



TaxNewsFlash

Canada

Highlights of the 2025 P.E.I. Budget

April 10, 2025

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Prince Edward Island's Finance Minister delivered the province's 2025 budget on April 10, 2025. The budget anticipates a deficit of \$166.3 million for 2024-25 and projects deficits of \$151.9 million (\$183.9 million after a \$32 million contingency fund for the potential effect of tariffs) for 2025-26 and \$167.8 million for 2026-27. The budget decreases Prince Edward Island's general corporate tax rate to 15% and increases the province's small business income threshold to \$600,000 effective July 1, 2025, among other changes.

Corporate tax changes

Corporate income tax rates

The budget decreases Prince Edward Island's general corporate tax rate to 15% (from 16%). The budget also expands eligibility for the province's small business income tax rate by increasing the small business income threshold to \$600,000 (from \$500,000). These changes are effective July 1, 2025. As a result, Prince Edward Island's corporate income tax rates are as follows for 2025:

| 2025 Corporate Income Tax Rates | | |
|---------------------------------|----------------------|---|
| | Prince Edward Island | Combined Federal and Prince Edward Island |
| General | 16%/15% ¹ | 31%/30% ¹ |
| M&P | 16%/15% ¹ | 31%/30% ¹ |
| Small business | 1% ² | 10%/16% ³ |

¹ The budget decreases Prince Edward Island's general corporate tax rate to 15% (from 16%), effective July 1, 2025.

² On first \$500,000 of active business income prior to July 1, 2025. Prince Edward Island's small business income threshold will increase to \$600,000 of active business income, effective July 1, 2025.

³ The combined federal and provincial corporate tax rate of 16% applies to active business income between the federal threshold of \$500,000 and the Prince Edward Island threshold of \$600,000 (i.e., 15% federal rate and 1% provincial rate), effective July 1, 2025.

Personal tax changes

Personal income tax rates

The budget does not announce changes to the province's personal income tax rates. As a result, Prince Edward Island's personal income tax rates effective January 1, 2025 remain as follows:

| Personal Combined Federal/Prince Edward Island Top Marginal Rates | |
|---|---------------------|
| | 2025 |
| Interest and regular income | 52.00% |
| Capital gains | 26.00% ¹ |
| Eligible dividends | 36.54% ² |
| Non-eligible dividends | 47.92% |

¹ The capital gains rate is based on the legislated ½ inclusion rate.

² Note that this rate is subject to change if consequential adjustments are subsequently made to the dividend tax credit rate for eligible dividends as a result of the reduced general corporate tax rate.

However, the budget increases the thresholds for the province's personal income tax brackets by 1.8% for 2026. The following table shows the current 2025 and proposed 2026 provincial personal income tax brackets and rates:

| Prince Edward Island Tax Brackets and Rates | | | |
|---|---------------|-----------------------|----------------|
| 2025 | | 2026 | |
| Current Brackets | Current Rates | Proposed Brackets | Proposed Rates |
| \$0 – \$33,328 | 9.50% | \$0 – \$33,928 | 9.50% |
| \$33,329 – \$64,656 | 13.47% | \$33,929 – \$65,820 | 13.47% |
| \$64,657 – \$105,000 | 16.60% | \$65,821 – \$106,890 | 16.60% |
| \$105,001 – \$140,000 | 17.62% | \$106,891 – \$142,520 | 17.62% |
| \$140,001 and over | 19.00% | \$142,521 and over | 19.00% |

Basic personal income tax amount increase

The budget increases the province's basic personal income tax exemption amount to \$14,650 for 2025 (previously \$14,250 for 2025). The budget further increases the basic personal income tax exemption amount to \$15,000 for 2026.

Spouse or equivalent amount increase

The budget increases the province's spouse or equivalent amount to \$12,443 for 2025 (previously \$12,103 for 2025), and the corresponding income threshold to \$1,244 for 2025 (previously \$1,210 for 2025). The budget further increases the spouse or equivalent amount to \$12,740, and the corresponding income threshold to \$1,274 for 2026.

Low-income tax reduction program

The budget increases the income threshold for the province's low-income tax reduction program to \$22,650 for 2025 (previously \$22,250 for 2025). The budget further increases the income threshold to \$23,000 for 2026.

Indirect Tax Changes

Tobacco tax

The budget increases the tax per cigarette purchased to 30 cents (from 29.52 cents) effective April 28, 2025.

Real property transfer tax

The budget adjusts the real property transfer tax rates for the \$1,000,000 and over threshold effective April 28, 2025 as follows:

- General: Increases to 2% (from 1%)
- First-time Homebuyers (Residents of PEI): Increases to 2% (from 0%).

We can help

Your KPMG adviser can help you assess the effect of the tax changes in this year's Prince Edward Island 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.

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