus sign (–) in your income tax return, and then subtracted rather than added. As a rule, if the amount of the loss is more than your total income from other sources, you can use all or part of the excess amount to reduce your income for previous or subsequent years. If you wish to use a loss to reduce your income from previous years, complete form TP-1012.A-V, *Carry-Back of a Loss*, and file it separately from your return.

7.1 Disability supports deduction

If, in 2017, you paid disability supports expenses to enable you to actively carry on a business, alone or as a member of a partnership, you cannot subtract them from net business income but you can deduct them on line 250 of your return. Form TP-358.0.1-V, *Disability Supports Deduction*, which lists the requirements for claiming this deduction, must be completed to determine the amount that can be claimed.

7.2 Loss respecting a tax shelter

If you wish to claim a loss or deduction respecting a tax shelter or an investment in a tax shelter, you must enclose with your income tax return form TP-1079.6-V, *Statement of Losses, Deductions and Tax Credits Respecting a Tax Shelter*.

For more information on tax shelters as defined under the *Taxation Act*, contact us.



8 ACCOUNTING RECORDS AND SUPPORTING DOCUMENTS

If you carry on a business, you must keep registers and books, and, in some cases, take an annual inventory. You may also have to keep a journal of receipts and disbursements.

Your accounting records must contain the information we require to verify your business income and expenses and determine the amounts payable under a fiscal law.

This information should be supported by, for example:

- a daily statement of your income, along with your invoices and cash register tape;
- a daily statement of your expenses, along with your cancelled cheques and receipts;
- your credit card bills and monthly statements;
- ticket stubs for events and receipts for trips;
- a statement of kilometres travelled for each vehicle used for both business and personal purposes.

Always ask for a receipt or other supporting document when you incur business expenses.

8.1 Requirements for supporting documents in the metal recycling industry

If you carry on a metal recycling business, you cannot take into account the cost of a property in the calculation of the cost of goods sold unless:

- you acquire the property from a person (or partnership) registered for the QST and, at the time of the acquisition, you obtain the person's (or partnership's) registration number; or
- you complete, at the time of the acquisition, a document signed by the individual who delivered the property to you and containing the following information:
 - the name, address, date of birth and social insurance number of the individual who delivered the property to you, or who handed the property over to you when you went to pick it up, and
 - the precise nature of the property, the purchase price, and the method of payment.

The supporting document must name the piece of identification used to corroborate the information concerning the individual. If the individual who delivered the property is not the vendor, the supporting document **must also** indicate the vendor's name, address and social insurance number or Québec enterprise number (NEQ).

8.2 Keeping accounting records and supporting documents

You must keep all accounting records and original supporting documents for at least six years after the last taxation year to which they apply.

This obligation also applies to you if you keep electronic records or documents. You must keep such records and documents in intelligible form on the same medium for at least six years after the last taxation year to which they apply.

If your income tax return is filed late, you must keep all records and supporting documents (electronic or other) for at least six years after the date on which your return is filed.



9 INSTALMENT PAYMENTS

Instalment payments (also called “quarterly payments”) are remittances that an individual makes periodically to cover a portion of his or her income tax for the current year, contributions to the QPP and the health services fund, and the premiums payable under the Québec prescription drug insurance plan and the QPIP.

Normally, we send form TPZ-1026.A-V, *Instalment Payments Made by an Individual*, to the persons concerned to notify them in writing of the amount of the payments.

Instalment payments are not affected by the transfer of retirement income between spouses.

9.1 Calculation methods

To calculate your payments yourself, complete form TP-1026-V, *Calculation of Instalment Payments to Be Made by Individuals – 2017*, using one of the methods below.

Previous-year (2017) method

Under this method, you calculate your instalment payments for 2018 on the basis of your data for 2017. However, you must use estimated data for 2018 to calculate your refundable tax credits.

Current-year (2018) method

Under this method, you calculate your instalment payments on the basis of your estimated income, deductions, non-refundable tax credits, income tax, source deductions and refundable tax credits for 2018. Use a copy of the 2017 income tax return to make the estimates.

9.2 Terms

You must make instalment payments if your **estimated net income tax payable** for 2018 is over \$1,800 and **one of the two** following situations applies to you:

- your net income tax payable for 2017 is over \$1,800; or
- your net income tax payable for 2016 was over \$1,800.

Your **net income tax payable** is the amount by which your income tax payable for the year exceeds the total, for the same year, of your income tax withheld at source and your refundable tax credits. However, in the calculation of net income payable, do not take into account the amount included or deducted in determining the retirement income or source deductions on retirement income transferred between spouses.

Farmers or fishers must make instalment payments if their estimated net income tax payable for 2018 is over \$1,800 and their net income tax payable was over \$1,800 in both 2016 and 2017.

9.3 Due dates

Instalment payments, if required, must be made four times a year—by March 15, June 15, September 15 and December 15 of the year concerned. **In February and August**, we send you form TPZ-1026.A-V, which shows the amount of your instalments. The amount of your instalments for March and June 2018 is based on your 2016 income tax return, whereas the amount of your instalments for September and December 2018 is based on your 2017 income tax return.

If you are a farmer or a fisher, you will receive form TPZ-1026.A-V in November and must make your payment in a **single instalment** no later than December 31.

9.4 Interest charges

We charge interest, compounded daily, on any instalment (or portion thereof) that is not paid by the due date. Furthermore, if you pay **less than 75%** of the required instalment, **additional interest of 10%** per year, compounded daily, is charged on the unpaid portion of the instalment.

NOTE

If all your instalment payments are made on time and correspond to the amounts we estimated, you will not be required to pay interest, even if all your payments total less than your income tax payable for the year. For further information, refer to the document *Instalment Payments of Income Tax* (IN-105-V).

10 FILING DEADLINE

If you or your spouse carried on a business in 2017, you have until June 15, 2018, to file your 2017 income tax return; no late-filing penalty will be imposed with respect to returns filed by this date. Notwithstanding this extension, interest will be calculated as of May 1, 2018, on any balance owing on April 30, 2018.

If you or your spouse operated a family-type resource or an intermediate resource, you also have until June 15, 2018 to file your income tax return, but you must pay your QPP contribution and QPIP premium no later than April 30, 2018.

The extended filing deadline does not apply if the expenditures incurred in carrying on the business relate principally to tax shelters.

Be sure to enclose with your income tax return form TP-80-V, *Business or Professional Income and Expenses*, or your financial statements. Also enclose, as applicable, form TP-80.1-V, *Calculation of Business or Professional Income, Adjusted to December 31*, and form TP-1086.R.23.12-V, *Costs Incurred for Work on an Immovable*.

11 INDUSTRY CODES

Industry codes identify the principal activity of a business. The following list will allow you to determine the six-digit code for your business. Enter the code on line 34 of form TP-80-V.

Medical and diagnostic laboratories — 621500
Home healthcare services — 621600
Other ambulatory healthcare services — 621900

11.1 Professions

Offices of lawyers — 541110
Offices of notaries — 541120
Other legal services — 541190
Offices of accountants — 541212
Tax preparation services — 541213
Bookkeeping, payroll and related services — 541215
Financial and investment advice – online — 523990
Architectural services — 541310
Landscape architectural services — 541320
Engineering services — 541330
Drafting services — 541340
Building inspection services — 541350
Geophysical surveying and mapping services — 541360
Surveying and mapping (except geophysical) services — 541370
Testing laboratories — 541380
Specialized design services — 541400
Scientific research and development services — 541700
Other advice and counselling – online — 541990
Other professional, scientific and technical services — 541900
Veterinary services (including animal hospitals) — 541940
Offices of physicians — 621110
Offices of mental health practitioners – (except physicians) — 621330
Offices of dentists — 621210
Offices of other health practitioners (incl. chiropractors, optometrists, speech therapists, psychologists) — 621300
Out-patient care centres — 621400

11.2 Services

Agricultural or animal services

Support activities for crop production — 115110
Support activities for animal production — 115210

Transportation or storage

Postal services — 491110
Couriers — 492110
Local messengers and local delivery — 492200
Warehousing and storage — 493100
Air transportation — 481000
Rail transportation — 482100
Deep sea, coastal and Great Lakes water transportation — 483100
Inland water transport — 483200
General freight trucking — 484100
Specialized freight trucking — 484200
Urban transit systems — 485110
Interurban and rural bus transportation — 485210
Taxi service — 485310
Limousine service — 485320
School and employee bus transportation — 485410
Charter bus industry — 485510
Other transit and ground passenger transportation — 485990
Scenic and sightseeing transportation, land — 487110
Scenic and sightseeing transportation, water — 487210
Scenic and sightseeing transportation, other — 487990
Support activities for air transportation — 488100



Support activities for rail transportation — 488210
Support activities for water transportation — 488300
Support activities for road transportation — 488400
Freight transportation arrangement — 488500
Other support activities for transportation — 488990

Communications or utilities

Newspaper, periodical, book and directory publishers — 511100
Software publishers (except video game) — 511211
Video game publishers — 511212
Radio and television broadcasting — 515100
Pay and specialty television — 515210
Wired telecommunications carriers (incl. internet service providers)
— 517100
Wireless telecommunications carriers (except satellite) — 517210
Satellite telecommunications — 517410
Other telecommunications — 517910
Other information services — 519100
Advertising material distribution services — 541870
Finance, insurance, or real estate

Credit intermediation and related activities — 522000
Securities, commodity contracts,
and other financial investment and related activities — 523000
Insurance agencies and brokerages — 524210
Claims adjusters — 524291
All other insurance-related activities — 524299
Lessors of social housing projects — 531112
Lessors of non-residential buildings (except mini-warehouses)
— 531120
Self-storage mini-warehouses — 531130
Lessors of other real estate property — 531190
Real estate agents — 531211
Offices of real estate brokers — 531212
Real estate property managers — 531310
Offices of real estate appraisers — 531320
Other activities related to real estate — 531390
Lessors of non-financial intangible assets (except copyrighted works)
— 533110

Business services

Data processing, hosting, and related services — 518210
Internet publishing and broadcasting, and web search portals
— 519130
Computer systems design and related services (including
programmers, analysts) — 541514
Video game developers — 541515
Administrative management and general
management consulting services — 541611
Human resources consulting services — 541612
Other management consulting services — 541619
Environmental consulting services — 541620
Other scientific and technical consulting services — 541690

Advertising, public relations, and related services — 541800
Management of companies and enterprises — 551100
Office administrative services — 561110
Facilities support services — 561210
Employment services — 561300
Business support services — 561400
Travel arrangement and reservation services — 561500
Investigation and security services — 561600
Other business support services (incl. online) — 561900
Waste collection — 562110
Waste treatment and disposal — 562210
Remediation and other waste management services — 562900

Education, health or social services

Schools (including business, technical and trade schools), colleges
and universities — 611000
Fine arts, athletic instruction and language schools — 611600
All other schools and instruction (including tutors) — 611690
Non-instructional education services — 611710
Nursing and residential care facilities — 623000
Individual and family services — 624100
Community food and housing,
and emergency and other relief services — 624200
Vocational rehabilitation services — 624310
Child daycare services — 624410

Entertainment or recreation

Motion picture and video production — 512110
Motion picture and video distribution — 512120
Motion picture and video exhibition — 512130
Post-production and other motion picture and video industries
— 512190
Sound recording industries — 512200
Performing arts companies — 711100
Sports teams and clubs — 711211
Horse race tracks — 711213
Other spectator sports — 711218
Promoters (presenters) of performing arts, sports and similar events
— 711300
Sports stadiums and other presenters with facilities — 711319
Agents and managers for artists, athletes,
entertainers and other public figures — 711410
Independent artists, writers and performers — 711500
Heritage institutions — 712100
Amusement parks and arcades — 713100
Gambling industries — 713200
Other amusement and recreation industries — 713900
Internet publishing and broadcasting, and Web search portals
(including online gambling and pornography) — 519130
Other personal services (including online psychics,
escorts, dating, party planning, personal shopping) — 812900



Accommodation, food or beverage services

- Traveller accommodation — 721100
- RV (recreational vehicle) parks and recreational camps — 721200
- Rooming and boarding houses — 721310
- Food service contractors — 722310
- Caterers — 722320
- Mobile food services — 722330
- Drinking places (alcoholic beverages) — 722410
- Full-service restaurants — 722511
- Limited-service eating places — 722512

Repairs and maintenance

- General automotive repair — 811111
- Automotive exhaust system repair — 811112
- Other automotive mechanical and electrical repair and maintenance — 811119
- Automotive body, paint and interior repair and maintenance — 811121
- Automotive glass replacement shops — 811122
- Car washes — 811192
- All other automotive repair and maintenance — 811199
- Electronic and precision equipment repair and maintenance (incl. TV, radio, stereo, computer, camera) — 811210
- Commercial and industrial machinery and equipment (except automotive and electronic) repair and maintenance — 811310
- Home and garden equipment repair and maintenance — 811411
- Appliance repair and maintenance — 811412
- Reupholstery and furniture repair — 811420
- Footwear and leather goods repair — 811430
- Other personal and household goods repair and maintenance — 811490

Personal or household services

- Carpet and upholstery cleaning services — 561740
- Services for the elderly and persons with disabilities — 624120
- Personal care services (e.g. hair, tanning salons, diet centers – non medical) — 812100
- Funeral services — 812200
- Dry cleaning and laundry services — 812300

Other services

- Automotive equipment rental and leasing — 532100
- Consumer goods rental — 532200
- General rental centres — 532310
- Commercial and industrial machinery and equipment rental and leasing — 532400
- Photographic services — 541920
- Travel agencies — 561510
- Services to buildings and dwellings (incl. exterminators, chimney and window cleaners) — 561700
- Janitorial services (except window cleaning) — 561722
- Religious, grant-making, civic, and professional and similar organizations — 813000
- Private households — 814110

11.3 Sales–Retailers

Household goods stores

- Furniture stores — 442110
- Home furnishing stores — 442200
- Electronics and appliance stores (incl. TVs, stereos, computers) — 443100

Food or beverage stores

- Supermarkets and other grocery (except convenience) stores — 445110
- Convenience stores — 445120
- Specialty food stores — 445200
- Beer, wine and liquor stores — 445310

Automotive

- Automobile dealers — 441100
- Other motor vehicle dealers — 441200
- Automotive parts, accessories and tire stores — 441300
- Gasoline stations with convenience stores — 447110
- Other gasoline stations — 447190

Other retail stores

- Camera and photographic supplies stores — 443145
- Audio and video recording stores — 443146
- Home centres — 444110
- Paint and wallpaper stores — 444120
- Hardware stores — 444130
- Other building material dealers — 444190
- Lawn and garden equipment and supplies stores — 444200
- Health and personal care stores — 446100
- Pharmacies and drug stores — 446110
- Clothing stores — 448100
- Shoe stores — 448210
- Jewellery, luggage and leather goods stores — 448300
- Sporting goods stores (Golf, Ski, Cycling and other) — 451110
- Hobby, toy and game stores — 451120
- Sewing, needlework and piece goods stores — 451130
- Musical instrument and supplies stores — 451140
- Book stores and news dealers — 451310
- Pre-recorded tape, compact disc and record stores — 451220
- Department stores — 452110
- Other general merchandise stores — 452900
- Florists — 453110
- Office supplies and stationery stores — 453210
- Gift, novelty and souvenir stores — 453220
- Used merchandise stores — 453310
- Other miscellaneous store retailers — 453900

Direct sales

- Electronic shopping and mail-order houses — 454110
- Vending machine operators — 454210
- Direct selling establishments including cosmetics, food or beverages, fuel, household goods and newspaper delivery — 454300



11.4 Wholesalers–Distributors

Farm product — 411100
Petroleum product — 412110
Food — 413100
Beverage — 413200
Cigarette and tobacco product — 413310
Textiles, clothing and footwear — 414100
Home entertainment equipment and household appliance — 414200
Home furnishings — 414300
Personal goods — 414400
Pharmaceuticals, toiletries, cosmetics and sundries — 414500
Motor vehicle — 415100
New motor vehicle parts and accessories — 415200
Used motor vehicle parts and accessories — 415310
Electrical, plumbing, heating and air-conditioning equipment and supplies — 416100
Metal service centres — 416210
Lumber, millwork, hardware and other building supplies — 416300
Farm, lawn and garden machinery and equipment — 417110
Construction, forestry, mining, and industrial machinery, equipment and supplies — 417200
Computers and communications equipment and supplies — 417300
Other machinery, equipment and supplies — 417900
Recyclable material — 418100
Paper, paper product and disposable plastic product — 418200
Agricultural supplies — 418300
Chemical (except agricultural) and allied product — 418410
Business-to-business electronic markets (online) — 419110
Wholesale trade agents and brokers (not online) — 419120
Other miscellaneous (including online) — 418900

11.5 Construction

Residential building construction — 236110
Non-residential building construction — 236200
Utility system construction — 237100
Land subdivision — 237210
Highway, street and bridge construction — 237310
Other heavy and civil engineering construction — 237990
Poured concrete foundation and structure contractors — 238110
Structural steel and precast concrete contractors — 238120
Framing contractors — 238130
Masonry contractors — 238140
Glass and glazing contractors — 238150
Roofing contractors — 238160
Siding contractors — 238170
Other foundation, structure and building exterior contractors — 238190
Electrical contractors and other wiring installation contractors — 238210

Plumbing, heating and air-conditioning contractors — 238220
Elevator and escalator installation contractors — 238291
All other building equipment contractors — 238299
Drywall and insulation contractors — 238310
Painting and wall covering contractors — 238320
Flooring contractors — 238330
Tile and terrazzo contractors — 238340
Finish carpentry contractors — 238350
Other building finishing contractors — 238390
Site preparation contractors — 238910
All other specialty trade contractors — 238990

11.6 Manufacturing

Food — 311000
Beverages and tobacco product — 312000
Textile mills — 313000
Textile product mills — 314000
Clothing — 315000
Leather and allied product — 316000
Wood product — 321000
Paper — 322000
Printing and related support activities — 323000
Petroleum and coal product — 324000
Chemical — 325000
Plastics and rubber products — 326000
Non-metallic mineral product — 327000
Primary metal — 331000
Fabricated metal products — 332000
Machinery — 333000
Computer and electronic product — 334000
Electrical equipment, appliance and component — 335000
Transportation equipment — 336000
Furniture and related product — 337000
Miscellaneous — 339000

11.7 Natural resource industries

Timber tract operations — 113110
Forest nurseries and gathering of forest products — 113210
Logging (except contract) — 113311
Contract logging — 113312
Hunting and trapping — 114210
Support activities for forestry — 115310
Oil and gas extraction — 211100
Coal mining — 212100
Metal ore mining — 212200
Non-metallic mineral mining and quarrying — 212300
Support activities for mining and oil and gas extraction — 213100
Electric power generation, transmission and distribution — 221100
Natural gas distribution — 221200
Water, sewage and other systems — 221300

TO CONTACT US

Online

revenuquebec.ca



By telephone

Individuals and individuals in business

Monday to Friday: 8:30 a.m. to 4:30 p.m.

Québec City

418 659-6299

Montréal

514 864-6299

Elsewhere

1 800 267-6299 (toll-free)

Businesses, employers and agents for consumption taxes

Monday, Tuesday, Thursday and Friday: 8:30 a.m. to 4:30 p.m.

Wednesday: 10:00 a.m. to 4:30 p.m.

Québec City

418 659-4692

Montréal

514 873-4692

Elsewhere

1 800 567-4692 (toll-free)

Complaints – Bureau de la protection des droits de la clientèle

Monday to Friday: 8:30 a.m. to noon and 1:00 p.m. to 4:30 p.m.

Québec City

418 652-6159

Elsewhere

1 800 827-6159 (toll-free)

Individuals with a hearing impairment

Montréal

514 873-4455

Elsewhere

1 800 361-3795 (toll-free)

By mail

Individuals and individuals in business

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