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TaxNewsFlash

Canada

Highlights of the 2025 Quebec Budget

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Quebec's Finance Minister delivered the province's 2025 budget on March 25, 2025. The budget anticipates a deficit of $13.6 billion for 2025-26 and projects deficits of $9.5 billion for 2026-27 and $5.7 billion for 2027-28. Although the budget does not include any new changes to the corporate or personal income tax rates, it announces an overhaul of the scientific research and experimental development (SR&ED) tax credit regime by introducing the tax credit for R&D, innovation and pre-commercialization (CRIC) and repealing several existing tax credits. The budget also extends the Accelerated Investment Incentive and immediate expensing measures and makes changes to the mining tax credit. In addition, the budget introduces a new reporting obligation for Quebec taxpayers that hold foreign property.

SR&ED and innovation changes

Introduction of the refundable tax credit for R&D, innovation and pre-commercialization

The budget introduces a new tax credit for R&D, innovation and pre-commercialization (CRIC). The CRIC will be available to an eligible corporation that incurs expenditures relating to R&D activities or expenditures relating to pre-commercialization activities, under certain conditions. Corporations eligible for the CRIC will include corporations that operate a business in Quebec and have an establishment in Quebec. Certain partnerships may also be eligible for this credit. The CRIC will apply to a taxation year or a fiscal period beginning after March 25, 2025.

The CRIC is available at 30% on the first $1 million of eligible expenditures that exceed the exclusion threshold, and will be 20% for eligible expenditures above this $1 million limit. The CRIC also includes an exclusion threshold, which will be the greater of:

- The sum of the basic personal amount for each employee for which the CRIC is claimed (for 2025, the amount is $18,571), adjusted in proportion to the employee's time spent on R&D and pre-commercialization activities; or
- $50,000.

R&D or pre-commercialization expenditures that are eligible for the credit include:

- Salaries or wages paid to employees of an establishment located in Quebec in respect of R&D activities undertaken in Quebec
- 50% of the cost of a contract with a subcontractor (e.g., a university)
- Capital expenditure relating to the acquisition of property used in R&D activities
- Payments made to certain research organizations.

The CRIC retains several features of previous credits that this new credit replaces. Specifically, the amount of any government or non-government assistance, and of any benefit or advantage attributable to expenditures relating to R&D activities or expenditures relating to pre-commercialization activities will have to be withdrawn from the amount of expenditures, in accordance with the usual rules. An amount received as an investment tax credit under the federal tax system will not, however, constitute government assistance for the purposes of the CRIC.

In addition, the rules relating to contract payments currently in effect for the purposes of the tax credit for salaries (R&D) and the R&D tax credit (research contract) will apply to the CRIC with the necessary adaptations.

In the event that expenditures relating to R&D activities or expenditures relating to pre-commercialization activities are reimbursed to an eligible corporation or eligible partnership, in whole or in part, the CRIC granted in respect of an amount thus reimbursed will be recovered by means of a special tax in accordance with the usual rules.

Further, the portion of the CRIC attributable to the acquisition of property used in R&D or pre-commercialization activities, as the case may be, will be recovered by means of a special tax, according to the usual rules, where such property ceases, during the minimum period of 730 consecutive days following the beginning of the use of the property, to be used solely in Québec in whole or in substantial part in R&D or pre-commercialization activities.

The rules aimed at avoiding the accumulation of tax assistance for an expenditure that can give rise to more than one tax credit, for more than one taxpayer or for one taxpayer will also apply to an eligible corporation or a corporation, other than an excluded corporation, that is a member of an eligible partnership for the purposes of the CRIC.

Finally, an eligible corporation or a corporation that is a member of an eligible partnership for which an initial qualification certificate was issued for the purposes of the tax holiday relating to the carrying out of a large investment project (the former TH-LIP) as well as for the purposes of the new deduction relating to the carrying out of a large investment project will not be able to claim the CRIC for property used, or acquired to be used, as part of a large investment project.

Changes to the IDCI

The budget also makes consequential adjustments to the calculation of the Quebec nexus ratio of an eligible corporation for purposes of the Incentive deduction for the commercialization of innovations (IDCI). In addition, the budget announces that expenses related to pre-commercialization activities will not be considered in the calculation of the Quebec nexus ratio for purposes of the IDCI. Also, expenditures related to R&D activities considered in the calculation of the Quebec nexus ratio will not be reduced by the exclusion threshold applicable under the CRIC. These amendments will apply to a taxation year that begins after March 25, 2025.

Consequential repeal of R&D measures

The budget also repeals the following R&D tax measures which are now replaced by the CRIC:

- The tax credit for scientific research and experimental development
- The tax credit for university research and for research carried on by a public research centre or a research consortium
- The tax credit for private partnership pre-competitive research
- The tax credit for fees and dues paid to a research consortium
- The tax credit for technological adaptation services
- The foreign researcher tax holiday
- The foreign expert tax holiday.

In addition, the budget amends the tax credit for design, by repealing the industrial component of this credit (but not the fashion design component).

These changes will generally apply after March 25, 2025.

Other corporate tax changes

Corporate income tax rates

The budget does not announce changes to the province's corporate tax rates. As a result, Quebec's corporate income tax rates remain as follows:

Corporate Income Tax Rates — As of January 1, 2025		
	Quebec	**Combined Federal and Quebec**
General	11.5%	26.5%
M&P	11.5%	26.5%
Small business[1]	3.2%	12.2%

[1] On first $500,000 of active business income.

Changes to the TCEB

The budget updates the list of activities eligible for the tax credits for the development of e-business (TCEB), including to refocus eligible activities on e-business that include a significant amount of artificial intelligence (AI) functionalities and to remove activities relating to maintenance or evolution. The budget also relaxes the criteria relating to activities and the criterion relating to services provided. In addition, the budget reduces the tax assistance granted to corporations that carry out intercompany outsourcing with regards to an application developed by the corporation to be used exclusively outside Quebec.

These amendments will apply, for both refundable and non-refundable tax credits, in respect of a taxation year beginning after December 31, 2025.

Changes to the refundable tax credit relating to mining or other resources

The budget amends the tax credit relating to mining or other resources by:

- Adding development expenses relating to mining resources incurred in Quebec to eligible expenses
- Revising the tax credit rates applicable to the eligible expenses related to mining resource
- Enhancing the rates applicable to projects related to critical and strategic minerals until December 31, 2029 and
- Introducing a limit on eligible expenses of $100 million per five-year period.

As a result of these changes, the credit rates in respect of eligible expenses related to mining resource will be as follows:

- 22.5% in respect of such expenses incurred by a specified qualified corporation

- 10% in respect of such expenses incurred by another qualified corporation

The credit rates applicable to eligible expenses mainly attributable to critical and strategic minerals will be as follows:

- 45% in respect of such expenses incurred by a specified qualified corporation
- 20% in respect of such expenses incurred by another qualified corporation

These amendments will generally apply as of March 26, 2025.

Adjustments of the tax benefits relating to the flow-through share regime

The budget repeals the additional deduction in respect of certain exploration expenses incurred in Quebec as well as the additional deduction in respect of certain surface mining exploration expenses incurred in Quebec. These changes will apply to flow-through shares issued after March 25, 2025.

Additional capital gains exemption in respect of certain resource properties

The budget repeals the additional capital gains exemption in respect of certain resource properties. This change will apply to dispositions made after March 25, 2025.

Extension of the tax credit for the digital transformation of print media

The budget extends the tax credit for the digital transformation of print media by one year. As a result, the eligibility period for the refundable tax credit will end on December 31, 2025. In addition, to qualify as a qualified property, the property must be acquired before January 1, 2025.

Tax credit to foster synergy between Quebec businesses

The budget repeals the tax credit to foster synergy between Quebec businesses as of March 26, 2025.

Changes to the additional deductions for public transit and shared transportation

The budget announces that the additional deduction relating to public transit passes as well as for the additional deduction relating to the organization of an intermunicipal shared transportation service will no longer be available after December 31, 2027.

The budget also announces that an individual must include the value of certain transit benefits received from their employer after December 31, 2027 in their income. These benefits include an eligible transit pass, an eligible paratransit pass or the benefit resulting from the use of an intermunicipal shared transportation service.

Personal tax changes

Personal income tax rates

The budget does not announce changes to personal tax rates. As a result, Quebec's personal income tax rates effective January 1, 2025 are as follows:

Personal Combined Federal/Quebec Top Marginal Rates	
	2025
Interest and regular income	53.31%
Capital gains	26.65%
Eligible dividends	40.11%
Non-eligible dividends	48.70%

Enhancement of the Family Allowance for bereaved parents

The budget extends the Family Allowance payments, as well as Supplement for Handicapped Children or Supplement for Handicapped Children Requiring Exceptional Care payments for 12 months from the month following the month that includes the day of an eligible dependent child's death. Thes changes will apply in respect of a death occurring after June 30, 2025.

Changing the age requirement for eligibility for the refundable tax credit for child-care expenses

The budget announces that an eligible child will now have to be under 14 of age at any time during the year (from 16) for child care expenses incurred for the child to be eligible for the tax credit for child care expenses. This change applies as of the 2026 taxation year.

Adjustment to the term "practitioner"

The budget restricts the term "practitioner" in Quebec's tax legislation so that it no longer includes homeopaths, naturopaths, osteopaths and phytotherapist. This measure will apply as of January 1, 2026.

New criteria for designating educational institutions recognized by Revenu Quebec

The budget introduces five new designation criteria for recognizing educational institutions for purposes of the tax credit for tuition and examination fees. The budget specifies that, to maintain their recognition status, institutions will be required to file a prescribed form with Revenu Quebec as of January 1, 2026.

Change to the deduction in respect of the cooperative investment plan

The budget announces that, for purposes of the deduction in respect of the second cooperative investment plan, the adjusted cost of a qualifying security for an individual will be the cost of that security, which is determined without taking into account borrowing costs and other costs related to the acquisition (instead of 125% of such cost). This change will apply in respect of a qualifying security acquired after March 25, 2025.

Non-refundable credit for clergy, religious orders and adult basic education tuition

The budget repeals the residence deduction for a member of the clergy or of a religious order and the deduction for adult basic education tuition assistance. These deductions are replaced by a tax credit calculated at a 14% rate. These changes apply as of the 2026 taxation year.

Repeal of various measures

The budget repeals the following tax measures:

- The tax credit for patronage gift
    - An individual, or the individual's estate, who will have registered a pledge with the Minister of Culture and Communications on or before March 25, 2025 will continue to benefit from the cultural patronage tax credit in respect of such donation, under the current terms and conditions. Furthermore, registered pledges will continue to be subject to the provisions governing failure to honour a pledge.
    - The elimination of the cultural patronage tax credit will not affect the carry-forward and carry-back periods of the individual or the individual's estate, as the case may be, in respect of a patronage gift made on or before March 25, 2025.
- The non-refundable tax credit for political contributions
- The tax holiday for foreign specialists assigned to operations of an international financial centre
- The tax holiday for foreign specialists working in the financial services sector
- The deduction relating to the acquisition of an income-averaging annuity respecting income from artistic activities
- The tax shield, which reduces the impact of the clawback of certain benefits when income increases
- The tax holiday for seamen engaged in international transportation of freight

Indirect tax changes

Rate increase for the tax on insurance premiums

The budget increases the rate of the tax on insurance premiums 9.975% (from 9%). This change will apply to insurance premiums paid after December 31, 2026.

Repeal of the fuel tax refund for biodiesel

The budget repeals the fuel tax refund for biodiesel. This change will apply to biodiesel acquired after March 25, 2025.

Other tax changes

New reporting requirement for foreign property held outside Canada

The budget introduces a new reporting obligation for foreign property held outside Canada by Quebec taxpayers. Specifically, these taxpayers will have to file a new prescribed form with Revenu Quebec for a taxation year or fiscal period. The budget specifies that the new form will be similar to the federal form T1135, with the necessary adaptations. The reporting requirement would apply to foreign property with a total cost of more than $100,000 at any time in a year. The new form must be filed on or before the same filing-due date as that of the tax return applicable to the reporting entity for the year, except if the entity is a partnership. The budget also introduces an extended assessment period (by three years) and penalties equal to the federal T1135 penalties. These measures will apply as of a date to be determined by the government after the assent of the bill giving effect to them.

Changes to HSF calculations

The budget announces that the indexation of the total payroll threshold for the year for the purposes of calculating contributions to the Health Services Fund (HSF) will be repealed. This change applies as of the 2026 year.

Changes to the public utility tax

The budget gradually increases certain public utility tax (PUT) rates starting in the 2027 calendar year until 2035. These changes will take effect on January 1 of each relevant calendar year.

The budget makes changes to the PUT exemption for a particular calendar year for to an operator that is a municipal or public body performing a function of government in Canada, or certain corporations owned by such entities. The budget also amends the PUT reimbursement mechanism where a municipality and/or a body operates a public utility system through a corporation or partnership with other shareholders or members which are not municipalities and/or bodies. These changes will apply as of the 2025 calendar year.

Changes to the CRCD

The budget makes several changes to the Capital regional et coopératif Desjardins (CRCD) to:

- Temporarily set the amount that CRCD will be able to raise for the acquisition periods between March 1, 2025 and February 28, 2030
- Introduce a cumulative subscription ceiling of $45,000 per shareholder as of March 26, 2025 and
- Introduce a new share class.

Harmonization measures

The budget announces that Quebec intends to harmonize with certain aspects of the proposed federal changes to the SR&ED tax incentive program, including the eligibility of capital expenditures for the deduction relating to SR&ED expenditures. However, Quebec notes that it will not harmonize with other aspects of the program, including the expenditure limit and taxable capital phase-out thresholds, the extension of the enhanced refundable tax credit to eligible Canadian public corporations, including elections for Canadian-controlled private corporations, and the eligibility of capital expenditures for computing the tax credit.

In the budget, Quebec announces its intention to harmonize with the following other measures from the 2024 Federal Fall Economic Update:

- The exemption of the Canada Disability Benefit from tax
- Capital gains rollover on investments
- Reporting by non-profit organizations
- The extension of the Accelerated Investment Incentive and immediate expensing measures (subject to certain Quebec-specific rules with regards to property that is a qualifying intellectual property included in CCA Class 14.1 and which becomes available for use before 2026, and the deduction for Canadian development expenses).

Quebec specifies that the amendments will be adopted only after the assent of any federal legislation or the adoption of any federal regulation giving effect to the retained measures, taking into account the technical amendments that may be made prior to the assent or adoption. In addition, these amendments will be applicable on the same dates as the federal measures with which they are harmonized.

Quebec states it will not harmonize with the following measures:

- The reclassification of the islands of Haida Gwaii for the purposes of the Northern residents deduction
- The clean electricity investment tax credit for provincial and territorial Crown corporations

- The clean electricity investment tax credit and the Canada Infrastructure Bank
- The EV supply chain investment tax credit
- The clean hydrogen investment tax credit – methane pyrolysis.

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's Quebec budget on your personal finances or business affairs, and point out ways to realize any tax savings. We can also keep you abreast of the progress of these proposals as they make their way into law.