

Adjustments to a fiscal measure and harmonization with a federal fiscal measure

This information bulletin makes adjustments to the abolition of the additional capital gains exemption in respect of certain resource properties announced in the March 25, 2025 budget.

Moreover, this bulletin announces the harmonization of Québec tax regulations with the regulatory amendment made public by the federal government on March 26, 2025 in the *Canada Gazette* to allow a trust created to give effect to a memorandum of understanding between Air Canada and certain trade unions who represent its employees to continue to be exempt from the rules applicable to retirement compensation arrangements.

To obtain information on the matters dealt with in this information bulletin, contact the Secteur du droit fiscal, de l'optimisation des revenus et des politiques locales et autochtones, at secteurdroitfiscaletdelafiscalite@finances.gouv.qc.ca.

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1. Adjustments to the abolition of the additional capital gains exemption in respect of certain resource properties

Briefly, an individual (other than a trust) may deduct, in computing their taxable income for a taxation year, an amount as an additional capital gains exemption on the disposition of certain resource properties.¹

In summary, the expression “resource property” of an individual or partnership means, among other things, certain flow-through shares or an interest in a partnership that holds such flow-through shares.

The amount of this exemption claimed by an individual, for a taxation year, may not exceed the lesser of certain amounts, notably the eligible taxable capital gain amount of the individual for the year and an amount calculated on the basis of the balance of the individual’s historical account of exploration expenses incurred in Québec at the end of the year.

The government’s review of tax expenditures has determined that adjustments need to be made to the flow-through share regime. The abolition of the additional capital gains exemption in respect of certain resource properties was therefore announced as part of the March 25, 2025 budget.

This abolition applies to dispositions made after the day of the budget speech.

In order to fully reflect the intent of the fiscal policy underlying this abolition, certain adjustments need to be made with respect to its application date.

Accordingly, the abolition of the additional capital gains exemption will not apply in respect of the disposition made after March 25, 2025 of a resource property that is a flow-through share issued before January 1, 2026 or an interest in a partnership acquired before January 1, 2026, where such share was issued or such interest was acquired following an application for a receipt for a preliminary prospectus made on or before March 25, 2025. For greater clarity, where the resource property is an interest in a partnership that holds such a flow-through share, the flow-through share issued in favour of the partnership will also be required to meet this condition.

Similarly, the abolition of the additional capital gains exemption will not apply in respect of the disposition made after March 25, 2025 of a resource property that is a flow-through share issued or an interest in a partnership acquired following a public announcement made on or before March 25, 2025, if the report of distribution form has been submitted to the Autorité des marchés financiers on or before May 31, 2025. For greater clarity, where the resource property is an interest in a partnership that holds such a flow-through share, the flow-through share issued in favour of the partnership will also be required to meet this condition.

¹ The rules relating to the additional capital gains exemption in respect of certain resource properties are set out in Title VI.5.1 of Book IV of Part I of the *Taxation Act*.

2. Harmonization with the *Regulations Amending the Income Tax Regulations (Prescribed Arrangement – Air Canada)*

In 2009, in order to give effect to a memorandum of understanding between Air Canada and certain trade unions who represent its employees (the MOU), a trust was established under the laws of Ontario to hold shares of Air Canada for the benefit of the trade unions (the Trust). Under the MOU, any proceeds from the sale of all or a portion of the shares were to be used for the sole purpose of funding solvency deficits of Air Canada's pension plans.

As of the 2009 taxation year, Air Canada had obtained, in respect of the Trust, an exemption from the application of the retirement compensation arrangement² tax rules set out in the *Income Tax Act* (ITA) and the *Taxation Act* (TA). To this end, a tax accommodation was provided in both the *Income Tax Regulations*³ (ITR) and the *Regulation respecting the Taxation Act*⁴ (regulation respecting the TA), by adding the Trust to the list of prescribed arrangements covered by an exemption.⁵

In April 2022, Air Canada and the trade unions who represent its employees signed a letter of intent to make various amendments to enable the shares of Air Canada's capital stock held in the Trust to be disposed of, and to use the proceeds from their sale for new purposes.

On March 26, 2025, the federal government published in the *Canada Gazette* an amendment to the ITR⁶ to recognize the April 2022 letter of intent signed by Air Canada and the trade unions who represent its employees. This amendment ensures that the Trust continues to be exempt from the federal income tax rules applicable to retirement compensation arrangements.

Given that Québec tax regulations, with respect to the rules relating to retirement compensation arrangements, are generally harmonized with the federal tax regulations, the regulation respecting the TA will be amended to incorporate, with adaptations based on the general principles of Québec tax regulations, the amendment to the ITR announced on March 26, 2025. In addition, this amendment will apply as of the same date as the amendment to the ITR with which it is harmonized, namely January 1, 2024.

² The term "retirement compensation arrangement" is defined in subsec. 248(1) of the ITA and s. 890.1 of the TA.

³ *Technical Tax Amendments Act, 2012*, S.C. 2013, c. 34, s. 405, assented to June 26, 2013, [Online], [\[https://www.parl.ca/documentviewer/en/41-1/bill/C-48/royal-assent/page-32\]](https://www.parl.ca/documentviewer/en/41-1/bill/C-48/royal-assent/page-32).

⁴ Order in Council 1105-2014 respecting regulations to amend various regulations of a fiscal nature, (2014) 146 G.O.Q. II, 2812, [Online], [\[https://www.publicationsduquebec.gouv.qc.ca/fileadmin/gazette/pdf_encrypte/lois_reglements/2014A/3549.pdf\]](https://www.publicationsduquebec.gouv.qc.ca/fileadmin/gazette/pdf_encrypte/lois_reglements/2014A/3549.pdf).

⁵ Sections 6802 of the ITR and 890.1R1 of the regulation respecting the TA list the prescribed arrangements or plans that are excluded from the federal and Québec definitions of "retirement compensation arrangement".

⁶ *Regulation Amending the Income Tax Regulations (Prescribed Arrangement – Air Canada)* (SOR/2025-75), *Canada Gazette*, Part II, Vol. 159, No. 7, March 26, 2025, [Online], [\[https://gazette.gc.ca/rp-pr/p2/2025/2025-03-26/html/sor-dors75-eng.html\]](https://gazette.gc.ca/rp-pr/p2/2025/2025-03-26/html/sor-dors75-eng.html).