

Adjustments to the Québec tax system and harmonization with a federal tax measure

The purpose of this information bulletin is to make public the new measures to improve the effectiveness of the fight against tobacco smuggling announced in the 2025-2026 budget, as well as other technical measures.

It also outlines changes to the tax credit relating to investment and innovation, and to the new tax holiday relating to the carrying out of a large investment project, to take into consideration the Institut de la statistique du Québec's recent update of the economic vitality indexes for Québec's regions.

In addition, this bulletin clarifies certain aspects of the Family Allowance for bereaved parents, to enable better administration of this measure and to cover certain specific situations.

Lastly, it announces harmonization with an amendment to the Income Tax Regulations made by the federal government.

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.

The English and French versions of this bulletin are available on the Ministère des Finances website at www.finances.gouv.qc.ca.

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and harmonization with a federal tax measure**

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1. Changes to the tobacco tax system

In the budget speech of March 25, 2025, the Québec government announced new legislative measures to fight more effectively against tobacco smuggling. This information bulletin sets out the changes that will be made to the tobacco tax system to more effectively combat new tobacco product smuggling schemes as well as improve control measures, and presents other changes relating to new technical measures in this area. Each of these changes will come into force on the date the bill giving effect to it is assented to.

□ Addition of permit subcategories

Under the current *Tobacco Tax Act* (TTA), permits are issued for general categories of activities. However, these categories are not specific enough to allow Revenu Québec to respond effectively to smuggling.

Consequently, the tobacco tax system will be amended to specifically provide for permit subcategories that will specify, in particular, the activities and types of tobacco covered by the permit, which will allow for a better indication of the activities for which a person holds a permit.

□ Addition of a tobacco grower's permit

There are currently no control measures in the TTA regarding tobacco cultivation in Québec. Therefore, to prevent smugglers from growing tobacco for their illicit activities, the tobacco tax system will be amended to introduce a requirement whereby any person wishing to grow tobacco in Québec that is not intended for personal use must hold a tobacco grower's permit. Changes will also be made to provide that the holder of such a permit must keep a register containing the information specified by the Minister of Revenue.

□ Measures limiting access to tobacco manufacturing equipment and filters

The TTA provides that a manufacturer's permit is required to possess in Québec or bring tobacco manufacturing equipment into Québec. However, there is no provision prohibiting the sale of tobacco manufacturing equipment to a person who does not hold the appropriate permit. In addition, since the trade in tobacco filters is not regulated, illegal manufacturers can easily obtain these components, which are essential for their smuggling activities.

Consequently, the tobacco tax system will be amended to generally prohibit the sale or delivery in Québec of tobacco manufacturing equipment or tobacco filters to a person who does not hold an appropriate permit. Similarly, the system will be amended to provide that a person who engages in activities related to the possession in Québec or the bringing into Québec of tobacco filters is generally required to hold an appropriate permit.

These changes will directly target illegal tobacco manufacturers by limiting their access to tobacco manufacturing equipment and filters.

❑ Refusal to issue a certificate or permit

The Québec tax system provides for the possibility of refusing to issue a registration certificate or a permit, particularly when the person applying for one fails to comply with a requirement set out in a provision of the TTA. However, these control measures do not extend to situations where the person applying for a registration certificate or a permit does not comply with another provincial or federal law relating to tobacco taxation or regulation.

Consequently, the tobacco tax system will be amended to provide for the possibility of refusing to issue or renew a registration certificate in respect of the retail sale of tobacco or a permit, as well as the possibility of suspending or revoking such a certificate or permit in cases where the person applying for it does not comply with the requirements of any law or regulation relating to tobacco taxation or regulation.

❑ Conclusion of collection agreements

The tobacco tax system allows for the conclusion of an agreement to facilitate the collection and remittance of the tobacco tax as a condition for the issuance of a permit. However, these control measures do not extend to the conclusion of an agreement to ensure the integrity of this system.

Consequently, the tobacco tax system will be amended to make it possible to require, as a condition for the issuance or renewal of a permit, the conclusion of an agreement to ensure the integrity of this system when the situation or context of the permit application so requires.

These changes will help reduce tax losses by ensuring that tobacco products are not diverted to illegal sales networks and that tobacco tax requirements are met.

❑ Identification of loose tobacco

Some shisha tobacco retailers make it a practice of scooping loose tobacco from containers that are not identified in accordance with the TTA to sell to consumers. This practice makes it difficult to determine the origin and legality of the tobacco.

Consequently, to deter such practices, the tobacco tax system will be amended to prohibit retailers from transferring loose tobacco. Anyone who fails to comply with this prohibition will incur the same penalties and will be liable to the same penal sanctions as those applicable for contravening the prohibition of selling, delivering or being in possession of tobacco intended for retail sale in Québec and contained in a package not identified in accordance with section 13.1 of the TTA.

This new requirement will allow consumers to ensure that the tobacco they purchase in a shisha tobacco retail establishment has been obtained from legal tobacco trade channels.

❑ **Control measures for raw tobacco**

Current control measures under the TTA regarding the importation, storage and transportation of raw tobacco do not extend to raw tobacco used in the manufacturing of vaping products. However, raw tobacco purportedly intended for use in the manufacturing of vaping products is being diverted for use in the manufacturing of smuggled tobacco products.

Consequently, to prevent the diversion of raw tobacco intended for the manufacturing of vaping products into smuggling networks, the tobacco tax system will be amended so that the control measures that currently apply to raw tobacco intended for the manufacturing of tobacco products will also apply to raw tobacco intended for the manufacturing of vaping products.

❑ **Authorization to use a tracking device**

The use of a tracking device installed on a vehicle makes it possible to gather important information to expose tobacco smuggling schemes.

Therefore, the tobacco tax system will be amended so that a judge of the Court of Québec may authorize the use of a tracking device on a vehicle when there are reasonable grounds to suspect that an offence under the TTA has been or will be committed and that tracking the location of the place of an operation or the location or movements of a vehicle will assist in the investigation of the offence.

❑ **Power to stop a vehicle**

To ensure better control of raw tobacco and tobacco manufacturing equipment, the tobacco tax system will be amended so that control measures relating to the stopping of a vehicle used to transport packages of tobacco also apply to vehicles used to transport raw tobacco and tobacco manufacturing equipment.

❑ **Order with non-disclosure clause**

The Québec tax system will be amended to allow a judge to order the non-disclosure of the contents of an order when the judge has reasonable grounds to believe that disclosure could interfere with an ongoing investigation.

❑ **Admission of a certificate of analysis as evidence**

Current legislation does not allow a certificate of analysis specifying the content of a tobacco mixture to be submitted as evidence unless the analyst who conducted the analysis is subpoenaed to appear in court, which burdens the legal proceedings necessary to control shisha tobacco.

Consequently, the tobacco tax system will be amended so that a certificate of analysis, in the absence of any evidence to the contrary, can be accepted as proof of the facts stated therein without the analyst who conducted the analysis being subpoenaed.

❑ Repeal of the security expense allowance

In order to standardize treatment among collection officers under the various specific tax systems, the security expense allowance for collection officers provided for in the tobacco tax system will be repealed, and the clauses relating to this allowance in the collection agreements are to be considered ineffective.

2. Modifications to the list of territories with low economic vitality for the purpose of certain tax incentive measures

In recent years, the tax credit relating to investment and innovation¹ and the new tax holiday relating to the carrying out of a large investment project² (hereinafter referred to as the “new tax holiday”) were introduced to accelerate the creation of wealth in Québec.

More specifically, these incentive measures are intended to encourage productivity gains for businesses in all regions of Québec, while further promoting investments in territories where the economic vitality is low.

Briefly, the rate of the tax credit relating to investment and innovation, applicable to a specified property, and the rate of the new tax holiday, applicable to a large investment project, are determined according to the territory in which the investment is carried out, that is, a territory with low economic vitality,³ a territory with intermediate economic vitality⁴ or a territory with high economic vitality.⁵

To this end, the Institut de la statistique du Québec (ISQ) periodically issues an economic vitality index.⁶ This tool classifies Québec’s various localities according to specific indicators and makes it easier to target economic interventions.

¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2020-2021 – Additional Information*, March 10, 2020, pp. A.3-A.18.

² Id., *Budget 2023-2024 – Additional Information*, March 21, 2023, pp. A.17-A.36.

³ Prior to the changes announced in this information bulletin, the expression “territory with low economic vitality” refers to the urban agglomeration of La Tuque, the city of Shawinigan, as well as the following regional county municipalities (RCM): Antoine-Labelle, Avignon, Bonaventure, Charlevoix-Est, La Haute-Côte-Nord, La Haute-Gaspésie, La Matanie, La Matapédia, La Mitis, La Vallée-de-la-Gatineau, Le Domaine-du-Roy, Le Golfe-du-Saint-Laurent, Le Rocher-Percé, Les Appalaches, Les Basques, Les Etchemins, Les Sources, Maria-Chapdelaine, Maskinongé, Mékinac, Papineau, Pontiac, Témiscamingue, and Témiscouata. It also refers, until June 30, 2025, to the Argenteuil and Matawinie RCMs. (See MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2023-4*, June 27, 2023, pp. 13-16 and Id., *Information Bulletin 2023-6*, November 7, 2023, p. 5.)

⁴ The expression “territory with intermediate economic vitality” refers to a territory in Québec that is neither a territory with high economic vitality nor a territory with low economic vitality.

⁵ The expression “territory with high economic vitality” refers to a municipality listed in Schedule I of the *Act respecting the Communauté métropolitaine de Montréal* (CQLR, chapter C-37.01) or in Schedule A of the *Act respecting the Communauté métropolitaine de Québec* (CQLR, chapter C-37.02).

⁶ INSTITUT DE LA STATISTIQUE DU QUÉBEC, *Indice de vitalité économique des territoires*, [Online], [<https://statistique.quebec.ca/en/document/economic-vitality-index>].

When the tax credit relating to investment and innovation and the new tax holiday were introduced, it was determined that investments carried out in a territory whose economic vitality index was among the 25% lowest in Québec would benefit from a higher rate.⁷

Currently, the list of territories with low economic vitality is based on the classification initially presented in the ISQ’s 2023 issue of the economic vitality index. However, on February 26, 2025, the ISQ published its 2025 issue and revised the classification.

As a result of this update, modifications need to be made to the aforementioned tax measures to reflect the fact that the RCMs of Abitibi-Ouest, L’Islet, Manicouagan and Montmagny are now in the bottom quartile, and that the RCMs of Appalaches, Etchemins, Papineau and Témiscamingue are no longer in the bottom quartile.

2.1 Tax credit relating to investment and innovation

Briefly, the tax credit relating to investment and innovation is granted to a qualified corporation⁸ who acquires, before January 1, 2030, manufacturing or processing equipment, general-purpose data processing equipment or certain management software packages.

The rate of the tax credit relating to investment and innovation applicable to specified expenses incurred for the acquisition of a specified property is established based on the territory where the property is acquired to be used mainly and the date on which the specified expenses are incurred.

The following table shows the applicable rates.

TABLE

Rates of the tax credit relating to investment and innovation
(per cent)

Territory where the property is acquired to be used mainly	Rates applicable after December 31, 2023, and before January 1, 2030
Territory with low economic vitality	25
Territory with intermediate economic vitality	20
Territory with high economic vitality	15

⁷ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2020-2021 – Budget Plan*, March 10, 2020, p. C.42 and Id., *Budget 2023-2024 – Budget Plan*, March 21, 2023, p. B.21.

⁸ A qualified corporation that is a member of a qualified partnership may, on certain conditions, receive the tax credit relating to investment and innovation in respect of its share of the specified expenses incurred by the qualified partnership.

To maintain the objective of allowing corporations established in territories where the economic vitality index is among the 25% lowest in Québec to benefit from the highest rate of the tax credit relating to investment and innovation, the definition of “territory with low economic vitality” will be amended.

❑ **Addition of four RCMs to the list of territories with low economic vitality**

The tax legislation will therefore be amended to add the RCMs of Abitibi-Ouest, L'Islet, Manicouagan and Montmagny to the list of territories with low economic vitality for the purposes of the tax credit relating to investment and innovation.

This amendment will apply to specified expenses incurred after the day on which this information bulletin is published for the acquisition of a specified property after that date.

However, it will not apply to a property:

- acquired in accordance with a written obligation entered into on or before the day on which this information bulletin is published;
- whose construction by the corporation or partnership, or on its behalf, was underway on the day on which this information bulletin is published.

❑ **Removal of four RCMs from the list of territories with low economic vitality**

The tax legislation will also be amended to remove the RCMs of Appalaches, Etchemins, Papineau and Témiscamingue from the list of territories with low economic vitality for the purposes of the tax credit relating to investment and innovation.

To ensure an adequate transition period, this amendment will apply to specified expenses incurred after June 30, 2027, for the acquisition of a specified property after that date.

2.2 New tax holiday relating to the carrying out of a large investment project

Briefly, under the new tax holiday, a corporation⁹ that carries out a large investment project in Québec may, under certain conditions, benefit from an income tax holiday and a holiday from the employer contribution to the Health Services Fund.

The new tax holiday is granted for a period of 10 years beginning on the start date of the tax-free period for the large investment project, and is calculated by applying a rate of 15%, 20% or 25% to the cumulative total of eligible expenses related to the carrying out of the large investment project.

⁹ Similarly, a partnership that carries out a large investment project in Québec may, under certain conditions, benefit from a holiday from the employer contribution to the Health Services Fund. A corporation that is a member of the partnership may benefit from a tax holiday in respect of its share of the income of the partnership.

The rate of the new tax holiday that a corporation or a partnership may benefit from is determined in the date of the beginning of the tax-free period and is equal to the following rates:

- if the large investment project is carried out in a territory with low economic vitality: 25%;
- if the large investment project is carried out in a territory with intermediate economic vitality: 20%;
- if the large investment project is carried out in a territory with high economic vitality: 15%.

To maintain the objective of allowing corporations and partnerships carrying out a large investment project in territories where the economic vitality index is among the 25% lowest in Québec to benefit from the highest rate of the new tax holiday, the list of territories with low economic vitality will be modified.

□ Addition of four RCMs to the list of territories with low economic vitality

The tax legislation will therefore be amended to add the RCMs of Abitibi-Ouest, L'Islet, Manicouagan and Montmagny to the list of territories with low economic vitality for the purposes of the new tax holiday.

This amendment will apply to a large investment project if the tax-free period of the corporation or the partnership carrying it out begins after the day on which this information bulletin is published.

□ Removal of four RCMs from the list of territories with low economic vitality

The tax legislation will also be amended to remove the RCMs of Appalaches, Etchemins, Papineau and Témiscamingue from the list of territories with low economic vitality for the purposes of the new tax holiday.

To ensure an adequate transition period, this amendment will apply to a large investment project if the tax-free period of the corporation or the partnership carrying it out begins after June 30, 2027.

3. Additional information regarding the Family Allowance for bereaved parents

The refundable tax credit granting an allowance to families (RTCAF) provides financial assistance to families with children under the age of 18 to help them meet the needs of these children.

This tax credit consists of the Family Allowance, the Supplement for Handicapped Children (SHC), the Supplement for Handicapped Children Requiring Exceptional Care (SHCREC) and the Supplement for the Purchase of School Supplies.

The Family Allowance, which has a universal base, is determined notably on the basis of family income, so that additional assistance is granted to low- and middle-income families. The three supplements are granted to eligible families regardless of family income.

In the 2025-2026 budget,¹⁰ the Ministère des Finances announced a 12-month extension of Family Allowance, SHC or SHCREC payments, where applicable, in the event of a child's death. This new payment, the Family Allowance for bereaved parents (FABP), will apply in respect of a death occurring after June 30, 2025.

However, since the Ministère des Finances announced the introduction of the FABP, a number of specific situations have arisen in connection with the payment of this allowance. That is why additional clarifications will need to be made to the *Taxation Act*. These clarifications are the subject of this announcement, which is intended to complete the application parameters set out in the budget.

□ **Additional clarifications regarding the FABP**

■ **Concept of “eligible individual”**

As indicated in the 2025-2026 budget, the extension of Family Allowance and SHC or SHCREC payments, where applicable, will only apply to children for whom Family Allowance payments were already being made at the time of the child's death.

Therefore, only an individual qualifying as an “eligible individual” for the purposes of the Family Allowance immediately prior to the death of a child may qualify for the FABP.

In addition, in order to avoid more extended payment situations after the death of a child than before that event, a person's qualification as an “eligible individual” will have to be present not only immediately prior to the death of the child, but also throughout the 12-month period following the death. In other words, the bereaved parent will have to qualify as an “eligible individual” at the beginning of each month during the 12-month period following the month of the child's death.

During this 12-month period, since the FABP is an extension of the Family Allowance, the deceased child will be considered an “eligible dependent child” in respect of an “eligible individual” with whom the child resided immediately prior to death. However, this presumption will not apply for any month subsequent to that in which the child would have reached the age of majority, but for the child's death.¹¹

¹⁰ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2025-2026 – Additional Information*, March 25, 2025, pp. A.49-A.51.

¹¹ In addition, it should be noted that this presumption will no longer apply if the beneficiary of the FABP leaves Québec during the payment period. As indicated in the 2025-2026 budget, FABP payments will cease as of the month following the month in which the parent leaves Québec. The same will apply if the beneficiary becomes tax-exempt or loses their status as a Canadian citizen, permanent or temporary resident, or protected person under the conditions set out in the definition of “eligible individual.”

- **Death**

- **Death of a child outside Québec**

As indicated in the 2025-2026 budget, in the event of the death of a minor child in Québec, the Directeur de l'état civil informs Retraite Québec. However, when the death of an eligible dependent child occurs outside Québec, Retraite Québec must be notified by the parents.

To be eligible for the FABP when a child dies outside Québec, the beneficiary of the Family Allowance will have to notify Retraite Québec within 12 months of the child's death.

- **Death of the beneficiary of the Family Allowance or FABP**

In the event of the death of a beneficiary of the Family Allowance at the same time as an eligible dependent child, or of the death of a beneficiary of the FABP within 12 months of the death of their child, only a parent with a biological or adoptive parent-child relationship who qualified as an "eligible individual" immediately prior to the death of the child will be able to replace the beneficiary of the Family Allowance or FABP, as the case may be.

Therefore, the other parent who resided with the child immediately prior to the child's death, who met the other conditions of the definition of "eligible individual" and who would have been eligible for the Family Allowance¹² may become a beneficiary of the FABP in the event of the death of the first beneficiary, and receive the remaining payments following the death of the first beneficiary, provided this other parent applies within 12 months of the child's death.

However, for example, a parent who had custody of a child less than 40% of the time immediately prior to the child's death could not benefit from the FABP in the event of the death of the beneficiary of the FABP, since under tax legislation the parent who had custody of a child less than 40% of the time is deemed not to reside with the child.¹³

- **Terms of payment and maximum application period for the SHC or the SHCREC**

Retraite Québec is responsible for administering and paying the RTCAF and makes the payments on a quarterly basis, with the exception of the component relating to the Supplement for the Purchase of School Supplies, which is paid in a single, separate instalment.

RTCAF payments are made in January, April, July and October, and include respectively the amounts determined for the months included in that quarter, excluding the component relating to the Supplement for the Purchase of School Supplies. Retraite Québec makes RTCAF monthly payments when requested by an individual, and each payment includes only the amount determined for that month.

¹² The Family Allowance is paid to one person only per family.

¹³ *Taxation Act*, s. 1029.8.61.11.2.

- **Frequency of FABP payments**

The frequency of FABP payments will be that which was on file for the beneficiary of the Family Allowance at the time of the child's death. The frequency cannot be changed during the 12-month period following the month of death.

- **Maximum period to apply for the SHC or the SHCREC after the death of a child**

Budget 2025-2026 specified that the amount paid in respect of the Family Allowance for the month in which the death of an eligible dependent child occurs will remain the same as that paid as of the month following the month in which the death occurs. The same will apply to the SHC and SHCREC, whether the payment of these two supplements is in progress or granted retroactively following a request made before or after the death.

If an application for the SHC or SHCREC is made to Retraite Québec after the death of a child, such application must, in order for such supplement to be added to the FABP, be submitted no later than 11 months after the death. In addition, no extension of this deadline may be requested or granted.

- **Changes in the marital status of bereaved parents**

- **Separation of bereaved parents**

As indicated in the 2025-2026 budget, when bereaved parents separate after the death of a child, the FABP will be divided equally between the two parents according to the principle of shared custody.

However, it will be specified in the tax legislation that the division of the FABP will only be made on the remaining payments (next months or quarters, as the case may be) following receipt of the application for the FABP arising from the change in marital status.

In addition, the intended beneficiary of the FABP who was not receiving the Family Allowance will have to apply for it within 12 months of the child's death. The intended beneficiary will also need to meet the conditions of an "eligible individual" specific to the FABP immediately before the child's death, as well as throughout the payment period.

- **New union after the death of a child**

In the event that the beneficiary of the FABP enters into a new union within the 12-month period following the child's death and the new spouse becomes the beneficiary of the Family Allowance for this new union,¹⁴ the original beneficiary of the FABP, that is, the bereaved parent, will still remain the beneficiary of the remaining FABP payments.

¹⁴ In the case of blended families, the spouse who becomes the beneficiary of the Family Allowance is the one with the highest number of children or, if the number of children is equal, the one who is the parent of the youngest child. However, if the youngest child is the couple's child, the Family Allowance is granted to the mother.

■ **Criminal offence related to the death of a child**

No person who has been found guilty of endangering the life of the deceased child will be entitled to the FABP. In addition, when Retraite Québec is informed that the beneficiary of the FABP is accused of having made an attempt on the child's life, FABP payments may be suspended.

For greater clarity, another "eligible individual" may qualify for the FABP in the place of the beneficiary found guilty of making an attempt on the child's life.

□ **Clarifications concerning other tax credits referring to the receipt of, or the right to receive, the Family Allowance or the SHC**

In general, eligibility for FABP payments will not provide additional tax assistance to that applicable prior to the child's death when such assistance refers to the receipt of, or the right to receive, the Family Allowance or the SHC. In other words, the FABP payment cannot be considered equivalent to a Family Allowance or SHC payment for the purposes of eligibility for the various benefits provided for in the tax legislation.¹⁵

□ **Application date**

The clarifications set out in this announcement will apply in respect of a death occurring after June 30, 2025.

4. Harmonization with amendments made by the *Regulations Amending the Income Tax Regulations* published on February 14, 2024

On February 14, 2024, the federal government published in the *Canada Gazette*, Part II, the *Regulations Amending the Income Tax Regulations (Battery Assembly and Manufacturing Production Support)*.¹⁶

Briefly, these regulations amend the list of prescribed amounts for the application of the rules relating to the inclusion in income of certain incentive payments. More specifically, these amendments provide for the addition of certain incentive payments received as production-based support for electric vehicle batteries under certain special contribution agreements entered into by the Government of Canada.

¹⁵ Among the tax assistance concerned are the first-time home buyers' tax credit, the work premium (general or adapted) and the solidarity tax credit, as well as certain exemptions granted for the purpose of calculating the contribution payable to the public prescription drug insurance plan.

¹⁶ *Regulations Amending the Income Tax Regulations (Battery Assembly and Manufacturing Production Support)*: SOR/2024-9, *Canada Gazette*, Part II, Vol. 158, No. 4, February 14, 2024, [Online], [<https://gazette.gc.ca/rp-pr/p2/2024/2024-02-14/html/sor-dors9-eng.html>].

Given the harmonization of the Québec tax system in this regard, Québec tax regulations will be amended to incorporate, by adapting them in accordance with its general principles, the amendments to the federal regulations.

The amendments to Québec tax regulations will apply as of the same dates as the dates retained for the application of the federal amendments with which they are harmonized.