

BUDGET 2025-2026

# FOR A STRONG QUÉBEC

ADDITIONAL

INFORMATION

March 2025



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# Section A

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# 1. MEASURES RELATING TO BUSINESSES

## 1.1 Implementing a new tax assistance system fostering scientific research and experimental development activities

Scientific research and experimental development (R&D) activities help to improve business productivity and competitiveness, which in turn stimulates and drives growth in the economy as a whole.

Essentially, these activities include:

- basic research, whose purpose does not guarantee a practical application;
- applied research, which is traditionally undertaken with a practical application in view;
- experimental development, undertaken primarily for the purpose of creating new materials, products, devices or processes;
- pre-commercialization, that is, work carried out in conjunction with basic research, applied research or experimental development, such as tests, prototyping and technological validation.

Undertaking such work entails substantial financial risk for innovative businesses, which makes them more reluctant to invest in R&D activities that may take a long time to produce tangible results. For these reasons, the government supports such activities through several fiscal measures.

Thus, a person carrying on a business in Canada and undertaking R&D activities in Québec, or causing R&D activities to be undertaken on its behalf in Québec as part of a research contract, can currently benefit from four refundable tax credits:

- the tax credit for salaries (R&D),<sup>1</sup> which applies to the salaries paid by a person to its employees when it carries out its own R&D work in Québec, or to half the amount of the research contract when R&D work is carried out by a subcontractor dealing at arm's length with the person;

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<sup>1</sup> The tax credit for salaries (R&D) has an exclusion threshold that applies to the first dollars a person spends annually on R&D. Under this exclusion threshold, no tax assistance is provided for R&D expenditures below \$50 000 that would otherwise be eligible for the tax credit. This amount increases on a straight-line basis to \$225 000 when the individual's assets vary between \$50 M and \$75 M. The threshold applies to a taxation year or fiscal period, as the case may be.



- the tax credit for university research and for research carried on by a public research centre or a research consortium, notably calculated on the basis of 80% of the amount of a research contract when R&D work is subcontracted to an eligible university entity, an eligible public research centre or an eligible research consortium with which the person subcontracting the R&D work is not related;
- the tax credit for private partnership pre-competitive research, which fosters R&D work carried out through partnerships of persons working together to undertake such work in Québec or to cause such work to be undertaken on their behalf in Québec as part of a research contract;
- the tax credit for an eligible research consortium, which applies to fees and dues paid to a research consortium by a person for R&D work carried out by the consortium in connection with a business of that person.

The rate of these refundable tax credits is 14%, but it can be increased to as much as 30% in the case of a qualifying corporation.<sup>2</sup>

Moreover, innovative businesses can also claim two other refundable tax credits to better support the implementation of their innovative projects, namely:

- the tax credit for technological adaptation services, calculated on the basis of expenditures incurred with a recognized liaison and transfer centre or a recognized college centre for the transfer of technology for eligible liaison and transfer services provided in Québec. The rate of this tax credit is 40%;
- the tax credit for design (industrial component), which applies to expenditures incurred in respect of eligible design activities for industrially produced goods, whether for salaries incurred by a corporation for designers and patternmakers it employs, or for fees paid under an external consulting contract. The rate of the tax credit is 12%, but it can be increased to as much as 24% in the case of a qualified corporation or a qualified partnership.<sup>3</sup>

<sup>2</sup> Briefly, this is a corporation that has been, throughout the taxation year, a corporation that is not controlled, directly or indirectly in any manner whatever, by one or more persons not resident in Canada and the assets of which, for its preceding taxation year, and taking into account the assets of associated corporations, are less than \$75 M. Specifically, when the assets are \$50 M or less, the rate is 30%, and this rate is reduced on a straight-line basis to 14% when assets vary between \$50 M and \$75 M. The higher rate applies only to the first \$3 M of eligible R&D expenditures.

<sup>3</sup> More specifically, where the assets are less than \$50 M, for a preceding taxation year or a preceding fiscal period, as the case may be, the rate is 24%, and this rate is reduced on a straight-line basis down to 12% where the assets are between \$50 M and \$75 M.

As part of the government's review of tax expenditures, several studies and consultations were carried out regarding the financial support granted for R&D activities in Québec. These analyses revealed the need to simplify and enhance existing fiscal measures.

Consequently, in order to improve the competitiveness and productivity of Québec businesses, boost the economic spinoffs from R&D activities undertaken in Québec and provide a simpler, more effective tax assistance system for innovation, significant changes will be made to the Québec fiscal measures fostering R&D activities.

These changes consist in:

- consolidating the R&D fiscal measures currently available into a new refundable tax credit for R&D, innovation and pre-commercialization;
- offering a more competitive regime by providing a higher basic rate and a more accessible increased rate;
- maximizing R&D investment by making certain capital expenditures eligible for the tax credit;
- recognizing the importance of expenditures relating to pre-commercialization by giving greater consideration to such expenditures in the tax credit base;
- refocusing the tax assistance provided on higher value-added jobs by introducing a modified exclusion threshold;
- simplifying the system by abolishing less effective measures.

### **1.1.1 Introducing a tax credit for R&D, innovation and pre-commercialization**

An eligible corporation that will incur, in a taxation year, “expenditures relating to R&D activities” or “expenditures relating to pre-commercialization activities” will be able to benefit, under certain conditions, from the tax credit for R&D, innovation and pre-commercialization (hereinafter referred to as the “CRIC”).

Similarly, a corporation, other than an excluded corporation, that is a member of an eligible partnership, will be able to benefit, under certain conditions, from the CRIC on its share of expenditures relating to R&D activities or expenditures relating to pre-commercialization activities incurred by the eligible partnership in a fiscal period.

The basic rate of this refundable tax credit will be 20%.

This rate may be increased to 30% for a maximum of \$1 million in expenditures relating to R&D activities or expenditures relating to pre-commercialization activities of an eligible corporation that exceed the amount of the applicable exclusion threshold, regardless of its assets.

On the one hand, expenditures relating to R&D activities will include, for a taxation year or fiscal period, as the case may be, salaries and wages, considerations paid to subcontractors, payments made to certain research organizations as well as capital expenditures relating to the acquisition of property incurred by the eligible corporation or eligible partnership in respect of R&D activities.

On the other hand, expenditures relating to pre-commercialization activities will include, for a taxation year or fiscal period, as the case may be, salaries and wages, considerations paid to subcontractors, payments made to certain research organizations as well as capital expenditures relating to the acquisition of property incurred by the eligible corporation or eligible partnership in respect of pre-commercialization activities.

In general, pre-commercialization activities will include tests, technological validations and studies carried out to meet regulatory requirements as well as product design, provided that such activities constitute a continuation of R&D activities undertaken in Québec by the eligible corporation or eligible partnership in respect of a business of the corporation or partnership.

Briefly, the amount of the exclusion threshold applicable to an eligible corporation, or eligible partnership, for a taxation year or fiscal period, will correspond to the greater of the following two amounts:

- \$50 000; or
- the total of the “R&D employees threshold” and the “pre-commercialization employees threshold.”

The R&D employees threshold and the pre-commercialization employees threshold of an eligible corporation or eligible partnership will correspond to the aggregate of each “specified amount” in respect of an R&D employee or a pre-commercialization employee, as the case may be, of the corporation or partnership.

In general, the specified amount in respect of such an employee will be calculated on the basis of the amount used to compute the basic personal tax credit<sup>4</sup> and the proportion represented by the salaries and wages paid to the employee for R&D work or pre-commercialization work in relation to the total of salaries or wages paid to the employee.

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<sup>4</sup> *Taxation Act*, s. 752.0.0.1. By way of illustration, for 2025, the amount used to compute the basic personal tax credit is \$18 571. This amount is automatically indexed each year.

## **☐ Eligible corporation**

The tax legislation will be amended so that the expression “eligible corporation” for a taxation year, for the purposes of the CRIC, will mean a corporation, other than an excluded corporation, which, in the year, operates a business in Québec and undertakes in Québec or causes to be undertaken on its behalf in Québec as part of a contract, R&D activities or pre-commercialization activities in respect of a business of the corporation.

## **■ Excluded corporation**

An excluded corporation, for a taxation year, will mean a corporation which is one of the following corporations:

- a corporation exempt from tax;
- a Canadian Crown corporation or a wholly-controlled subsidiary of such a corporation;
- a corporation that is controlled,<sup>5</sup> directly or indirectly in any manner whatever, by one or a combination of the following entities, at any time during the 24 months preceding the date on which an R&D contract or a pre-commercialization contract was entered into:<sup>6</sup>
  - an eligible university entity,
  - an eligible public research centre,
  - an eligible research consortium,
  - a trust one of the capital or income beneficiaries of which is one of the entities listed above,
  - a corporation carrying on a personal services business.

## **☐ Eligible partnership**

The tax legislation will be amended so that the expression “eligible partnership” for a fiscal period, for the purposes of the CRIC, will mean a partnership which, in the fiscal period, operates a business in Québec and undertakes in Québec or causes to be undertaken on its behalf in Québec as part of a contract, R&D activities or pre-commercialization activities in respect of a business of the partnership.

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<sup>5</sup> A corporation related to such a corporation will also be an excluded corporation for the purposes of the CRIC.

<sup>6</sup> An eligible public research centre, an eligible research consortium or an eligible university entity are the entities defined in section 1029.8.1 of the *Taxation Act*.

## ❑ **Calculating the tax credit for R&D, innovation and pre-commercialization**

The tax legislation will be amended so that an eligible corporation, for a taxation year, can benefit, for that year, from a refundable tax credit equal to the product obtained by multiplying, by the applicable rate, the excess of the sum of its expenditures relating to R&D activities and expenditures relating to pre-commercialization activities, for the taxation year, over the amount of its exclusion threshold applicable for that taxation year.

Similarly, a corporation, other than an excluded corporation, for a taxation year, that is a member of an eligible partnership, at the end of a fiscal period of the partnership that ends in the taxation year, and that is not a specified member of the partnership in that fiscal period, may benefit, for that taxation year, from a tax credit equal to the product obtained by multiplying, by the applicable rate, its share in the excess of the sum of the partnership's expenditures relating to R&D activities and expenditures relating to pre-commercialization activities of the partnership, for the fiscal period, over the amount of its share of the partnership's exclusion threshold applicable for that fiscal period.

In this regard, a corporation's share of the excess of the sum of expenditures relating to R&D activities and expenditures relating to pre-commercialization activities of the partnership, for a fiscal period at the end of which the corporation was a member, over the share of the corporation in the amount of the exclusion threshold applicable to the partnership for that fiscal period, will be equal to the agreed proportion, in respect of the corporation for that fiscal period, of such excess.<sup>7</sup>

## ■ **Tax credit rate**

The refundable tax credit rate available to an eligible corporation or a corporation, other than an excluded corporation, that is a member of an eligible partnership, in respect of the excess of the sum of expenditures relating to R&D activities and expenditures relating to pre-commercialization activities over the amount of the applicable exclusion threshold, or of its share in such excess, will be 20%.

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<sup>7</sup> *Taxation Act*, s. 1.8. Briefly, the agreed proportion in respect of a corporation that is a member of a partnership, for a fiscal period, means the proportion that the corporation's share of the income or loss of the partnership for the fiscal period is of the partnership's income or loss for that fiscal period.

The refundable tax credit rate may be increased to 30% for a maximum amount of \$1 million (hereinafter referred to as the “expenditure limit”) in expenditures relating to R&D activities or expenditures relating to pre-commercialization activities of an eligible corporation<sup>8</sup> that exceed the amount of the applicable exclusion threshold, regardless of its assets.

In order to make the application of certain rules easier, notably the rules relating to the accumulation of tax assistance, an eligible corporation will be able to determine the allocation of the expenditure limit between its expenditures relating to R&D activities and its expenditures relating to pre-commercialization activities.

In the case of a taxation year of less than 51 weeks, the amount of the expenditure limit will be adjusted to reflect the number of days in the taxation year.

Where an eligible corporation will be a member of an associated group, in a taxation year, the expenditure limit will have to be the subject of a sharing agreement between the members of the associated group in accordance with the usual rules.

### ■ Expenditures relating to R&D activities

Expenditures relating to R&D activities incurred in a taxation year by an eligible corporation or in a fiscal period by an eligible partnership, as the case may be, will mean, for the purposes of the CRIC:

- the salaries and wages it paid to its employees of an establishment situated in Québec in respect of R&D activities undertaken in Québec in the year or period;
- the portion of the consideration it paid under a contract in respect of R&D activities undertaken on its behalf in Québec in the year or period, to a subcontractor with which it was not dealing at arm’s length, at the time the contract was entered into, that may reasonably be attributed to salaries or wages paid to the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;<sup>9</sup>
- one-half of the portion of the consideration it paid under a contract in respect of R&D activities undertaken on its behalf in Québec in the year or period, to a subcontractor with which it was dealing at arm’s length at the time the contract was entered into, that may reasonably be attributed to work undertaken by the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;

<sup>8</sup> For greater clarity, the increased 30% rate will not apply to the share of a corporation that is a member of an eligible partnership in respect of the excess of the sum of expenditures relating to R&D activities and expenditures relating to pre-commercialization activities of the partnership, for the fiscal period, over the amount of its share of the partnership’s applicable exclusion threshold for a fiscal period.

<sup>9</sup> This amount is determined without regard to any election under paragraph c of section 230 of the *Taxation Act* that a taxpayer may make for a taxation year.

- the portion of the consideration it paid under a particular contract, other than a contract by which it causes R&D activities to be undertaken on its behalf, relating to R&D activities undertaken in Québec in any year or period, to a subcontractor with which it was not dealing at arm's length at the time the particular contract was entered into, that may reasonably be attributed to salaries or wages paid to the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- one-half of the portion of the consideration it paid under a particular contract, other than a contract by which it causes R&D activities to be undertaken on its behalf, relating to R&D activities undertaken in Québec in any year or period, to a subcontractor with which it was dealing at arm's length at the time the contract was entered into, that may be reasonably attributed to work undertaken by the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- the portion of the consideration it paid under a contract in respect of R&D activities undertaken on its behalf in Québec in the year or period to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into, and which will be paid to a second-tier subcontractor, under a particular contract, with which it was not dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to salaries or wages paid to the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;<sup>10</sup>
- one-half of the portion of the consideration it paid under a contract in respect of R&D activities undertaken on its behalf in Québec in the year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into and which will be paid to a second-tier subcontractor, under a particular contract, with which it was dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to work undertaken by the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- the portion of the consideration it paid under a particular contract, other than a contract by which it causes R&D activities to be undertaken on its behalf, relating to R&D activities undertaken in Québec in any year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into and which will be paid to a second-tier subcontractor, under another particular contract, with which it was not dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to salaries or wages paid to the employees of an establishment of that subcontractor situated in Québec, or that could be so attributed if that subcontractor had such employees;

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<sup>10</sup> See previous note.

- one-half of the portion of the consideration it paid under a particular contract, other than a contract by which it causes R&D activities to be undertaken on its behalf, relating to R&D activities undertaken in Québec in any year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into and which will be paid to a second-tier subcontractor, under another particular contract, with which it was dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to work undertaken by the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- one-half of the portion of a payment made, under a contract, to an eligible public research centre, an eligible research consortium or an eligible university entity with which it was dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to R&D activities undertaken in Québec, that is related to a business of the eligible corporation or the eligible partnership and the latter is entitled to exploit the results of the R&D activities;<sup>11</sup>
- a capital expenditure relating to the acquisition of property used in R&D activities undertaken in Québec in the year or period.

In the case of a contract in respect of R&D activities entered into with a subcontractor or a second-tier subcontractor with which the eligible corporation was dealing at arm's length at the time the contract was entered into, or with which none of the members of the eligible partnership had such a relationship at that time, the corporation or the corporation that is a member of the partnership will be required to attach the following information to its tax return filed for the year: the name or corporate name of the subcontractor, the subcontractor's registration number in accordance with the *Act respecting the Québec sales tax* or social insurance number, where applicable, the total amount of the R&D contract granted to the subcontractor and the remuneration paid to the subcontractor in the year.

Lastly, the same exclusions that prevent certain expenditures from constituting salaries or wages or consideration for the purposes of the tax credit for salaries (R&D),<sup>12</sup> or a qualified expenditure for the purposes of the R&D tax credit (research contract),<sup>13</sup> will apply to expenditures relating to R&D activities for the purposes of the CRIC, with the necessary adaptations.

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<sup>11</sup> See note 6.

<sup>12</sup> *Taxation Act*, s. 1029.7 para. 3 and s. 1029.8, para. 3, without taking into account subparagraph i of paragraph b).

<sup>13</sup> *Taxation Act*, s. 1029.8.5.1.



■ **Capital expenditure relating to the acquisition of property used in R&D activities**

For the purposes of the CRIC, capital expenditure relating to the acquisition of property used in R&D activities will mean a capital expenditure, incurred in a taxation year by an eligible corporation or in a fiscal period by an eligible partnership, as the case may be, for the acquisition of property that is used in Québec, for all or substantially all of its operating time during its expected useful life for R&D activities undertaken directly by the corporation or partnership, or on its behalf, in respect of a business of the corporation or partnership.

However, it will not include:

- a capital expenditure relating to the acquisition of land or a leasehold interest in such land;
- a capital expenditure relating to the acquisition of a building, including a leasehold interest in such building;
- a capital expenditure relating to the acquisition of a right to use a building.

In addition, the property must not, before its acquisition, have been used for any purpose nor have been acquired to be used or leased for any purpose whatever.

Lastly, a capital expenditure for the acquisition of property used in R&D will be deemed not to have been incurred before the property is considered available for use.

■ **Expenditures relating to pre-commercialization activities**

Expenditures relating to pre-commercialization activities incurred in a taxation year by an eligible corporation or in a fiscal period by an eligible partnership, as the case may be, will mean, for the purposes of the CRIC:

- the salaries or wages it paid to its employees of an establishment situated in Québec in respect of pre-commercialization activities undertaken in Québec in the year or period;
- the portion of the consideration it paid under a contract in respect of pre-commercialization activities undertaken on its behalf in Québec in the year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to salaries or wages paid to the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;

- one-half of the portion of the consideration it paid under a contract in respect of pre-commercialization activities undertaken on its behalf in Québec in the year or period, to a subcontractor with which it was dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to work undertaken by the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- the portion of the consideration it paid under a particular contract, other than a contract by which it causes pre-commercialization activities to be undertaken on its behalf, relating to pre-commercialization activities undertaken in Québec in any year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to salaries or wages paid to the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- one-half of the portion of the consideration it paid under a particular contract, other than a contract by which it causes pre-commercialization activities to be undertaken on its behalf, in relation to pre-commercialization activities undertaken in Québec in any year or period, to a subcontractor with which it was dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to work undertaken by the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- the portion of the consideration it paid under a contract, in relation to pre-commercialization activities undertaken on its behalf in Québec in the year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into, and that will be paid to a second-tier subcontractor, under a particular contract, with which it was not dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to salaries or wages paid to the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- one-half of the portion of the consideration it paid under a contract, in relation to pre-commercialization activities undertaken on its behalf in Québec in the year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into, and that will be paid to a second-tier subcontractor, under a particular contract, with which it was dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to work undertaken by the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;

- the portion of the consideration it paid under a particular contract, other than a contract by which it causes pre-commercialization activities to be undertaken on its behalf, in relation to pre-commercialization activities undertaken in Québec in any year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into, and that will be paid to a second-tier subcontractor, under another particular contract, with which it was not dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to salaries or wages paid to the employees of an establishment of that subcontractor or that could be so attributed if that subcontractor had such employees;
- one-half of the portion of the consideration it paid under a particular contract, other than a contract by which it causes pre-commercialization activities to be undertaken on its behalf, in relation to pre-commercialization activities undertaken in Québec in any year or period, to a subcontractor with which it was not dealing at arm's length at the time the contract was entered into, and that will be paid to a second-tier subcontractor, under another particular contract, with which it was dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to work undertaken by the employees of an establishment of that subcontractor situated in Québec or that could be so attributed if that subcontractor had such employees;
- one-half of the portion of a payment made, under a contract, to an eligible public research centre, an eligible research consortium or an eligible university entity with which it was dealing at arm's length at the time the contract was entered into, that may reasonably be attributed to pre-commercialization activities undertaken in Québec, that is related to a business of the eligible corporation or the eligible partnership and the latter is entitled to exploit the results of the pre-commercialization activities;<sup>14</sup>
- a capital expenditure relating to the acquisition of property used in pre-commercialization activities undertaken in Québec in the year or period.

In the case of a contract in respect of pre-commercialization activities entered into with a subcontractor, or a second-tier subcontractor with which the eligible corporation was dealing at arm's length at the time the contract was entered into, or with which no member of the eligible partnership had such a relationship at that time, the corporation or the corporation that is a member of the partnership will be required to attach the following information to its tax return filed for the year: the name or corporate name of the subcontractor, the subcontractor's registration number in accordance with the *Act respecting the Québec sales tax* or social insurance number, where applicable, the total amount of the R&D contract granted to the subcontractor and the remuneration paid to the subcontractor in the year.

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<sup>14</sup> See note 6.

Lastly, the same exclusions that ensure that certain expenditures do not constitute a salary or consideration for the purposes of the tax credit for salaries (R&D),<sup>15</sup> or an qualified expenditure for the purposes of the R&D tax credit (research contract),<sup>16</sup> will apply to expenditures relating to pre-commercialization activities for the purposes of the CRIC, with the necessary modifications.

■ **Pre-commercialization activity**

A pre-commercialization activity undertaken by an eligible corporation or eligible partnership or caused to be undertaken on its behalf, will mean, except to the extent that such activity constitutes an R&D activity, all of the following activities:

- tests, technological validations and studies carried out to meet regulatory requirements and aimed at obtaining a registration or certification for the purpose of commercializing a product or process, provided that such activities constitute a continuation of R&D activities undertaken in Québec by the eligible corporation or eligible partnership or caused to be undertaken on its behalf in respect of a business of the corporation or partnership;
- product design, provided that such activities constitute a continuation of R&D activities undertaken in Québec by the eligible corporation or eligible partnership in respect of a business of the corporation or partnership.

■ **Capital expenditure relating to the acquisition of property used in pre-commercialization activities**

For the purposes of the CRIC, capital expenditure relating to the acquisition of property used in pre-commercialization activities will mean a capital expenditure, incurred in a taxation year by an eligible corporation or in a fiscal period by an eligible partnership, as the case may be, for the acquisition of property that is used in Québec for all or substantially all of its operating time during its expected useful life for the pursuit of pre-commercialization activities undertaken directly by the corporation or partnership or caused to be undertaken on its behalf in respect of a business of the corporation or partnership.

However, it will not include:

- a capital expenditure relating to the acquisition of land or a leasehold interest in such land;
- a capital expenditure relating to the acquisition of a building, including a leasehold interest in such building;
- a capital expenditure relating to the acquisition of a right to use a building.

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<sup>15</sup> See note 12.

<sup>16</sup> See note 13.

In addition, the property must not, before its acquisition, have been used for any purpose nor have been acquired to be used or leased for any purpose whatever.

Lastly, a capital expenditure for the acquisition of property used in pre-commercialization will be deemed not to have been incurred before the property is considered available for use.

### ■ **Applicable exclusion threshold**

The amount of the applicable exclusion threshold of an eligible corporation or eligible partnership, for a taxation year or fiscal period, as the case may be, will mean the greater of the following two amounts:

- \$50 000;<sup>17</sup> or
- the total of the following amounts:
  - the R&D employees threshold for the taxation year or fiscal period, as the case may be, and
  - the pre-commercialization employees threshold for the taxation year or fiscal period, as the case may be.

Moreover, where an eligible corporation or a corporation that is a member of an eligible partnership is entitled to more than one tax credit with an exclusion threshold calculated on the basis of remuneration paid to its employees or to employees of a subcontractor with which it does not deal at arm's length, the exclusion threshold is divided pro rata among these different tax credits.

### ■ **Determining the amount of the R&D employees threshold**

The R&D employees threshold of an eligible corporation or eligible partnership, for a taxation year or fiscal period, as the case may be, will be equal to the aggregate of all amounts determined in respect of an R&D employee of the corporation or partnership.

The amount determined in respect of an "R&D employee"<sup>18</sup> will correspond to the lesser of the following amounts:

- the salaries or wages or consideration incurred and paid by the eligible corporation or eligible partnership in respect of an R&D employee for R&D activities undertaken in Québec by such employee in the taxation year or fiscal period, as the case may be; or

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<sup>17</sup> The \$50 000 amount will be adjusted to reflect the number of days in the corporation's taxation year or the partnership's fiscal period, as the case may be.

<sup>18</sup> An R&D employee, for a taxation year or fiscal period, means an employee of an eligible corporation or an eligible partnership, or of a subcontractor with which the corporation or one of the members of the partnership does not deal at arm's length and for which at least a portion of the salaries or wages qualifies as an expenditure relating to R&D activities.

- the product obtained by multiplying the amount used to compute the basic personal tax credit<sup>19</sup> for the calendar year in which the eligible corporation's taxation year or the eligible partnership's fiscal period begins, with the share represented by the portion of salaries or wages or the consideration in respect of an R&D employee for R&D activities over the total of such salaries or wages or the consideration in respect of such employee for the year or period.

For the purposes of the R&D employees threshold under the CRIC, the amount used to compute the basic personal tax credit will be adjusted to reflect the number of days in the taxation year or fiscal period for which the R&D employee was employed by the eligible corporation in the taxation year, by the eligible partnership in the fiscal period, or by the subcontractor with which the partnership does not deal at arm's length, as the case may be.

## ■ **Determining the pre-commercialization employees threshold**

The pre-commercialization employees threshold of an eligible corporation for a taxation year or an eligible partnership for a fiscal period, as the case may be, will be equal to the aggregate of all amounts determined in respect of a pre-commercialization employee of the corporation or partnership.

The amount determined in respect of a "pre-commercialization employee"<sup>20</sup> will correspond to the lesser of the following amounts:

- the salaries or wages or the consideration incurred and paid by the eligible corporation or eligible partnership in respect of a pre-commercialization employee for pre-commercialization activities undertaken in Québec by such employee in the taxation year or fiscal period, as the case may be; or
- the product obtained by multiplying the amount used to compute the basic personal tax credit,<sup>21</sup> for the calendar year in which the eligible corporation's taxation year or the eligible partnership's fiscal period begins, with the share represented by the portion of salaries or wages or the consideration in respect of a pre-commercialization employee for pre-commercialization activities over the total of such salaries or wages or the consideration in respect of such employee for the year or period.

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<sup>19</sup> See note 4.

<sup>20</sup> A pre-commercialization employee for a taxation year or fiscal period means an employee of an eligible corporation or an eligible partnership, or of a subcontractor with which the corporation or one of the members of the partnership does not deal at arm's length and for which at least a portion of the salaries or wages qualifies as an expenditure relating to pre-commercialization activities.

<sup>21</sup> See note 4.

For the purposes of the pre-commercialization employees threshold under the CRIC, the amount used to compute the basic personal tax credit will be adjusted to reflect the number of days in the taxation year or fiscal period for which the pre-commercialization employee was employed by the eligible corporation in the taxation year, by the eligible partnership in the fiscal period, or by the subcontractor with which the eligible corporation or eligible partnership does not deal at arm's length, as the case may be.

## **❑ Other terms and conditions**

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<sup>22</sup> will not, however, constitute government assistance for the purposes of the CRIC.

Moreover, 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 addition, 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.

Also, 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 (otherwise than by reason of its loss, of its involuntary destruction caused by fire, theft or water, or of a major breakdown), to be used solely in Québec in whole or in substantial part in R&D or pre-commercialization activities undertaken by the eligible corporation or eligible partnership, or by a person with which the corporation or partnership does not deal at arm's length and which has acquired the property in circumstances where there has been a transfer, amalgamation or winding-up.<sup>23</sup>

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.

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<sup>22</sup> Which includes the tax credits under sections 127, 127.43, 127.44, 127.45, 127.47, 127.48 and 127.49 of the *Taxation Act*.

<sup>23</sup> The circumstances are those set out in section 130R149 of the *Regulation respecting the Taxation Act*.

Similarly, 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<sup>24</sup> will not be able to claim the CRIC for property used, or acquired to be used, as part of a large investment project.

## **❑ Application date**

The tax credit for R&D, innovation and pre-commercialization will apply to a taxation year or a fiscal period, as the case may be, beginning after the day of the budget speech.

### **1.1.2 Consequential adjustments of certain fiscal measures**

## **❑ Incentive deduction for the commercialization of innovations in Québec**

The incentive deduction for the commercialization of innovations in Québec (hereinafter referred to as “IDCI”) was introduced as part of the March 10, 2020 budget speech<sup>25</sup> to increase the competitiveness of Québec businesses while fostering the retention and valorization of intellectual properties developed in Québec.

Briefly, the IDCI takes the form of a deduction in calculating taxable income. This deduction enables a qualified corporation<sup>26</sup> to benefit, for a taxation year beginning after December 31, 2020, from an effective tax rate of 2% on the qualified portion of its income attributable to the commercialization of a qualified intellectual property asset (hereinafter referred to as a “QIPA”).<sup>27</sup>

The asset must also result from scientific research and experimental development (R&D) activities carried out in whole or in part in Québec and that contribute significantly to the creation, development or improvement of the property.<sup>28</sup>

<sup>24</sup> This measure is provided for in Title VII.2.3.2 of Book IV of Part I of the *Taxation Act*.

<sup>25</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2020-2021 – Additional Information*, March 10, 2020, pp. A.20-A.26.

<sup>26</sup> “Qualified corporation,” for a taxation year, means a corporation, other than an excluded corporation, that, at a particular time in the year, has an establishment in Québec, carries on a business in Québec and earns income from the commercialization of a qualified intellectual property asset.

<sup>27</sup> Briefly, a QIPA of a corporation means, as the case may be, an incorporeal property that is an invention of the corporation covered by a patent or certificate of supplementary protection, a protected plant variety covered by a certificate of plant breeder’s rights or a protected software covered by copyright.

<sup>28</sup> *Taxation Act*, s. 737.18.43.



In general, the amount that a qualified corporation can deduct, for a particular taxation year, in calculating its taxable income, in respect of a particular QIPA, is determined by a formula<sup>29</sup> that can be divided into three parts to establish, respectively:

- the qualified profit from the commercialization of the QIPA, which represents an approximation of the value added attributable to that asset;
- the share of expenditures relating to R&D attributable to Québec that contributed directly to the creation, development or improvement of the QIPA (hereinafter referred to as “Québec nexus ratio”);
- the rate of the tax benefit, which leads to the determination of a factor that makes it possible to attain the effective taxation rate of 2% applicable to the qualified income derived from the commercialization of the QIPA.

When the IDCI was implemented, the Québec nexus ratio, in respect of a corporation’s QIPA, was calculated on a cumulative basis, according to a moving average including the particular taxation year (hereinafter referred to as the “particular year”) and the preceding six years, and included the aggregate of all R&D expenditures incurred by a qualified corporation.

On December 19, 2023,<sup>30</sup> changes were made to the calculation of the Québec nexus ratio to comply with the Organisation for Economic Co-operation and Development (OECD) standards.

These changes provide:

- that for a taxation year of a qualified corporation that begins after December 31, 2023, R&D expenditures considered in the calculation of the Québec nexus ratio with regard to a particular QIPA must have contributed directly to the creation, development or improvement of the QIPA; and
- that for a taxation year of a qualifying corporation that begins after December 31, 2029, tracking for these expenditures will be in the form of a cumulative ratio calculated on a historical basis and will only consider R&D expenditures incurred in a taxation year beginning after December 31, 2023.

Transitional rules were also implemented to provide that, for a taxation year of a corporation beginning after December 31, 2023, but before January 1, 2030, the Québec nexus ratio is calculated on a cumulative basis, according to a moving average that includes the particular year as well as the six preceding years, and must consider the R&D expenditures incurred by the corporation that contributed directly to the creation, development or improvement of the QIPA, for the particular year and the preceding taxation years beginning after December 31, 2023, as well as all the qualified corporation’s R&D expenditures incurred in the preceding years beginning before January 1, 2024 that are included in the six years preceding the particular year.

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<sup>29</sup> Ibid., s. 737.18.44.

<sup>30</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin* 2023-7, December 19, 2023, pp. 3-7.

As such, under the current rules, the numerator of the fraction used in the calculation of the Québec nexus ratio in respect of a corporation's QIPA for a particular year beginning after December 31, 2023 corresponds to the aggregate of the following amounts:

- all of the expenditures considered in the calculation of the tax credit for scientific research and experimental development<sup>31</sup> (hereinafter referred to as the “tax credit for salaries (R&D)”) for the year, that the corporation incurred in respect of R&D work carried out in Québec and that contributed directly to the creation, development or improvement of the QIPA;
- the amount representing 80% of the portion of the amount of an expenditure, which would otherwise be eligible for the tax credit for university research or research carried out by a public research centre or a research consortium<sup>32</sup> (hereinafter referred to as the “R&D tax credit (research contract)”) for the year, that it paid under a contract with an eligible university entity, an eligible public research centre or an eligible research consortium to which it is not related and that can reasonably be attributed to R&D expenditures incurred in Québec and that contributed to the creation, development or improvement of the QIPA;
- the product obtained by multiplying one-half of the portion of the consideration that it paid under a contract, in respect of R&D work that contributed to the creation, development or improvement of the QIPA, carried out on its behalf outside Québec, to a subcontractor with which it deals at arm's length by the proportion of the corporation's business carried on in Québec for the year.

The denominator corresponds to the overall amount of R&D expenditures incurred by the qualifying corporation, in Québec or elsewhere in the world, represented by the aggregate of the following amounts:

- the wages that the corporation paid to all its employees in respect of R&D work that it carried out and that contributed to the creation, development or improvement of the QIPA;
- the portion of the consideration that it paid under a contract, in respect of R&D work carried out on its behalf and that contributed to the creation, development or improvement of the QIPA, to a subcontractor with which it does not deal at arm's length and that can reasonably be attributed to the wages paid to the employees of the subcontractor;
- one-half of the portion of the consideration that it paid under a contract, in respect of R&D work carried out on its behalf and that contributed to the creation, development or improvement of the QIPA, to a subcontractor with which it deals at arm's length.

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<sup>31</sup> *Taxation Act*, s. 1029.7.

<sup>32</sup> *Ibid.*, s. 1029.8.6.

However, as part of the implementation of the new tax regime to foster R&D activities, the tax credit for salaries (R&D) and the R&D tax credit (research contract) will be abolished and a new tax credit for R&D, innovation and pre-commercialization (hereinafter referred to as the “CRIC”) will be introduced.

In this context, the tax legislation will be amended as a result of the implementation of the CRIC and the abolition of the tax credit for salaries (R&D) and the R&D tax credit (research contract) in order to adjust the variables of the fraction considered for the calculation of the Québec nexus ratio of a qualified corporation for the purposes of the IDC.I.

To this end, the numerator will correspond to the aggregate of the following amounts:

- all of the expenditures relating to R&D activities, including capital expenditures relating to the acquisition of property used in R&D activities, used to calculate the CRIC for the year and paid by the corporation in respect of R&D carried out in Québec and that contributed directly to the creation, development or improvement of the QIPA;
- the product obtained by multiplying one-half of the portion of the consideration that it paid under a contract, in respect of R&D work that contributed to the creation, development or improvement of the QIPA, carried out on its behalf outside Québec, to a subcontractor with which it deals at arm’s length by the proportion of the corporation’s business carried on in Québec for the year.

The denominator will correspond to the aggregate of the following amounts:

- the wages that the corporation paid to all its employees in respect of R&D work that it carried out in the year and that contributed to the creation, development or improvement of the QIPA;
- the portion of the consideration that it paid under a contract, in respect of R&D work carried out on its behalf and that contributed to the creation, development or improvement of the QIPA, to a subcontractor with which it does not deal at arm’s length and that can reasonably be attributed to the wages paid to the employees of the subcontractor;
- one-half of the portion of the consideration that it paid or of the payment that it made under a contract, in respect of R&D work carried out that contributed to the creation, development or improvement of the QIPA, to a subcontractor or a research organization with which it deals at arm’s length;
- a capital expenditure relating to the acquisition of property used in R&D activities that contributed to the creation, development or improvement of the QIPA.

For greater clarity, expenditures relating to pre-commercialization activities will not be taken into account in the calculation of the Québec nexus ratio for the purposes of the CRIC.

Similarly, expenditures relating to R&D activities taken into account in the calculation of the Québec nexus ratio will not be reduced by the CRIC exclusion threshold.

### ■ **Application date**

These changes will apply to a taxation year that will begin after the day of the budget speech.

For greater clarity, these changes will not apply to fractions taken into account in the calculation of the Québec nexus ratio in respect of a taxation year that will begin before the day of the budget speech.

### □ **Securities options deduction**

In general, an employee who transfers or disposes of rights relating to securities options granted by their employer is deemed to receive, because of the employee's office or employment, a benefit equal to the amount by which the value of the consideration for the transfer or disposition exceeds the amount paid by the employee to acquire those rights. The value of the benefit must be included in computing the employee's income for the taxation year in which the transfer or disposition of the rights occurred.

Similarly, an employee who acquires a security under a securities option granted by their employer is deemed to receive, because of the employee's office or employment, a benefit equal to the amount by which the value of the security at the time the employee acquires it exceeds the aggregate of the amount paid or to be paid by the employee for the security and the amount paid by the employee to acquire the right to acquire the security. The value of the benefit must be included in computing the employee's income for the taxation year in which the employee acquires the security.

However, where a securities option is granted by a Canadian-controlled private corporation to an employee of such a corporation, the value of the benefit must be included in computing the employee's income for the taxation year in which the security was disposed of or exchanged.

The Québec tax legislation provides for a deduction at a rate of 25% of the amount of the taxable benefit, which can be increased to 50% where the option was issued by a corporation which was a qualified corporation or where the option applies to titles from a class of shares listed on a recognized stock exchange and is granted to an employee of a corporation that is a specified corporation.<sup>33</sup>

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<sup>33</sup> Briefly, a corporation is deemed a specified corporation at a particular time if, for the calendar year that includes that time, the aggregate of all wages attributable to its establishment in Québec is at least \$10 M.

To this end, a qualified corporation<sup>34</sup> means a corporation which, in the calendar year in which the security is issued (hereinafter referred to as a “particular year”), operates a business in Québec and has an establishment there if, for its taxation year ending in the calendar year preceding the particular year, its assets were less than \$50 million and if an amount under one of the tax credits listed below was allocated to it for its taxation year ending in the particular year or for one of the three preceding taxation years (hereinafter referred to as the “former tax credits for R&D”):

- the refundable scientific research and experimental development tax credit;
- the refundable tax credit for university research and for research carried out by a public research centre or a research consortium;
- the refundable tax credit for private partnership pre-competitive research;
- the refundable tax credit for fees and dues paid to a research consortium.

Under the CRIC, though, eligibility for the increased 30% rate is not based on a criteria relating to a corporation’s assets, as it was the case with the former tax credits for R&D. The CRIC rate relies exclusively on the amount of eligible expenditures incurred by an eligible corporation.

Given this context, consequential amendments will be made to the securities options deduction to consider the CRIC parameters.

The tax legislation will therefore be amended so that a corporation will qualify as a qualified corporation for a calendar year for the purposes of the security options deduction if, in the calendar year, the corporation carries on a business in Québec and has an establishment there and if an amount under the CRIC was allocated to it for its taxation year ended in the calendar year or if, for one of the three preceding taxation years, either an amount under the CRIC was allocated to it or the corporation’s assets as shown in its financial statements were less than \$50 million<sup>35</sup> and an amount under one of the former tax credits for R&D was allocated to it.

This change will apply as of the 2026 calendar year. In addition, for the 2025 calendar year, a corporation will qualify as a qualified corporation for the purposes of the security options deduction if, in 2025, it carries on a business in Québec and has an establishment there, and if the following conditions are met:

- either an amount in respect of the CRIC was granted to it for a taxation year ended in 2025; or
- an amount in respect of one of the former tax credits for R&D was granted to it for a taxation year ended in 2025, or for one of the three preceding taxation years, and the corporation had assets of less than \$50 million shown in its financial statements for 2025 or one of the three preceding taxation years.

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<sup>34</sup> *Taxation Act*, s. 725.1.3.

<sup>35</sup> For greater clarity, the rules for computing the assets of a qualified corporation provided for in section 725.1.4 of the *Taxation Act* will still apply.

### 1.1.3 Consequential abolition of certain fiscal measures

#### ☐ Tax credit for scientific research and experimental development

The tax credit for scientific research and experimental development (hereinafter referred to as the “tax credit for salaries (R&D)”) was implemented as part of the May 10, 1983 budget speech.<sup>36</sup> Its objective is to encourage businesses to increase their R&D expenditures in Québec.

Briefly, the tax credit applies to the salaries that a taxpayer or partnership pays to its employees for R&D undertaken in Québec on its behalf. It also applies to salaries paid to the employees of a subcontractor who carries out, in Québec, R&D work for a taxpayer or partnership when they have a non-arm’s length relationship with it. Moreover, where the subcontractor does not deal at arm’s length with the taxpayer or one of the members of the partnership, this tax credit applies to half of the portion of the amount of the research contract that can be reasonably attributed to the R&D work performed on behalf of the taxpayer or the partnership in Québec.

The tax credit is calculated to exclude the first dollars of R&D expenditures below the applicable exclusion threshold. This threshold is \$50 000 on an annual basis where the assets of the taxpayer or partnership, shown in its financial statements for its preceding taxation year, or its preceding fiscal period, as the case may be, are less than \$50 million.<sup>37</sup>

The tax credit rate available to a taxpayer or a member of a partnership having incurred R&D expenditures is 14%, but it can be increased to as much as 30% where the taxpayer is a qualifying corporation.<sup>38</sup>

One of the main objectives for implementing the new tax regime to foster R&D activities is to simplify the tax system by bringing together some of the fiscal measures currently available into a single enhanced tax credit and by abolishing less effective fiscal measures.

Given this context, the tax credit for salaries (R&D) will be abolished as a result of the implementation of the tax credit for R&D, innovation and pre-commercialization (hereinafter referred to as the “CRIC”).

The abolition will apply to a taxation year of a taxpayer or a fiscal period of a partnership, as the case may be, beginning after the day of the budget speech.

<sup>36</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1983-1984 – Discours sur le budget*, annexe I, May 10, 1983, pp. 41-42.

<sup>37</sup> This threshold increases on a straight-line basis up to \$225 000 where the assets of a taxpayer or partnership, for the preceding taxation year or preceding fiscal period, as the case may be, vary between \$50 M and \$75 M.

<sup>38</sup> See note 2.

## ❑ **Tax credit for university research and for research carried on by a public research centre or a research consortium**

The tax credit for university research and for research carried on by a public research centre or a research consortium (hereinafter referred to as the “R&D tax credit (research contract)”) was implemented as part of the April 30, 1987 budget speech.<sup>39</sup> Its objective is to foster collaboration between businesses and certain specialized R&D organizations.

Briefly, this refundable tax credit applies, in particular, to 80% of the amount paid by a taxpayer or partnership, under a research contract, in respect of R&D work subcontracted to an eligible university entity,<sup>40</sup> an eligible public research centre<sup>41</sup> or an eligible research consortium<sup>42</sup> with which the taxpayer or partnership is not related.

The tax credit rate available to a taxpayer or a member of a partnership having incurred the expenditure is 14%, but it can be increased to as much as 30% where the taxpayer is a qualifying corporation.<sup>43</sup>

As a result of the implementation of the CRIC, this tax credit will be abolished in respect of a taxation year of a taxpayer or a fiscal period of a partnership, as the case may be, beginning after the day of the budget speech.

Despite the abolition of the R&D tax credit (research contract), the *Act respecting the sectoral parameters of certain fiscal measures* will be amended so that the Minister of the Economy, Innovation and Energy can continue to issue certificates of recognition as an eligible public research centre and as an eligible research consortium for the purposes of the CRIC.

In addition, the Minister of Finance will continue to recognize eligible university entities for the purposes of the CRIC.

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<sup>39</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1987-1988 – Discours sur le budget et Renseignements supplémentaires*, April 30, 1987, Appendix A, pp. 7-8.

<sup>40</sup> In general, an eligible university entity is an entity recognized as such by the Minister of Finance.

<sup>41</sup> In general, an eligible public research centre is an entity recognized as such by the Minister of Economy, Innovation and Energy which has not already been recognized as a college centre for the transfer of technology.

<sup>42</sup> In general, an eligible research consortium is a non-profit private research centre established in Canada and which has obtained a certificate from the Minister of Economy, Innovation and Energy.

<sup>43</sup> See note 2.

## **❑ Tax credit for private partnership pre-competitive research**

The tax credit for private partnership pre-competitive research (hereinafter referred to as the “R&D tax credit (partnership)”) was implemented as part of the March 23, 2006 budget speech.<sup>44</sup> Its objective is to foster collaboration between businesses interested in carrying on larger-scale pre-competitive R&D projects in partnership.

To be eligible for the R&D tax credit (partnership), a taxpayer or partnership must enter into a private partnership agreement in which the parties agree to undertake R&D work in Québec, or cause to be undertaken on their behalf R&D work in Québec, under a pre-competitive research project.

Briefly, this refundable tax credit applies to qualified R&D expenditures<sup>45</sup> incurred by the taxpayer or partnership under a partnership agreement or to 80% of the amount of a research contract where the R&D work is subcontracted to a person or partnership with which the taxpayer or partnership deals at arm’s length.

The tax credit rate available to a taxpayer or a member of a partnership having incurred the expenditures is 14%, but it can be increased to as much as 30% where the taxpayer is a qualifying corporation.<sup>46</sup>

As a result of the implementation of the CRIC, this tax credit will be abolished in respect of a taxation year of a taxpayer or a fiscal period of a partnership, as the case may be, beginning after the day of the budget speech.

## **❑ Tax credit for fees and dues paid to a research consortium**

The tax credit for fees and dues paid to a research consortium (hereinafter referred to as the “R&D tax credit (consortium)”) was implemented as part of the May 14, 1992 budget speech.<sup>47</sup> Its objective is to support businesses that bring together a significant portion of their R&D activities into non-profit corporations (i.e. research consortiums) in order to increase successful outcomes and reduce costs.

<sup>44</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2006-2007 – Additional Information on the Budgetary Measures*, March 23, 2006, Section 1, pp. 62-64.

<sup>45</sup> Briefly, these refer to salaries and wages paid in respect of R&D activities, expenditures relating to the provision of premises, facilities or equipment used for conducting R&D activities, the cost of materials consumed or transformed in R&D activities as well as certain payments to third parties.

<sup>46</sup> See note 2.

<sup>47</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1992-1993 – Discours sur le budget et Renseignements supplémentaires*, May 14, 1992, Appendix A, pp. 93-95.



Briefly, this refundable tax credit applies to the fees and dues that a taxpayer or partnership pays to an eligible research consortium,<sup>48</sup> to be a member thereof, and that may reasonably be considered to be attributable to R&D work undertaken by the consortium in relation to a business of that taxpayer or that partnership.

Where the amount of the fees or dues exceeds the amount of R&D expenditures incurred by the consortium, the excess is added to the eligible fee balance of the taxpayer or partnership and can, under certain conditions, be carried forward to future taxation years.

The tax credit rate available for a taxpayer or a member of a partnership having incurred the expenditures is 14%, but it can be increased to as much as 30% where the taxpayer is a qualifying corporation.<sup>49</sup>

As a result of the implementation of the CRIC, this tax credit will be abolished in respect of a taxation year of a taxpayer or a fiscal period of a partnership, as the case may be, beginning after the day of the budget speech.

However, for greater clarity, the eligible fee balance of a taxpayer or partnership at the end of the taxation year or fiscal period, as the case may be, that will end after the day of the budget speech, could give rise to the R&D tax credit (consortium), under the same terms and conditions, in respect of a taxation year ending on or before December 31, 2029.

Despite the abolition of the R&D tax credit (consortium), the *Act respecting the sectoral parameters of certain fiscal measures* will be amended so that the Minister of the Economy, Innovation and Energy can continue to issue consortium certificates for an eligible research consortium for the purposes of the CRIC.

## **❑ Tax credit for technological adaptation services**

The tax credit for technological adaptation services was implemented as part of the March 9, 1999 budget speech.<sup>50</sup> Its objective is to support businesses in their efforts to enter into collaboration agreements for research and innovation projects.

Briefly, this refundable tax credit applies to qualified expenditure<sup>51</sup> incurred by a qualified corporation or a qualified partnership as part of a contract to obtain an eligible liaison and transfer service.

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<sup>48</sup> See note 42.

<sup>49</sup> See note 2.

<sup>50</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1999-2000 – Additional Information on the Budgetary Measures*, March 9, 1999, Section 1, pp. 26-33.

<sup>51</sup> Qualified expenditures include an amount equal to 80% of the fees relating to liaison and transfer services as well as attendance fees for training and information activities in relation to liaison and transfer services.

The tax credit rate available to a qualified corporation or qualified partnership that is a member of a qualified partnership having incurred the expenditure is 40%.

As a result of the implementation of the CRIC, this tax credit will be abolished in respect of a taxation year of a qualified corporation or a fiscal period of a qualified partnership, as the case may be, beginning after the day of the budget speech.

### **❑ Tax credit for design (industrial component)**

The tax credit for design (hereinafter referred to as the “design tax credit”) was implemented on November 30, 1993.<sup>52</sup> Its objective is to foster business innovation by supporting the pursuit of industrial design activities<sup>53</sup> (hereinafter referred to as “industrial design component”) and fashion design activities<sup>54</sup> (hereinafter referred to as the “fashion design component”).

To be eligible for the design tax credit, a qualified corporation or qualified partnership must undertake eligible design activities or have such work carried out on its behalf, in Québec, by a qualified outside consultant.

Briefly, this refundable tax credit applies, in particular, to eligible expenditures<sup>55</sup> incurred by the corporation or partnership to undertake design activities or to 65% of the external consulting contract where the consultant deals at arm’s length with the corporation or the partnership.

The tax credit rate available to a qualified corporation or qualified partnership that is a member of a qualified partnership having incurred the expenditures is 12%, but it can be increased to as much as 24% where the assets of the qualified corporation or qualified partnership, for a preceding taxation year or preceding fiscal period, as the case may be, is \$50 million or less.<sup>56</sup>

However, an expenditure incurred as salaries paid to a designer or patternmaker is limited to \$60 000 or \$40 000 respectively, on an annual basis.

<sup>52</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin* 93-6, November 30, 1993, Appendix, pp. 8-15.

<sup>53</sup> Industrial design is defined as a planning and design activity based on an aesthetic, economic and ergonomic analysis of structures, as part of a systematic process of analysis, conception and synthesis.

<sup>54</sup> Fashion design is a creative activity characterized by an iterative process establishing a relationship between materials, cut and function to meet physiological requirements, industrial constraints and market conditions.

<sup>55</sup> In general, eligible expenditures represent salaries paid to qualified designers or patternmakers employed by the corporation or partnership.

<sup>56</sup> See note 3.

As a result of the implementation of the CRIC, the industrial design component of this tax credit will be abolished. Consequently, no expenditure relating to the industrial design component will be eligible for the tax credit where it is incurred by a corporation or a partnership for salaries or under an external consulting contract, for a taxation year or fiscal period, as the case may be, beginning after the day of the budget speech.

For greater clarity, this tax credit will remain unchanged with regard to the fashion design component and will continue to apply to expenditures relating to this component.

## **1.2 Modernization of the tax credits for the development of e-business**

Québec tax assistance for the development of e-business consists of a refundable tax credit, introduced in the March 13, 2008 budget speech,<sup>57</sup> and a non-refundable tax credit, introduced in the March 26, 2015 budget speech<sup>58</sup> (hereinafter referred to as “TCEB”).

The TCEB provides tax assistance to businesses in the information technology sector that carry out e-business activities, notably in the fields of computer systems design and software publishing.

Briefly, the TCEB is calculated on qualified wages incurred and paid by a qualified corporation to eligible employees performing duties in connection with eligible activities.

A corporation that has an establishment in Québec and wants to benefit from the TCEB, for a taxation year, must obtain from Investissement Québec a corporation certificate attesting that it meets, for the year, the “criteria relating to activities,” the “criterion relating to services provided” and the “criterion relating to the maintenance of a minimum number of jobs.” In addition, a corporation must obtain a certificate in respect of each employee for whom the corporation intends to claim the TCEB, for a taxation year, attesting that the employee is recognized as an eligible employee.

As part of the March 12, 2024 budget speech,<sup>59</sup> significant changes were made to the parameters for calculating the TCEB to refocus it further on businesses that offer higher value-added jobs and are in a position to maximize benefits in Québec.

With these changes, an exclusion threshold per eligible employee was introduced so that the TCEB is calculated on an amount corresponding to the amount by which the qualified wages incurred and paid by the qualified corporation in the year for an eligible employee exceed the applicable exclusion threshold. The \$83 333 limit that was previously applicable to an eligible employee’s qualified wages was also removed.

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<sup>57</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2008-2009 – Additional Information on the Fiscal Measures*, March 13, 2008, pp. A.79-A.85.

<sup>58</sup> Id., *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.80-A.84.

<sup>59</sup> Id., *Budget 2024-2025 – Additional Information*, March 12, 2024, pp. A.22-A.24.

These changes were also aimed at increasing the non-refundable tax credit by 1 percentage point per year so that it eventually reaches 10% in 2028, and correspondingly reducing the refundable tax credit so that it reaches 20% in 2028.

The table below shows the rates of the TCEB following the changes made as part of the March 12, 2024 budget.

TABLE A.1

**Applicable TCEB rates<sup>(1)</sup>**

(per cent)

	2024	2025	2026	2027	2028 <sup>(2)</sup>
Refundable tax credit	24.0	23.0	22.0	21.0	20.0
Non-refundable tax credit	6.0	7.0	8.0	9.0	10.0
<b>TOTAL</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>

(1) A qualified corporation whose taxation year does not correspond to the calendar year must, in calculating its tax credits for a taxation year, take into account the rates in effect for the calendar year in which its taxation year begins.

(2) Rates applicable to the 2028 calendar year will apply to subsequent years.

Upon implementation, the objective of the TCEB was to provide tax assistance to businesses in the information technology sector that carry out high value-added innovative activities. It also sought to bolster this sector. Another TCEB objective consisted in supporting Québec business growth across all sectors by providing businesses with the expertise required to improve productivity, particularly by adopting Internet and network technologies.

The government's review of tax expenditures has determined that some activities supported by the TCEB are no longer considered high value-added innovative activities. This review also found that some of the technologies whose adoption it promotes are no longer considered emerging technologies.

As a result, changes will be made to modernize the eligible activities for TCEB purposes.

These changes consist in:

- refocusing eligible activities for TCEB purposes on e-business integrating artificial intelligence (AI) functionalities to a significant extent;
- relaxing the criteria relating to activities and the criterion relating to services provided by adding data processing and hosting activities, to promote the eligibility of AI businesses;
- removing activities relating to maintenance or evolution.

In addition, a change will also be made to reduce the tax assistance to corporations that provide services to persons with whom they are not dealing at arm's length, in relation to an application intended to be used exclusively outside Québec.

- ❑ **Modernization of the eligible activities for TCEB purposes**
- **Refocusing on e-business integrating artificial intelligence functionalities to a significant extent**

The *Act respecting the sectoral parameters of certain fiscal measures* (hereinafter referred to as the “Sectoral Act”) currently provides that, for employee certificate purposes, activities not primarily related to e-business are not eligible activities.<sup>60</sup> Accordingly, to be eligible, for employee certificate purposes, an activity must be primarily related to e-business.

E-business generally consists of a method of conducting business that involves transforming a business’s main business processes by integrating Internet technologies or any other network technology.

However, Internet and network technologies are no longer emerging technologies today.

With a view to modernizing the activities eligible for CDAE purposes, the Sectoral Act will be amended so that, to be an eligible activity, for employee certificate purposes, an activity must be primarily related to e-business integrating AI functionalities to a significant extent.

For greater clarity, an activity will be considered, in respect of an employee, to be primarily related to e-business integrating AI functionalities to a significant extent, when the duties performed by the employee are primarily related to e-business and relate to a mandate, a project or a product that integrates AI functionalities to a significant extent.

- **Adding data processing and hosting activities for the purposes of the criteria relating to activities and the criterion relating to services provided**

The Sectoral Act currently stipulates that, to obtain a corporation certificate, a corporation must, for a taxation year, meet the criteria relating to activities, the criterion relating to services provided and the criterion relating to the maintenance of a minimum number of jobs.<sup>61</sup>

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<sup>60</sup> *Act respecting the sectoral parameters of certain fiscal measures*, Schedule A, s. 13.12.

<sup>61</sup> *Ibid.*, ss. 13.3 to 13.8.

To meet the criteria relating to activities, a corporation must demonstrate, on the one hand, that the proportion of the corporation's gross revenue deriving from eligible activities in the information technology sector, as that term is defined by the Sectoral Act,<sup>62</sup> is at least 75% (hereinafter referred to as the "75% test") and, on the other hand, that the proportion of the corporation's gross revenue deriving from activities included in the group described under four specific NAICS codes is at least 50% (hereinafter referred to as the "50% test"). These four NAICS codes are:

- 511210 (software publishers);
- 541510 (computer systems design and related services);
- 561320 (temporary help services); and
- 561330 (professional employer organizations).

To meet the criterion relating to services provided, a corporation must demonstrate that at least 75% of the corporation's gross revenue deriving from activities covered by the four NAICS codes mentioned above is attributable to:

- services whose ultimate beneficiary is a person or a partnership with whom the corporation is dealing at arm's length;
- services that relate to an application developed by the corporation and used exclusively outside Québec.

However, where services are provided to a particular person included in the group described under NAICS codes 561320 (temporary help services) and 561330 (professional employer organizations), these services must ultimately relate to an application that results from activities described in NAICS codes 511210 (software publishers) and 541510 (computer systems design and related services) that has been developed for the benefit of the particular person.

Data processing, hosting and related services included in the group described under NAICS code 51821 are already eligible activities in the information technology sector for the purpose of applying the 75% test, but not for the purpose of applying the 50% test.

To promote the eligibility of AI businesses, the Sectoral Act will be amended to add the data processing, hosting and related services activities included in the group described under NAICS code 51821 to the list of NAICS codes that meet the 50% test, for the purposes of the criteria relating to activities.

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<sup>62</sup> Ibid., s. 13.5.

Consequently, the Sectoral Act will be amended so that the data processing, hosting and related services activities included in the group described under NAICS code 51821 are eligible activities considered in analyzing the criterion relating to services provided for corporation certificate purposes.

For greater certainty, the criterion relating to services provided will therefore be met where at least 75% of the corporation's gross revenue deriving from activities included in the groups described under NAICS codes 511210 (software publishers), 51821 (data processing, hosting and related services), 541510 (computer systems design and related services), 561320 (temporary help services) and 561330 (professional employer organizations) is attributable to all of the following services:

- services whose ultimate beneficiary is a person or a partnership with whom the corporation is dealing at arm's length; or
- services that relate to an application developed by the corporation and used exclusively outside Québec.

In addition, where services are provided to a particular person as part of activities included in the groups described under NAICS codes 561320 (temporary help services) and 561330 (professional employer organizations), these services must ultimately relate to an application that results from activities described in NAICS codes 511210 (software publishers), 51821 (data processing, hosting and related services) and 541510 (computer systems design and related services) that have been developed for the benefit of the particular person.

## ■ Removing activities relating to maintenance or evolution

The Sectoral Act currently provides that, for employee certificate purposes, any activity relating to the maintenance or evolution of information systems or technology infrastructures is an eligible activity, to the extent that it is incidental to a development or integration activity carried on by the corporation.

The Sectoral Act also provides that an activity relating to the maintenance or evolution of information systems or of technology infrastructures includes any activity required for the proper operation of systems and infrastructures or required to resolve or prevent problems or incidents, provided that the activity is a technical corrective or preventive intervention that modifies one or more technical aspects of the components, including computerized processes or a diagnostic activity, with remote access or control of systems and technology infrastructures, that leads directly or indirectly to a technical intervention.

However, these activities are no longer high value-added innovative activities.

As a result, the Sectoral Act will be amended to remove activities relating to maintenance or evolution from eligible activities, for employee certificate purposes.

For greater clarity, activities relating to maintenance or evolution will no longer be eligible activities, even if they are incidental to the development or integration of information systems or of technology infrastructures. Similarly, activities required for the proper operation of systems and infrastructures or required to resolve or prevent problems or incidents will no longer be eligible activities.

### ■ **Application date**

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

These amendments may also apply, where the corporation files an election in writing with Investissement Québec, for a taxation year that begins after the day of the budget speech and before January 1, 2026. However, such an election in writing must be filed by the corporation before the expiry of the ninth month following the due date for filing its tax return for the taxation year concerned.

In addition, these two tax credits will be renamed, as of the effective date of these amendments, so as to be referred to as “refundable tax credit for the development of e-business integrating artificial intelligence” and “non-refundable tax credit for the development of e-business integrating artificial intelligence.”

### □ **Reducing the tax assistance granted to corporations that carry out intercompany outsourcing**

The tax legislation will be amended to reduce the tax assistance provided to corporations that carry out intercompany outsourcing.

Accordingly, the Sectoral Act will be amended to clarify that the corporation certificate will now have to specify the proportion of a corporation’s gross revenue derived from activities included in the groups described under NAICS codes 511210 (software publishers), 51821 (data processing, hosting and related services) and 541510 (computer systems design and related services) that is attributable to services that relate to an application developed by the corporation to be used exclusively outside Québec by an ultimate beneficiary who is a person or a partnership with whom the corporation is not dealing at arm’s length.

The Sectoral Act will also be amended to clarify that the corporation certificate will now have to specify the proportion of a corporation’s gross revenue deriving from activities included in the groups described under NAICS codes 561320 (temporary help services) and 561330 (professional employer organizations) that is ultimately attributable to services provided relating to an application developed in connection with activities included in the groups described under NAICS codes 511210 (software publishers), 51821 (data processing, hosting and related services) and 541510 (computer systems design and related services) to be used exclusively outside Québec by an ultimate beneficiary who is a person or a partnership with whom the corporation is not dealing at arm’s length.



The tax legislation will also be amended to provide that when any one of these proportions is at least 50%, the rates applicable to the TCEB, both for the refundable and non-refundable tax credit, will correspond to half of the rates otherwise applicable for that taxation year.

The table below sets out the TCEB rates following these amendments.

TABLE A.2

**Applicable TCEB rates<sup>(1)</sup>**  
(per cent)

	2024	2025	2026	2027	2028 <sup>(2)</sup>
<b>General rate</b>					
Refundable tax credit	24.0	23.0	22.0	21.0	20.0
Non-refundable tax credit	6.0	7.0	8.0	9.0	10.0
<b>TOTAL</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>
<b>Reduced rate – Outsourcing outside Québec</b>					
Refundable tax credit	24.0	23.0	11.0	10.5	10.0
Non-refundable tax credit	6.0	7.0	4.0	4.5	5.0
<b>TOTAL</b>	<b>30.0</b>	<b>30.0</b>	<b>15.0</b>	<b>15.0</b>	<b>15.0</b>

(1) A qualified corporation whose taxation year does not correspond to the calendar year must, in calculating its tax credits for a taxation year, take into account the rates in effect for the calendar year in which its taxation year begins.

(2) Rates applicable to the 2028 calendar year will apply to subsequent years.

## ■ Application date

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

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

The refundable tax credit relating to mining or other resources (hereinafter referred to as the “tax credit relating to resources”) was introduced as part of the March 29, 2001 budget speech.<sup>63</sup>

<sup>63</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2001-2002 – Additional Information on the Budgetary Measures*, March 29, 2001, Section 1, pp. 50-55.

In general, a qualified corporation<sup>64</sup> that incurs eligible expenses in a taxation year may benefit from this tax credit for such expenses, for the taxation year, at a rate of up to 38.75%, if it does not operate a mineral resource or an oil or gas well<sup>65</sup> (hereinafter referred to as “specified qualified corporation”). However, a qualified corporation other than a specified qualified corporation (hereinafter referred to as “other qualified corporation”) may benefit, for a taxation year, in respect of eligible expenses it incurs, for that taxation year, from the tax credit at a rate of up to 18.75%.

The tax credit rate that a specified qualified corporation or an other qualified corporation may claim for eligible expenses it incurs varies according to several parameters, including the type of resource associated with the eligible expenses and the location where these expenses are incurred.

Briefly, a corporation’s eligible expenses can be divided into three categories: exploration expenses in Québec related to mining resources, expenses related to renewable and conservation in Québec, and expenses related to other natural resources<sup>66</sup> in Québec. These expenses must have been incurred by the corporation after March 29, 2001, and must not have been foregone for the purposes of the *Taxation Act* under the flow-through share regime.

The table below shows the rates of the tax credit relating to resources currently applicable according to these parameters.

TABLE A.3

**Rates of the tax credit relating to resources**  
(per cent)

Category of eligible expenses	Specified qualified corporation	Other qualified corporation
– Mining resources <sup>(1)</sup> in the Near North or the Far North	38.75	18.75
– Mining resources <sup>(1)</sup> elsewhere in Québec	28.00	12.00
– Renewable and conservation	28.00	24.00
– Other natural resources (dimension stone)	12.00	12.00

(1) As of April 1, 2023, coal-related expenses are no longer eligible for the tax credit.

<sup>64</sup> A qualified corporation that is a member of a qualified partnership may, on certain conditions, receive the tax credit relating to resources in respect of its share of eligible expenses incurred by the partnership.

<sup>65</sup> Such corporation must not be part of an associated group within which a member operates a mineral resource or an oil or gas well.

<sup>66</sup> For the purposes of the tax credit relating to resources, a natural resource consists of granite, sandstone, limestone, marble or slate, to the extent that the resources are used for the production of dimension stones, cemetery monuments, building stones, paving stones, curbing and roof tiles.

The government's review of tax expenditures has revealed that certain adjustments to the tax credit relating to resources are needed in order to refocus the tax assistance granted through this tax credit.

Accordingly, to better support exploration corporations at the development stage and to encourage corporations to carry out more projects related to critical and strategic minerals while ensuring a fair distribution of tax expenditures, changes will be made to the tax credit relating to resources.

These changes consist in:

- adding development expenses to the eligible expenses for the tax credit;
- 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;
- introducing a limit on eligible expenses of \$100 million per five-year period.

#### **□ Adding development expenses to the expenses eligible for the tax credit**

The tax legislation will be amended so that the definition of “eligible expenses”<sup>67</sup> of a corporation or partnership, for the purposes of the tax credit relating to resources, will include development expenses relating to mining resources incurred in Québec.

For illustration purposes, development expenses include the costs incurred to bring a new mine into production in reasonable commercial quantities, including, in particular, the costs for clearing, removing overburden and stripping, sinking a mine shaft and constructing an adit or other underground entry.

For greater clarity, the development expenses concerned will correspond to the Canadian development expenses that would be described in paragraphs *b.0.2* and *b.1* of section 408 of the *Taxation Act* if these paragraphs were to be read by replacing “Canada” with “Québec.”

The tax credit rates for these new eligible expenses will be those applicable to eligible expenses related to mining resource.

#### **■ Application date**

This change will apply to development expenses incurred after the day of the budget speech.

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<sup>67</sup> *Taxation Act*, s. 1029.8.36.167, para. 1.

## **❑ Revising the tax credit rates applicable to eligible expenses related to mining resource**

The tax legislation will be amended to revise the rates of the tax credit relating to resources in respect of eligible expenses related to mining resource so that the rate of the tax credit is equal to:

- 22.5% in respect of such expenses incurred by a specified qualified corporation;
- 10% in respect of such expenses incurred by an other qualified corporation.

These rates will apply in respect of eligible expenses related to mining resource incurred in Québec, regardless of the region where the eligible expenses are incurred by the corporation or partnership.

For greater clarity, the tax credit rates that a specified qualified corporation or an other qualified corporation can claim for eligible expenses related to renewable and conservation and for eligible expenses related to other natural resources (dimension stone) it incurred will not be amended.

## **■ Application date**

This change will apply to eligible expenses incurred after the day of the budget speech.

## **❑ Temporarily enhancing the rates applicable to eligible expenses mainly attributable to critical and strategic minerals**

The tax legislation will be amended to temporarily enhance the rates of the tax credit relating to resources for eligible expenses related to mining resource that consist of expenses mainly attributable to one or more critical or strategic minerals so that the rate of the tax credit will be equal to:

- 45% in respect of such expenses incurred by a specified qualified corporation;
- 20% in respect of such expenses incurred by an other qualified corporation.

Eligible expenses that consist of expenses mainly attributable to one or more critical and strategic minerals will be eligible for the enhanced rates when they will be incurred and paid before January 1, 2030. After that date, these expenses will be eligible for the rates applicable to eligible expenses related to other mining resources.

For the purposes of the tax credit relating to resources, critical minerals will mean the following minerals: antimony, bismuth, cadmium, cesium, copper, tin, gallium, indium, tellurium and zinc. Strategic minerals will mean the following minerals: cobalt, rare earth elements, platinum group elements, graphite (natural), lithium, magnesium, nickel, niobium, scandium, tantalum, titanium and vanadium.

The following table shows the rates that will be applicable as a result of these changes.

TABLE A.4

**Rates applicable after the day of the budget speech, but before  
January 1, 2030**  
(per cent)

Category of eligible expenses	Specified qualified corporation	Other qualified corporation
– Critical and strategic minerals	45.00 <sup>(1)</sup>	20.00 <sup>(1)</sup>
– Other mining resources <sup>(2)</sup>	22.50	10.00
– Renewable and conservation	28.00	24.00
– Other natural resources (dimension stone)	12.00	12.00

(1) Eligible expenses mainly attributable to one or more critical and strategic minerals will be eligible for the enhanced rates until December 31, 2029. After that date, they will be eligible for the rates applicable to eligible expenses related to other mining resources.

(2) As of April 1, 2023, coal-related expenses are no longer eligible for the tax credit.

■ **Application date**

This change will apply to eligible expenses incurred after the day of the budget speech, but before January 1, 2030 and paid before January 1, 2030.

□ **Introducing a limit on eligible expenses of \$100 million  
per five-year period**

The tax legislation will be amended so that the total of the eligible expenses of a qualified corporation, for a taxation year, and its share of the eligible expenses of a qualified partnership, for a fiscal period that ends in the taxation year, may not exceed the balance of cumulative eligible expense limit of the corporation for the taxation year.

Likewise, the total of the eligible expenses of a partnership, for a fiscal period, may not exceed the balance of cumulative eligible expense limit of the partnership for the fiscal period.

The balance of cumulative eligible expense limit of a qualified corporation, for a particular taxation year, will be equal to the excess of \$100 million over the total of the following amounts:

- the qualified corporation's eligible expenses and, if the corporation is a member of an associated group, the eligible expenses of another corporation that is a member of the associated group, in respect of which the tax credit relating to resources could be claimed for a taxation year ended in the 48-month period preceding the beginning of the particular year;

- the share of a qualified partnership's eligible expenses in respect of which the qualified corporation or, if the qualified corporation is a member of an associated group, another corporation that is a member of the associated group could claim the tax credit relating to resources for a taxation year ended in the 48-month period preceding the beginning of the particular year.

Where a qualified corporation is a member of an associated group, in a particular taxation year, the balance of cumulative eligible expense limit for the year will be subject to a sharing agreement between the members of the associated group in accordance with the usual rules.

The balance of cumulative eligible expense limit of a qualified partnership, for a particular fiscal period, will be equal to the excess of \$100 million over the total of the eligible expenses incurred by the partnership in a fiscal period ended in the 48-month period preceding the beginning of the particular fiscal period in respect of which a qualified corporation that is a member of the partnership could claim the tax credit relating to resources.

Moreover, where eligible expenses will be incurred as part of a joint venture, all eligible expenses relating to the expenses incurred as part of this joint venture will also be subject to a cumulative limit of \$100 million. The balance of cumulative eligible expense limit of a joint venture will be calculated as if the joint venture were a partnership whose fiscal period ends on December 31.

## ■ **Application date**

This change will apply to a taxation year of an eligible corporation that begins after the day of the budget speech.

Where the expenses are incurred by an eligible partnership, this change will apply to a fiscal period of the partnership that begins after the day of the budget speech.

In addition, eligible expenses incurred on or before the day of the budget speech will not be considered for the calculation of the balance of cumulative eligible expense limit of an eligible corporation or eligible partnership.

## **1.4 Consequential adjustments of the tax benefits relating to the flow-through share regime**

Briefly, the flow-through share regime allows a taxpayer who acquires a flow-through share to benefit from a base deduction equal to 100% of its acquisition cost, provided that the financing obtained by the issuing corporation is used to cover exploration or development work in Canada and where the expenses incurred are renounced by the corporation in favour of the shareholder.

The flow-through share regime also provides for two additional deductions.

On the one hand, an individual can benefit from an additional deduction of 10% in respect of certain exploration expenses incurred in Québec.<sup>68</sup> On the other hand, the individual can also benefit from an additional deduction of 10% in respect of certain surface mining exploration expenses incurred in Québec.<sup>69</sup>

The flow-through share regime also allows an individual to benefit, in certain cases, from other advantages, such as the additional deduction in respect of certain issue expenses.

The government's review of tax expenditures has determined that adjustments need to be made to the flow-through share regime. The tax legislation will therefore be amended to abolish the additional deduction in respect of certain exploration expenses incurred in Québec as well as the additional deduction in respect of certain surface mining exploration expenses incurred in Québec.

## **□ Application date**

These changes will apply to flow-through shares issued after the day of the budget speech.

However, they will not apply to shares issued after that day, but before January 1, 2026, when they are issued following an application for a receipt for a preliminary prospectus made on or before the day of the budget speech.

Similarly, the changes will not apply to shares issued after the day of the budget speech when they are issued following a public announcement made on or before that day, if the report of distribution form has been submitted to the Autorité des marchés financiers on or before May 31, 2025.

## **1.5 Consequential 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.<sup>70</sup>

In summary, 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.

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<sup>68</sup> The rules relating to the additional deduction in respect of certain exploration expenses incurred in Québec are set out in Title VI.3.2 of Book IV of Part I of the *Taxation Act*.

<sup>69</sup> The rules relating to the additional deduction in respect of certain surface mining exploration expenses incurred in Québec are set out in Title VI.3.2.1 of Book IV of Part I of the *Taxation Act*.

<sup>70</sup> 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*.

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 tax legislation will therefore be amended to abolish the additional capital gains exemption in respect of certain resource properties.

## **❑ Application date**

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

## **1.6 Extension of the tax credit for the digital transformation of print media**

Briefly, a qualified corporation<sup>71</sup> that incurs eligible digital conversion costs may benefit from the refundable tax credit for the digital transformation of print media. This tax credit is calculated at a rate of 35%. A corporation may benefit from tax assistance of up to \$7 million for a taxation year.

To be qualified, a corporation must, for a taxation year, carry on a business in Québec and have an establishment there, among other things. The corporation must also hold, for the taxation year, a qualified certificate issued by Investissement Québec certifying that it has produced and disseminated on a daily or periodic basis a print or digital information media including original written information content intended specifically for the Québec public, pertaining to general interest news and covering at least three eligible topics such as politics, business and the economy, and the international, cultural or municipal sector. The newsroom of the eligible media must also be situated in Québec.

The tax assistance is granted to a qualified corporation who carries out eligible digital conversion activities for an eligible media, that is, in particular, activities relating to the development of information systems or the integration of technology infrastructure that is directly linked to the initiation or continuation of the eligible media's digital conversion.

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<sup>71</sup> A corporation that is a member of a qualified partnership may also, under certain conditions, benefit from the refundable tax credit for its share of the partnership's eligible digital conversion costs.



Eligible digital conversion costs of a qualified corporation correspond to the total of qualified wages incurred by the corporation in the year in respect of eligible employees and that relate to eligible digital conversion activities, and to all of the corporation's qualified expenditures for that year that are related to an eligible digital conversion contract. A qualified expenditure related to an eligible digital conversion contract means 80% of the costs provided for in the contract and which the corporation has incurred in the year for the acquisition or lease of qualified property, the supply of eligible services or an eligible right of use or licence.

In addition, the terms “qualified expenditure” and “qualified wages” refer, for a taxation year, only to costs and wages incurred in all or part of the year that is included in the eligibility period of the refundable tax credit for the digital transformation of print media.

This eligibility period started on March 28, 2018 and ended on December 31, 2024.

Consequently, only qualified expenditures and qualified wages incurred before January 1, 2025 are eligible for the refundable tax credit. In addition, where the qualified expenditure relates to the acquisition of a qualified property, it must be acquired before January 1, 2024.

To further stimulate the digital conversion activities of print media businesses, the tax legislation will be amended to extend the assistance granted under the refundable tax credit 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.

## **1.7 Abolishing the tax credit to foster synergy between Québec businesses**

The tax credit to foster synergy between Québec businesses (hereinafter referred to as the “synergy capital tax credit”) was introduced as part of the March 10, 2020 budget speech.<sup>72</sup> The objective of the tax credit is to support the growth of innovative businesses by fostering business networking and synergy between Québec businesses.

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<sup>72</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2020-2021 – Additional Information*, March 10, 2020, pp. A.27-A.37.

Briefly, the synergy capital tax credit is granted to a qualified investor<sup>73</sup> who makes an eligible investment<sup>74</sup> in a qualified corporation that carries out activities related to life sciences, manufacturing or processing, green technologies, artificial intelligence or information technologies.

The rate of this non-refundable tax credit is 30% and applies to the amount paid by the qualified investor to acquire the shares covered by an eligible investment, up to an amount of \$750 000 for a taxation year. The tax credit that a qualified investor can claim may therefore not exceed \$225 000 for a taxation year. The shares acquired must be retained by the qualified investor for a minimum period of five years.

A corporation wishing to issue shares of its capital stock whose acquisition enables a qualified investor to benefit from the synergy capital tax credit must obtain an authorized investment certificate from Investissement Québec. This document certifies, among other things, that the corporation is a qualified corporation authorized to issue shares of its capital stock for an amount not exceeding the amount of the eligible investment indicated therein.

The funds from the issuing of a corporation's capital stock related to an authorized investment certificate must be used for investments related to the carrying on of the corporation's business in connection with its eligible activities and must not be used for a non-eligible purpose.

The government's review of tax expenditures has revealed that the synergy capital tax credit is underutilized and does not achieve the objective it was designed for. The tax credit will therefore be abolished as of the day following the day of the budget speech.

Consequently, the *Act respecting the sectoral parameters of certain fiscal measures* will be amended so that Investissement Québec will not accept any new application for the issuance of an authorized investment certificate for the purposes of the synergy capital tax credit as of the day following the day of the budget speech.

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<sup>73</sup> A qualified investor, for a taxation year, means a corporation, other than an excluded investor for the year, that, in the year, carries on a business in Québec and has an establishment in Québec.

<sup>74</sup> An eligible investment for a taxation year in a corporation in respect of an authorized investment certificate held by the corporation means the aggregate of the amounts each of which is an amount paid in the year to the corporation by the qualified investor for the acquisition, in the year, of a share of the capital stock of the corporation in respect of this certificate, where the conditions set out in this definition are met.

For greater clarity, this abolition will not impact the eligibility of corporations that hold such a certificate or that have applied to Investissement Québec for the issuance of an authorized investment certificate on or before the day of the budget speech. These corporations will be able to issue shares of their capital stock for an amount not exceeding the authorized investment amount indicated in their authorized investment certificate, and qualified investors acquiring these shares will be able to benefit from the synergy capital tax credit under the current rules.

## **1.8 Introducing a due date for additional deductions for public transit and shared transportation**

Québec tax legislation provides two additional deductions for public transit and shared transportation.

On the one hand, the additional deduction relating to public transit passes, introduced as part of the March 23, 2006 budget speech,<sup>75</sup> provides for a deduction, in computing income from a business for a taxation year, of certain amounts, each of which is an amount otherwise deductible in computing that income for that taxation year. In general, these amounts represent either an amount reimbursed to an employee for the purchase of an eligible transit pass or an eligible paratransit pass, or the cost of an eligible transit pass or an eligible paratransit pass that is supplied to an employee.

On the other hand, the additional deduction relating to the organization of an intermunicipal shared transportation service, introduced as part of the March 20, 2012 budget speech,<sup>76</sup> provides for a deduction, in computing a taxpayer's income from a business for a taxation year, of certain amounts each of which is an amount otherwise deductible in computing that income for that taxation year in respect of the setting up or operation of an intermunicipal shared transportation service of the taxpayer.

The government's review of tax expenditures has revealed that businesses made very little use of these additional deductions.

The tax legislation will therefore be amended to introduce, for 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, a December 31, 2027 due date.

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<sup>75</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2006-2007 – Additional Information on the Budgetary Measures*, March 23, 2006, Section 1, pp. 12-14.

<sup>76</sup> Id., *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, pp. 29-31.

Accordingly, no amount may be deducted under the additional deduction relating to public transit passes in computing the income of a taxpayer from a business in respect of amounts paid after December 31, 2027 to one of the taxpayer's employees for the purchase of an eligible transit pass or for the purchase of an eligible paratransit pass, or in respect of the cost to the taxpayer of an eligible transit pass or eligible paratransit pass provided after December 31, 2027.

Similarly, no amount may be deducted under the additional deduction relating to the organization of an intermunicipal shared transportation service in computing a taxpayer's income from a business in respect of amounts paid after December 31, 2027 for the setting up or operation of the taxpayer's shared transportation service.

### **1.9 Consequential adjustment providing for taxation of the benefit received from an employer in connection with the use of public transit or shared transportation services**

The tax legislation provides that an individual is not required in computing the individual's income from an office or employment to include the value of the benefit arising from the reimbursement or supply by the individual's employer of an eligible transit pass or an eligible paratransit pass, within the meaning of those expressions for the purposes of the additional deduction relating to public transit passes.<sup>77</sup>

Similarly, an individual is not required in computing the individual's income from an office or employment to include the value of the benefit resulting from the use of an intermunicipal shared transportation service organized by the individual's employer, where such service meets the conditions giving rise to the additional deduction relating to the organization of an intermunicipal shared transportation service.<sup>78</sup>

Correlative to the introduction of a due date applicable to the two additional deductions described above, the tax legislation will be amended to state that an individual must include, in computing their income, the value of the benefit received by the individual from his employer after December 31, 2027 in respect of an eligible transit pass, an eligible paratransit pass or the benefit resulting from the use of an intermunicipal shared transportation service.

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<sup>77</sup> *Taxation Act*, s. 38.1.

<sup>78</sup> *Ibid.*, s. 38.2.



## **2. MEASURES RELATING TO INDIVIDUALS**

### **2.1 Enhancing the Family Allowance for bereaved parents**

The refundable tax credit granting an allowance to families (hereinafter referred to as the “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.

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.<sup>79</sup>

Payments are made in January, April, July and October, and include respectively the amounts determined for the months included in that quarter, excluding 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.

#### **□ Death of a child**

In the event of the death of a minor child in Québec, the Directeur de l'état civil informs Retraite Québec, so that the parents of an eligible dependent child for the application of the RTCAF do not have to take any steps with the organization. However, when the death of an eligible dependent child occurs outside Québec, Retraite Québec must be notified by the parents.

#### **■ Current payment situation**

Currently, when Retraite Québec is notified of the death of an eligible dependent child, Family Allowance payments, as well as SHC or SHCREC payments, as the case may be, are maintained during the quarter in which the child's death occurred, regardless of the payment frequency.

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<sup>79</sup> The Supplement for the Purchase of School Supplies is paid once a year, in July, for each school-age child. A school-age child is one who, on September 30 of that year, is at least 4 years of age and at most 16 years of age or, if disabled, 17 years of age.

However, the current practice of maintaining payments for the quarter in which the death of an eligible dependent child occurs poses some difficulties, since the extension of tax assistance during the quarter varies according to the timing of the death within that quarter.

In other words, the death of a child at the beginning of a quarter gives rise to greater assistance than the death of a child at the end of a quarter, since no additional amount is currently paid when a child dies at the end of a quarter.

## ■ **Extension of payments for 12 months**

To ensure a fairer and more uniform treatment of RTCAF payments to grieving parents, the tax legislation will be amended to provide that Family Allowance payments, as well as SHC or SHCREC payments, where applicable, will be extended for 12 months from the month following the month that includes the day of an eligible dependent child's death.<sup>80</sup>

## ■ **Clarification**

For greater clarity, 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.<sup>81</sup> Consequently, the parents of a child who dies in the first days of life and who are not yet registered with Retraite Québec will not receive this tax assistance.

In addition, no amount in respect of the Family Allowance—nor SHC or SHCREC payments—will be granted for any month subsequent to that in which the child would have reached the age of majority, but for the child's death.

In the event that the death of a minor child gives entitlement to other government death benefits in respect of that child, there will be no reduction in the amounts of Family Allowance, SHC or SHCREC, where applicable, provided for in this announcement.

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<sup>80</sup> The amount paid in respect of the Family Allowance for the month in which a death occurs will remain the same as that paid as of the month following the month in which the death of an eligible dependent child 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.

<sup>81</sup> Since this measure is intended to extend the payments of the Family Allowance, as well as the SHC or the SHCREC, where applicable, these will be paid to the person who was receiving them before the child's death. The same applies in the case of temporary placement of a child. However, should the parents separate during the 12-month extension period, the rules for payment in the case of shared custody will apply, with the necessary adaptations. Furthermore, in the event that both parents of the deceased child leave Québec during the 12-month extension period, payments will cease as of the month following the month in which the parents leave Québec. However, if only one of the parents leaves Québec during the 12-month extension period, the parent remaining in Québec must contact Retraite Québec to adjust the remaining payments, where applicable.

Moreover, where the beneficiaries of the measure to extend by 12 months the Family Allowance, SHC or SHCREC, as the case may be, are indebted to Retraite Québec for previous payments attributable to the deceased child, the compensation may take place. Similarly, in the event that Retraite Québec is informed late of the child's death and amounts in respect of the Family Allowance, SHC or SHCREC, where applicable, have been overpaid, Retraite Québec may take these payments into account and pay only the amounts corresponding to the remaining balance of the 12-month extension period.

## **❑ Application date**

This new measure will apply in respect of a death occurring after June 30, 2025.

## **2.2 Changing the age requirement for eligibility for the refundable tax credit for child care expenses**

In general, child care expenses incurred for the care of an eligible child may give rise to a refundable tax credit for child care expenses, where these expenses are incurred, in particular, to enable the taxpayer or eligible spouse to perform the duties of an office or employment, carry on a business, carry on research, pursue studies or actively seek employment.<sup>82</sup>

However, when calculating this tax credit, the amount of child care expenses incurred by a taxpayer may be subject to an annual limit,<sup>83</sup> the amount of which varies according to the eligible child's age and condition.

An "eligible child" of an individual, for a taxation year, means either a child of the individual or of the individual's spouse, or a child who is a dependant of either of them, and whose income for the year does not exceed a certain amount,<sup>84</sup> if, in any case, at any time during the year, the child is under 16 of age, or is dependent on the individual or on the individual's spouse and has a mental or physical infirmity.

As part of the government's review of tax expenditures, it has been decided that financial assistance should be refocused on families with younger children.

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<sup>82</sup> This tax credit is calculated on the basis of family income.

<sup>83</sup> For the 2025 taxation year, the limit on child care expenses is \$16 800 for a child with severe and prolonged impairments in mental or physical functions, \$12 275 for a child under 7 years of age at the end of the year with no such impairments, and \$6 180 in other cases.

<sup>84</sup> For the 2025 taxation year, this amount is \$13 658. It is automatically indexed each year since January 1, 2018.



Accordingly, as of the 2026 taxation year, the age of 16 included in the definition of “eligible child,” for the purposes of the tax credit for child care expenses, will be reduced to 14. Consequently, an eligible child of an individual or of an individual’s spouse will have to be under 14 of age at any time during the year for child care expenses incurred for the child in the year to be eligible for the tax credit for child care expenses for that year.<sup>85</sup>

### 2.3 Adjusting the term “practitioner” used in the personal income tax system

Québec tax legislation defines the meaning of the term “practitioner” for the application of various measures in the personal income tax system.<sup>86</sup>

This expression is used, among other things, to determine the eligibility of certain medical expenses for the purpose of calculating the tax credit for medical expenses, as well as for the application of the goods and services to support a disabled person deduction.

Thus, subject to certain conditions, a “practitioner” is a person:

- practising a profession within the scope of which health-related care and treatments are provided to individuals and who is authorized to practise such a profession in accordance with the laws of the jurisdiction in which services are rendered, in the case of services rendered by such a person to an individual;<sup>87</sup>
- practising the profession of homeopath, naturopath, osteopath or phytotherapist, in respect of the services the person provides in that capacity;
- who is duly authorized to practise psychotherapy in accordance with the laws of the jurisdiction in which the person renders psychotherapy services;
- practising the professions of psychologist, social worker, vocational guidance counsellor, psychoeducator, sexologist, marriage and family therapist and criminologist, in respect of certain services rendered.

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<sup>85</sup> For greater clarity, in the case of a child who has a mental or physical infirmity and who is a dependant of the individual or of the individual’s spouse, no change is made, since there is no age limit in such a case.

<sup>86</sup> This definition is set out in section 752.0.18 of the *Taxation Act*.

<sup>87</sup> In the case of a practitioner’s certification in writing, rather than services rendered, reference should be made to the laws of the jurisdiction in which an individual resides, or to the laws of a province. In the case of a practitioner’s prescribed order, reference should be made to the laws of the jurisdiction in which an individual resides, the laws of a province or the laws of the jurisdiction in which goods are supplied.

In this regard, it should be noted that Québec tax legislation was amended in 2005 to include in the definition of “practitioner,” persons practising homeopathy, naturopathy, osteopathy and phytotherapy, in respect of the services they render in that capacity, despite the fact that the exercise of their activities was not regulated by a professional order governed by the Professional Code.<sup>88</sup>

This recognition created a disparity between the Québec and federal tax systems with regard to the treatment of fees paid for services rendered by homeopaths, naturopaths, osteopaths and phytotherapists, since the federal system does not recognize these fees for the federal tax credit for medical expenses.

Indeed, the federal tax system qualifies as a “practitioner,” for the purposes of its tax credit for medical expenses, a person authorized to practise a profession under the laws of the jurisdiction where the services are rendered.

However, today, the activities of homeopaths, naturopaths, osteopaths and phytotherapists established in Québec are still not regulated by a professional order governed by the Québec Professional Code, or by specific legislation authorizing the practice of their activities in Québec.

According to the Professional Code, the principal function of each professional order is to ensure the protection of the public by supervising the practice of the profession by its members.<sup>89</sup>

In light of these findings, and in the context of the review of tax expenditures, the government believes it is appropriate to review the granting of tax assistance to individuals who consult homeopaths, naturopaths, osteopaths<sup>90</sup> and phytotherapists.

Consequently, the Québec tax legislation will be amended so that the term “practitioner” provided in the *Taxation Act* no longer includes homeopaths, naturopaths, osteopaths and phytotherapists.

## ☐ **Application date**

This measure will apply as of January 1, 2026.

<sup>88</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2005-2006 – Additional Information on the Budgetary Measures*, April 21, 2005, Section 1, pp. 17-19. The inclusion of homeopaths, naturopaths, osteopaths and phytotherapists in the definition of practitioner was intended to reflect Revenu Québec’s administrative practice prior to 2005.

<sup>89</sup> *Professional Code* (CQLR, chapter C-26), s. 23.

<sup>90</sup> On June 16, 2022, the Office des professions du Québec issued a favourable opinion on the constitution of a separate professional order for osteopaths (OFFICE DES PROFESSIONS DU QUÉBEC, *Avis sur l’opportunité de constituer un ordre professionnel des ostéopathes – Printemps 2022*, [Online], [https://cdn-contenu.quebec.ca/cdn-contenu/adm/org/office-professions-quebec/OPQ-Admin/Publications/2022-23\\_011\\_Avis-osteopathes-07-06-2022.pdf](https://cdn-contenu.quebec.ca/cdn-contenu/adm/org/office-professions-quebec/OPQ-Admin/Publications/2022-23_011_Avis-osteopathes-07-06-2022.pdf)) (in French only). However, to date, there is no professional order governing the practice of osteopaths.

## 2.4 New criteria for designating educational institutions recognized by Revenu Québec

Under current tax legislation, the Minister of Revenue may recognize an educational institution located in Canada as providing courses<sup>91</sup> that furnish a person, who is at least 16 years of age at the end of the year, with skills for, or improve a person's skills in, an occupation.<sup>92</sup>

Designating an educational institution as a recognized educational institution allows it to issue tuition receipts that may give entitlement to the tax credit for tuition and examination fees.

As part of the government's review of tax expenditures, it was noted that some currently recognized educational institutions do not offer courses that meet the tax policy's objective of granting a tax credit to persons attending such institutions.

### **□ Introducing new designation criteria for recognizing educational institutions**

To enable Revenu Québec to recognize educational institutions that comply with tax policy, new designation criteria are being introduced in the tax legislation.

As of January 1, 2026, an educational institution offering courses that furnish a person with skills for, or improve a person's skills in, an occupation, may be recognized by Revenu Québec only if it meets at least one of the first four criteria described below, and provided it is not excluded by the application of the exclusion criterion relating to the health sector (criterion 5).<sup>93</sup>

### **■ Criterion 1 – Be an educational institution that receives government funding**

Criterion 1 targets institutions that receive government funding or other government logistical support,<sup>94</sup> for example from the Ministère de l'Éducation du Québec (MEQ), the Ministère de l'Enseignement supérieur (MES) or the Ministère de la Culture et des Communications (MCC).

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<sup>91</sup> They must be courses other than those designed for university credit.

<sup>92</sup> This power is provided for in section 752.0.18.10 of the *Taxation Act*. The French version of this section was amended in 2003 to replace the term "occupation" with "profession," which in the French version is understood to include trades.

<sup>93</sup> The first four criteria are not all mutually exclusive, which means that more than one criterion may apply to the same educational institution.

<sup>94</sup> An example of logistical support could be the use of premises in government buildings.

This criterion will allow for the recognition of educational institutions such as conservatories.<sup>95</sup>

To demonstrate that it meets this criterion, an educational institution will be required to describe the funding or logistical support it receives and provide proof of this funding or support when applying for designation.

■ **Criterion 2 – Be a private educational institution that provides training equivalent to that provided in a public sector educational institution**

Criterion 2 targets private educational institutions that provide training equivalent to that provided by public sector educational institutions.

This criterion will allow for the recognition of trade schools such as those providing training in hairdressing, aesthetics, welding, electricity, automotive mechanics, languages and computer science.

To demonstrate that it meets this criterion, a private educational institution will be required to identify, in its application for designation, a public sector educational institution that provides training equivalent to the training that it offers.

■ **Criterion 3 – Be a private educational institution that provides training for a profession or trade requiring certification or a licence issued by a government authority**

Criterion 3 targets private educational institutions that provide training in respect of a trade requiring certification or a licence issued by a federal or provincial government authority to practise.

This criterion will make it possible to recognize, for example, flight schools and truck driving schools. Aircraft pilots must obtain a licence issued by Transport Canada, and truck drivers must obtain a special class driver's licence from the Société de l'assurance automobile du Québec.

To demonstrate that it meets this criterion, a private educational institution will be required to indicate, in its application for designation, the certification or licence that must be issued by a federal or provincial government authority, as the case may be, in order for persons receiving training at this institution to be authorized to practise their profession or trade.

<sup>95</sup> For example, the Conservatoire de musique et d'art dramatique du Québec is a government school that became a state-owned enterprise in 2007, subsidized by the Québec government, which reports to the MCC. For more information, see the MEQ website, [Online – in French only], (<https://www.education.gouv.qc.ca/eleves/arts-et-culture/organismes-dencadrement-de-lenseignement-prive-de-la-musique/liste-des-organismes-dencadrement/conservatoire-de-musique-et-dart-dramatique-du-quebec>), and the *Act respecting the Conservatoire de musique et d'art dramatique du Québec* (CQLR, chapter C-62.1).

■ **Criterion 4 – Be an educational institution that provides training leading to a professional status recognized by the Québec Professional Code**

Criterion 4 targets educational institutions that provide training recognized by professional orders governed by the Québec Professional Code.

This criterion will make it possible to recognize institutions that provide training leading to a professional status for members of professional orders.

■ **Criterion 5 – Exclude educational institutions that do not meet certain requirements related to the health sector**

Criterion 5 is an exclusion criterion applicable to the health<sup>96</sup> sector that will be a determining factor in the analysis of the application for designation.

Therefore, in addition to meeting at least one of the criteria described above, educational institutions offering training in the health sector will be limited to those aimed at “practitioners” as understood in the context of the *Taxation Act*.<sup>97</sup>

In other words, regardless of whether an educational institution qualifies under one of the first four criteria, it cannot be recognized by Revenu Québec if it is excluded under criterion 5.

For example, schools of massage therapy, yoga, hypnosis, personal development and naturopathy would not be recognized by Revenu Québec.

□ **Application for designation as a recognized educational institution – Updated form and new requirements**

To ensure an efficient transition to designating educational institutions according to the new designation criteria applicable as of January 1, 2026, Revenu Québec will implement a variety of administrative conditions, including:

- in 2025, updating the application form for designation as a recognized educational institution<sup>98</sup> to reflect the new designation criteria;

<sup>96</sup> For the application of the exclusion criterion, the term “health” is to be understood here in its broader sense. According to the World Health Organization, health is defined as “a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.” See link to WHO website, [<https://www.who.int/about/frequently-asked-questions>].

<sup>97</sup> This criterion will ensure consistency in the tax system, since changes to the notion of “practitioner” are planned as part of this budget. See section 2.3.

<sup>98</sup> The current form is Form TP-752.0.DE-V.

- starting in 2026, developing a mechanism for assigning an identification number to recognized educational institutions, based on the new designation criteria;
- in 2027, publishing the list of recognized educational institutions on its website.

In addition to these administrative conditions, further details on the new form and the designation process are set out below.

### ■ **Renewal required for currently recognized educational institutions**

To maintain its recognition, each educational institution currently recognized by Revenu Québec will be required to complete the new prescribed form to demonstrate that it meets one of the new designation criteria (criteria 1 to 4), and that it is not subject to the exclusion criterion (criterion 5).

The new prescribed form must be duly completed and filed with Revenu Québec prior to January 1, 2026.

Currently recognized educational institutions that have not submitted the new prescribed form by December 31, 2025 will automatically lose their recognition as of January 1, 2026.

For greater clarity, for the 2026 taxation year, should an educational institution lose its recognition due to its failure to file the new form before the deadline, no tax credit for tuition fees would be granted for that year, regardless of whether tuition fees were paid in 2025 for courses to be taken in 2026.

### ■ **New application for designation**

As of January 1, 2026, the new prescribed form must be completed for all new applications for designation and submitted to Revenu Québec.

For greater clarity, an application for designation filed prior to January 1, 2026 may be submitted using the current form for the year 2025 only. Educational institutions recognized for 2025 under the current process will not be exempt from reapplying for designation using the new form to maintain their recognition for 2026.

Once the new form becomes available, it may be used to submit a new application in 2025 for designation in 2026 and beyond, provided that an educational institution seeking recognition meets the new designation criteria set out in this announcement.

## ■ **Updating of information on recognized educational institutions**

Each recognized educational institution will be responsible for notifying Revenu Québec when it no longer meets the new designation criteria, or when it has ceased its activities.

Should an institution no longer meet the new designation criteria, Revenu Québec may revoke its recognition at any time.

## ■ **Renewal of applications for designation every five years**

Every five years, an educational institution recognized by Revenu Québec will be required to renew its application for designation by completing the prescribed form, in order to demonstrate that it still meets the designation criteria and thus retain its recognition.

## □ **New requirement to file an information return (RL-8 slip)**

Currently, the RL-8 slip must be filed by any educational institution in Québec that is designated by the MEQ or the MES, under the loans and bursaries program for full-time studies in vocational training at the secondary level and for full-time studies at the postsecondary level, and at which students were enrolled in an educational program recognized by either of those departments.

Educational institutions recognized by Revenu Québec issue tuition receipts to individuals.

In order to standardize the use of the RL-8 slip with respect to information relating to paid tuition fees that give entitlement to the tuition tax credit (Box B of the RL-8 slip), Québec tax regulations will be amended so that, as of the 2027 taxation year, educational institutions recognized by Revenu Québec will be required to issue an RL-8 slip indicating the amount of tuition fees paid by an individual.<sup>99</sup>

## □ **New student certification**

As of taxation year 2026, individuals who claim the tax credit for tuition and examination fees in respect of tuition fees paid to an educational institution recognized by the Minister of Revenue will be required to certify, in their income tax return for the year, that they took the training in question in order to acquire or improve, as the case may be, the skills required to practise a profession.<sup>100</sup>

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<sup>99</sup> The requirement to file an information return for tuition fees paid to educational institutions recognized by Revenu Québec will be partially harmonized with the requirement to file with the Canada Revenue Agency, since all accredited institutions in Canada, including Canadian educational institutions recognized by Employment and Social Development Canada, must file Form T2202 for each eligible student.

<sup>100</sup> This certification will be similar to the one appearing on the back of federal Form T2202.

## 2.5 Change to the deduction in respect of the cooperative investment plan

The deduction in respect of the second cooperative investment plan (hereinafter referred to as the “CIP deduction”) was introduced as part of the March 30, 2004 budget speech.<sup>101</sup> Its objective is to encourage the capitalization of certain cooperatives<sup>102</sup> by granting members and workers who acquire qualifying securities a deduction in calculating their taxable income.

Briefly, an individual may deduct, in calculating his taxable income, in respect of the CIP deduction, an amount equal to the adjusted cost of the qualifying security he acquired. The adjusted cost of such a qualifying security corresponds to 125% of the acquisition cost of that security, without taking into account the borrowing costs and other costs related to the acquisition. However, the amount of the deduction provided to an individual cannot exceed 30% of the individual's total income for the year. Any unused portion of the deduction may be carried forward for a period of five years, subject to the rules relating to the 30% limit on total income.

The government's review of tax expenditures has revealed that the CIP deduction is rarely used and that other measures are available to support cooperatives.

In light of these findings, a change will be made to reduce the CIP deduction. More specifically, the tax legislation will be amended so that, for the purposes of the CIP deduction, the adjusted cost of a qualifying security for an individual will be the cost of that security, 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 the day of the budget speech.

For greater clarity, the rules relating to the 30% limit on total income applicable to the CIP deduction remain unchanged.

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<sup>101</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2004-2005 – Additional Information on the Budgetary Measures*, Section 1, March 30, 2004, pp. 84-99.

<sup>102</sup> In order to simplify the text, any reference to a cooperative should also be understood to be a reference to a federation of cooperatives.



## 2.6 **Converting the residence deduction for a member of the clergy or of a religious order into a non-refundable tax credit**

An individual who is a member of the clergy or of a religious order or a regular minister of a religious denomination may deduct, in computing income from the individual's office or employment, an amount equal to the aggregate of all amounts included in computing the individual's income for the year in relation to the residence or other living accommodation occupied by the individual because of the individual's office or employment, including amounts in respect of utilities.<sup>103</sup>

Where a member of the clergy or of a religious order or a regular minister of a religious denomination is not lodged by his employer, or his employer does not pay him a reasonable allowance in relation of the residence he occupies, the member or minister may deduct an amount regarding of either the rent and expenses in respect of utilities he pays for his principal place of residence, or the fair rental value of such a residence, including the value of utilities, that belongs to him or that belongs to his spouse, to the extent that the member or minister is required to use that residence in performing the duties of the individual's office or employment.<sup>104</sup>

The purpose of this deduction is to recognize that the individual's residence often serves as an office or meeting place for members of his congregation or of his parish. Also, it is only allowed to the extent that the individual's duties consist either of ministering to or being in charge of a diocese, parish or congregation, or of being engaged exclusively in full-time administrative service by appointment of a religious order or religious denomination.

As part of the Québec government's review of tax expenditures, and with a view to increasing the fairness of the tax system so that certain expenses correspond to the same level of assistance, regardless of the individual's income, the residence deduction for a member of the clergy or a religious order will be converted into a non-refundable tax credit.

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<sup>103</sup> In all cases, the amount that can be deducted for a year cannot exceed the individual's remuneration for the year from the individual's office or employment.

<sup>104</sup> Where the member of the clergy or of a religious order uses their own place of residence, the amount that can be deducted for a year is generally limited to the greater of \$10 000 and an amount representing one-third of the individual's remuneration for the year from the office or employment.

Thus, for a taxation year after 2025, amounts included in computing the income of an individual who is a member of the clergy or of a religious order or a regular minister of a religious denomination in relation to the residence or other living accommodation occupied by the individual because of the individual's office or employment, or amounts calculated in respect of the rent or the fair rental value of the residence, will no longer be deductible, but will instead give rise to a non-refundable tax credit that will be calculated at a rate of 14%.<sup>105</sup>

## **❑ Consequential amendments**

The conversion of the residence deduction for a member of the clergy or of a religious order or a regular minister of a religious denomination into a non-refundable tax credit will require certain consequential amendments to the *Taxation Act*. Thus, the new tax credit for the residence of a member of the clergy or of a religious order or a regular minister of a religious denomination will have to be taken into account for the application of certain provisions of this Act.

## **■ Unused portion of the tax credit by a spouse**

In cases where a member of the clergy or of a religious order or a regular minister of a religious denomination has a spouse, the unused portion of the new tax credit relating to the residence will not be transferable to the spouse under the mechanism for transferring the unused portion of certain non-refundable tax credits between spouses.

## **■ Individual residing in Canada for part of a year**

Where an individual has resided in Canada for only part of a taxation year, the amount that the individual may deduct, in calculating income tax otherwise payable for the year, in respect of the tax credit for the residence of a member of the clergy or of a religious order or a regular minister of a religious denomination will be determined as if the period of the year throughout which the individual resided in Canada constituted a taxation year.

However, the amount the individual may deduct for the year may not exceed the amount that would have been deductible as such had the individual resided in Canada throughout that year.

## **■ Application in the event of bankruptcy**

Under the tax legislation, when an individual becomes bankrupt during a calendar year, the individual is deemed to have two taxation years in that calendar year. The first tax year runs from January 1 to the day before the date of bankruptcy (pre-bankruptcy taxation year), and the second from the day of bankruptcy to December 31 (post-bankruptcy taxation year).

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<sup>105</sup> For greater clarity, the rules limiting the amount of the residence deduction for a member of the clergy or a religious order will also apply in respect of the amounts used to establish the non-refundable tax credit. In addition, the other conditions for benefiting from the deduction, such as employer certification, will be maintained.

For greater clarity, where an individual becomes bankrupt during a calendar year, the individual will be able to claim the tax credit for the residence of a member of the clergy or of a religious order or a regular minister of a religious denomination in respect of the taxation year—pre-bankruptcy or post-bankruptcy—in which the expenses were paid. However, the amount the individual may deduct under this tax credit may not exceed the amount that would have been deductible had the individual not become bankrupt during the calendar year.

## ■ **Determination of the alternative minimum tax**

Since 2024, the alternative minimum tax (AMT) applicable to an individual for a taxation year is equal to the excess of an amount representing 19% of the portion of the individual's adjusted taxable income that exceeds the individual's basic minimum tax deduction. This deduction was \$175 000 for the 2024 taxation year and was indexed in 2025 to \$179 990 for that year.

In addition, based on new federal AMT rules applicable since the 2024 taxation year with which the Ministère des Finances du Québec has announced harmonization,<sup>106</sup> certain deductions can only be claimed at 50% in calculating adjusted taxable income. Similarly, where the tax treatment of a federal tax deduction is instead a tax credit in the Québec tax system, the 50% rate also applies. As a result, the new tax credit for the residence of a member of the clergy or of a religious order or a regular minister of a religious denomination will only have to be considered at 50% when calculating the Québec AMT.

## ■ **Order of application of the tax credits**

The tax legislation sets out the order in which non-refundable tax credits are to be applied, in order to give priority to tax credits for which no deferral or transfer, other than through the mechanism for transferring the unused portion of certain non-refundable tax credits between spouses, is possible.

Given that the unused portion of the new tax credit for the residence of a member of the clergy or of a religious order or a regular minister of a religious denomination cannot be carried forward or transferred to the spouse, the tax legislation will be amended so that this tax credit comes after the basic tax credit, the personal tax credits, the tax credit attributable to the transfer of the recognized parental contribution, the tax credit for a person living alone, because of age and for retirement income, the tax credit for career extension, the tax credit for union or professional dues and the tax credit for a first-time home buyer have been taken into account in calculating an individual's tax otherwise payable for a taxation year.

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<sup>106</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin* 2023-4, June 27, 2023, pp. 3-4; Id., *Information Bulletin* 2023-7, December 19, 2023, pp. 11-14; Id., *Information Bulletin* 2024-6, May 31, 2024, pp. 1, 4 and 5; Id., *Information Bulletin* 2024-8, October 25, 2024, pp. 4-8.

## **2.7 Converting the deduction for adult basic education tuition assistance into a non-refundable tax credit**

To encourage taxpayers to develop their skills in order to facilitate their access to the job market, an individual who has received financial assistance under certain government employment assistance programs for the payment of tuition fees may deduct, in computing his taxable income for a taxation year, the amount of such assistance that the taxpayer includes in computing his income for the year.<sup>107</sup>

More specifically, in order to benefit from this deduction, the amount of the tuition assistance must relate to tuition fees that do not qualify for the tax credit for tuition fees, such as tuition fees for primary or secondary levels in general education, and must not otherwise be deductible in calculating the individual's taxable income for the year.

As part of the Québec government's review of tax expenditures, and with a view to increasing the fairness of the tax system so that certain expenses correspond to the same level of assistance, regardless of the individual's income, the tax legislation will be amended so that, as of the 2026 taxation year, the deduction for adult basic education tuition assistance will be replaced by a non-refundable tax credit.

As a result, where an individual will receive, in a taxation year after 2025, an amount of financial assistance granted by certain government programs for the payment of tuition fees relating to adult basic education, notably tuition fees for primary or secondary levels in general education, and will include this amount in computing his income for that taxation year, the individual will no longer be able to deduct this amount in calculating taxable income, but will instead be eligible, for that year, for a non-refundable tax credit equal to 14% of this amount.

### **❑ Consequential amendments**

The conversion of the deduction for adult basic education tuition assistance into a non-refundable tax credit will require certain consequential amendments to the *Taxation Act*. Thus, the new tax credit for adult basic education tuition assistance will have to be taken into account for the application of certain provisions of this Act.

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<sup>107</sup> This deduction is set out in paragraph c.2 of section 725 of the *Taxation Act*. The same conditions as those provided for in this paragraph of the *Taxation Act* will continue to apply for the tax credit.

## ■ **Unused portion of the tax credit by a spouse**

In cases where an individual who receives financial assistance to pay tuition fees for adult basic education has a spouse, the unused portion of the new tax credit relating to this financial assistance will not be transferable to the spouse under the mechanism for transferring the unused portion of certain non-refundable tax credits between spouses.

## ■ **Individual residing in Canada for part of a year**

Where an individual has resided in Canada for only part of a taxation year, the amount that the individual may deduct, in calculating income tax otherwise payable for the year, in respect of the tax credit for adult basic education tuition assistance will be determined as if the period of the year throughout which the individual resided in Canada constituted a taxation year.

However, the amount the individual may deduct for the year may not exceed the amount that would have been deductible as such had the individual resided in Canada throughout that year.

## ■ **Application in the event of bankruptcy**

Under the tax legislation, when an individual becomes bankrupt during a calendar year, the individual is deemed to have two taxation years in that calendar year. The first taxation year runs from January 1 to the day before the date of bankruptcy (pre-bankruptcy taxation year), and the second from the day of bankruptcy to December 31 (post-bankruptcy taxation year).

For greater clarity, where an individual becomes bankrupt during a calendar year, the individual will be able to claim the tax credit for adult basic education tuition assistance in respect of the taxation year—pre-bankruptcy or post-bankruptcy—in which the financial assistance was granted. However, the amount the individual may deduct under this tax credit may not exceed the amount that would have been deductible had the individual not become bankrupt during the calendar year.

## ■ **Determination of the alternative minimum tax**

Since 2024, the alternative minimum tax (AMT) applicable to an individual for a taxation year is equal to the excess of an amount representing 19% of the portion of the individual's adjusted taxable income that exceeds the individual's basic minimum tax deduction. This deduction was \$175 000 for the 2024 taxation year and was indexed in 2025 to \$179 990 for that year.

In addition, based on new federal AMT rules applicable since the 2024 taxation year with which the Ministère des Finances du Québec has announced harmonization,<sup>108</sup> certain deductions maintain the same 100% deduction tax treatment. Similarly, where the tax treatment of a federal tax deduction is instead a tax credit in the Québec tax system, the same rate also applies. As a result, the new tax credit for adult basic education tuition assistance will be considered at 100% when calculating the Québec AMT.

### ■ Order of application of the tax credits

The tax legislation sets out the order in which non-refundable tax credits are to be applied, in order to give priority to tax credits for which no deferral or transfer, other than through the mechanism for transferring the unused portion of certain non-refundable tax credits between spouses, is possible.

Given that the unused portion of the new tax credit for adult basic education tuition assistance cannot be carried forward or transferred to the spouse, the tax legislation will be amended so that this tax credit comes after the basic tax credit, the personal tax credits, the tax credit attributable to the transfer of the recognized parental contribution, the tax credit for a person living alone, because of age and for retirement income, the tax credit for career extension, the tax credit for union or professional dues, the tax credit for a first-time home buyer and the tax credit for the residence of a member of the clergy or of a religious order or a regular minister of a religious denomination have been taken into account in calculating an individual's tax otherwise payable for a taxation year.

## 2.8 Abolishing the tax shield

As part of the March 26, 2015 budget speech,<sup>109</sup> a refundable tax credit called the “tax shield” was implemented as of the 2016 taxation year to render work effort more appealing for low- and middle-income households, since any increase in family income can lead to a reduction—or even the loss—of tax benefits otherwise provided in the Québec tax system.

Briefly, the purpose of the tax shield is to offset, further to an increase in work income, a reduction in socio-fiscal transfers designed to incentivize work, i.e., the refundable tax credits to increase the incentive to work—the general work premium or the adapted work premium for persons with severely limited capacity for employment—as well as the refundable tax credit for child care expenses.

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<sup>108</sup> See note 106.

<sup>109</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2015-2016 – Additional Information 2015-2016*, March 26, 2015, pp. A.12-A.16.

More specifically, the tax shield takes effect when the eligible work income of each member of a household increases by a maximum of \$4 000 over the previous year.<sup>110</sup>

Then, in 2021, the refundable tax credit for child care expenses was enhanced so that the minimum rate of this tax credit, calculated on the basis of family income, increased from 26% to 67%.<sup>111</sup> As a result, when low- and middle-income households benefit from an increase in income over the previous year and take advantage of the refundable tax credit for child care expenses, the tax shield is generally no more advantageous for them.

The government's review of tax expenditures has revealed that, in general, the tax shield no longer achieves its initial objective of promoting work incentives. This tax credit will therefore be abolished as of the 2026 taxation year.

## 2.9 Abolishing the non-refundable tax credit for political contributions

Since 1978,<sup>112</sup> the Québec tax system has provided tax assistance to individuals making political contributions.<sup>113</sup> Over the years, several changes have been made to this assistance, the most significant of which was made in 2013, when only municipal political contributions were maintained for the purposes of calculating the tax credit for political contributions.<sup>114</sup>

Currently, the tax credit is limited to a ceiling of \$200 for political contributions made during a taxation year, and corresponds to 85% of the first \$50, then to 75% of the next \$150, for a maximum value of \$155.

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<sup>110</sup> Initially, the maximum increase in eligible work income was supposed to be \$2 500. This amount was increased to \$3 000, retroactive to the introduction of the tax shield, as part of the March 2016 Québec Economic Plan (MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2016-2017*, March 17, 2016, pp. A.21-A.22.) It was subsequently increased to \$4 000 as part of the March 2018 Québec Economic Plan (MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, p. A.22).

<sup>111</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2021-8*, November 25, 2021, pp. 9-12.

<sup>112</sup> A deduction in the computation of income tax was introduced for the 1978 taxation year by section 135 of the *Act to govern the financing of political parties and to amend the Election Act* (S.Q. 1977, chapter 11). This section provided for the introduction of section 585d. to the *Taxation Act* (S.Q. 1972, chapter 23).

<sup>113</sup> The *Election Act* (CQLR, chapter E-3.3) allows all electors to participate in the financing of political parties and independent members or independent candidates operating in Québec through financial contributions. Like the *Election Act*, the *Act respecting elections and referendums in municipalities* (CQLR, chapter E-2.2) allows electors to participate in the financing of municipal political activities.

<sup>114</sup> For greater clarity, the amendment to section 776 of the *Taxation Act* was introduced by section 22 of *An Act to amend the Election Act in order to reduce the elector contribution limit, lower the ceiling on election expenses and increase public financing of Québec political parties* (S.Q. 2012, chapter 26).

As part of a review of the effectiveness and relevance of all Québec fiscal measures, the non-refundable tax credit for political contributions was the subject of an in-depth examination. To ensure equity and uniformity in the financing of the various political parties involved on the provincial and municipal levels, this tax credit will be abolished for all contributions made as of the 2026 taxation year.

## 2.10 Abolishing the foreign researcher tax holiday

The foreign researcher tax holiday was implemented as part of the April 30, 1987 budget speech.<sup>115</sup> Its objective is to facilitate the recruitment of foreign researchers by businesses carrying out scientific research and experimental development in Québec.

Briefly, the tax holiday consists of a deduction applied to the computation of a foreign researcher's taxable income. It is valid for a research activity period of five years of continuous research activity, beginning on the day the researcher starts performing duties for an eligible employer.<sup>116</sup>

The deduction corresponds, for a taxation year, to a percentage of the foreign researcher's eligible income.<sup>117</sup> The percentage is 100% for the first two years of a research activity period, 75% for the third year, 50% for the fourth year and 25% for the fifth year.

In order for an individual who works for an eligible employer to benefit from the foreign researcher tax holiday for a taxation year, the employer must obtain a researcher qualification certificate in respect of that individual from the Minister of Economy, Innovation and Energy.

The government's review of tax expenditures has revealed that the foreign researcher tax holiday entailed a significant administrative burden and failed to achieve its objectives effectively. This measure will therefore be abolished as of the day following the day of the budget speech.

Consequently, the Minister of Economy, Innovation and Energy will not accept any new application for the issuance of a researcher qualification certificate as of the day following the day of the budget speech.

<sup>115</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1987-1988 – Discours sur le budget et Renseignements supplémentaires*, April 30, 1987, Appendix A, pp. 6-7.

<sup>116</sup> Briefly, an eligible employer means a person or partnership who or which carries on a business in Canada, undertakes or causes to be undertaken, on the person or the partnership's behalf in Québec, scientific research and experimental development related to a business, and who or which is not a person exempt from tax, an eligible university entity or an eligible public research centre.

<sup>117</sup> In general, eligible income of a foreign researcher for a taxation year means the aggregate of all amounts paid as wages in the year by the eligible employer to undertake scientific research and experimental development in Québec and that may reasonably be attributed to the individual's research activity period in relation to that employment.



For greater clarity, this abolition will not impact the eligibility of individuals for whom a researcher qualification certificate is held by the eligible employer or for whom an application for the issuance of a researcher qualification certificate has been filed by the eligible employer to the Minister of Economy, Innovation and Energy on or before the day of the budget speech. These individuals will be able to benefit from the foreign researcher tax holiday under the current rules.

## 2.11 Abolishing the foreign expert tax holiday

The foreign expert tax holiday was implemented as part of the March 9, 1999 budget speech.<sup>118</sup> Its objective is to facilitate the recruitment of individuals specialized in the valorization of the results of scientific research and experimental development projects by businesses carrying on such activities in Québec.

Briefly, the tax holiday consists of a deduction applied to the computation of a foreign expert's taxable income. It is valid for an eligible activity period of five years of continuous eligible activity beginning on the day the expert starts performing duties for an eligible employer.<sup>119</sup>

The deduction corresponds, for a taxation year, to a percentage of the eligible income.<sup>120</sup> The percentage is 100% for the first two years of an eligible activity period, 75% for the third year, 50% for the fourth year and 25% for the fifth year.

In order for an individual who works for an eligible employer to benefit from the foreign expert tax holiday for a taxation year, the employer must obtain an expert qualification certificate in respect of that individual from the Minister of Economy, Innovation and Energy. The qualification certificate must be obtained for each taxation year for which the individual can benefit from the tax holiday.

The government's review of tax expenditures has revealed that the foreign expert tax holiday entailed a significant administrative burden and failed to achieve its objectives effectively. This measure will therefore be abolished as of the day following the day of the budget speech.

Consequently, the Minister of Economy, Innovation and Energy will not accept any new application for the issuance of an expert qualification certificate in respect of a new eligible activity period as of the day following the day of the budget speech.

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<sup>118</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1999-2000 – Additional Information on the Budgetary Measures*, March 9, 1999, Section 1, pp. 23-25.

<sup>119</sup> Briefly, an eligible employer means a person or partnership who or which carries on a business in Canada, undertakes or causes to be undertaken, on the person's or the partnership's behalf in Québec, scientific research and experimental development related to a business, and who or which is neither a person exempt from tax nor an eligible university entity.

<sup>120</sup> In general, eligible income of a foreign expert for a taxation year means the aggregate of all amounts paid as wages in the year by the eligible employer and that may reasonably be attributed to the individual's eligible activity period in relation to that employment.

For greater clarity, this abolition will not impact the eligibility of individuals for whom an expert qualification certificate is held by the eligible employer in respect of an eligible activity period or for whom an application for the issuance of an expert qualification certificate has been filed by the eligible employer to the Minister of Economy, Innovation and Energy on or before the day of the budget speech in respect of such a period. These individuals will be able to benefit from the foreign expert tax holiday under the current rules.

## **2.12 Abolishing the tax holiday for foreign specialists assigned to operations of an international financial centre**

The tax holiday for foreign specialists assigned to operations of an international financial centre (hereinafter referred to as the “tax holiday for foreign specialists of an IFC”) was implemented as part of the April 23, 1985 budget speech.<sup>121</sup> Its objective is to facilitate the recruitment of foreign specialists in the field of international financial transactions or in a field relating to the activities provided for in one or more eligible contracts by an international financial centre.

Briefly, the tax holiday consists of a deduction applied to the computation of a foreign specialist’s taxable income. It is valid for a maximum period of validity of five years beginning on the day the specialist starts performing duties for the eligible employer.<sup>122</sup>

The deduction corresponds, for a taxation year, to a percentage of the foreign specialist’s eligible income. The percentage is 100% for the first two years of a period of validity, 75% for the third year, 50% for the fourth year and 37.5% for the fifth year.

In order for an individual who works for an eligible employer to benefit from the tax holiday for foreign specialists of an IFC, the employer must obtain a specialist qualification certificate and a specialist certificate from the Minister of Finance. On the one hand, the specialist qualification certificate confirms that the individual is recognized as a specialist in respect of the eligible employer. It has a maximum period of validity of five years. On the other hand, the specialist certificate must be obtained for each taxation year for which the eligible employer wishes an individual who is working for it to be allowed to claim the tax holiday for foreign specialists of an IFC.

The government’s review of tax expenditures has revealed that the tax holiday for foreign specialists of an IFC was underutilized and failed to achieve its objectives effectively. This measure will therefore be abolished as of the day following the day of the budget speech.

Consequently, the Minister of Finance will not accept any new application for the issuance of a specialist qualification certificate as of the day following the day of the budget speech.

<sup>121</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1985-1986 – Discours sur le budget*, April 23, 1985, pp. A-41 and A-42.

<sup>122</sup> Eligible employer means a corporation operating a business that is recognized as an international financial centre.

For greater clarity, this abolition will not impact the eligibility of individuals for whom a specialist qualification certificate is already held by the eligible employer or for whom an application for the issuance of a specialist qualification certificate has been filed by the eligible employer to the Minister of Finance on or before the day of the budget speech. These individuals will be able to benefit from the tax holiday for foreign specialists of an IFC under the current rules.

## **2.13 Abolishing the tax holiday for foreign specialists working in the financial services sector**

The tax holiday for foreign specialists working in the financial services sector (hereinafter referred to as the “foreign specialist tax holiday”) was implemented as part of the March 20, 2012 budget speech.<sup>123</sup> Its objective is to facilitate the recruitment of foreign specialists with a high level of expertise in the field of finance by new financial services corporations.

Briefly, the tax holiday consists of a deduction applied to the computation of a foreign specialist’s taxable income. It is valid for a period of five years of continuous specialized activity beginning on the day the specialist starts performing duties for the eligible employer.<sup>124</sup>

The deduction corresponds, for a taxation year, to a percentage of the foreign specialist’s eligible income.<sup>125</sup> The percentage is 100% for the first two years of a specialized activity period, 75% for the third year, 50% for the fourth year and 25% for the fifth year.

In order for an individual who works for an eligible employer to benefit from the foreign specialist tax holiday, the employer must obtain a specialist qualification certificate and a specialist certificate from the Minister of Finance. On the one hand, the specialist qualification certificate confirms that the individual is recognized as a specialist in respect of the eligible employer. On the other hand, the specialist certificate must be obtained for each taxation year for which the individual can benefit from this tax holiday.

The government’s review of tax expenditures has revealed that the foreign specialist tax holiday was underutilized and failed to achieve its objectives effectively. This measure will therefore be abolished as of the day following the day of the budget speech.

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<sup>123</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2012-2013 – Additional Information on the Fiscal Measures of the Budget*, March 20, 2012, pp. 48-50.

<sup>124</sup> Briefly, eligible employer for a taxation year means a corporation in respect of which a corporation qualification certificate has been issued to it and a corporation certificate is issued to it for the year for the purposes of the tax credit for new financial services corporations.

<sup>125</sup> In general, eligible income of a foreign specialist for a taxation year means the aggregate of all amounts paid as wages in the year by the eligible employer and that may reasonably be attributed to the individual’s specialized activity period in relation to that employment.

Consequently, the Minister of Finance will not accept any new application for the issuance of a specialist qualification certificate as of the day following the day of the budget speech.

For greater clarity, this abolition will not impact the eligibility of individuals for whom a specialist qualification certificate is already held by the eligible employer or for whom an application for the issuance of a specialist qualification certificate has been filed by the eligible employer to the Minister of Finance on or before the day of the budget speech. These individuals will be able to benefit from the foreign specialist tax holiday under the current rules.

## **2.14 Abolishing the tax holiday for seamen engaged in international transportation of freight**

The tax holiday for seamen engaged in international transportation of freight (hereinafter referred to as the “tax holiday for seamen”) was implemented as part of the May 9, 1996 budget speech.<sup>126</sup> Its objective is to improve the competitiveness of eligible shipowners and encourage them to hire more Québec seamen.

Briefly, the tax holiday consists of a deduction applied to the computation of the taxable income of an individual residing in Québec, in a taxation year, and who is recognized as an eligible seaman.<sup>127</sup> This deduction corresponds, for a taxation year, to an amount equal to 75% of the amount of salaries or wages received by the individual in the year from an eligible shipowner.<sup>128</sup>

In order for an individual who works for an eligible shipowner to benefit from the tax holiday for seamen for a taxation year, the employer must obtain a seaman certificate and a vessel certificate from the Minister of Transport. These certificates must be obtained for each taxation year for which the individual can benefit from the tax holiday for seamen.

The government’s review of tax expenditures has revealed that the tax holiday for seamen has failed to achieve its objectives effectively. This measure will therefore be abolished as of the day following the day of the budget speech.

Consequently, the Minister of Transport will not accept any new application for the issuance of a seaman certificate or a vessel certificate as of the day following the day of the budget speech.

<sup>126</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 1996-1997 – Budget Speech and Additional Information*, May 9, 1996, Appendix A, pp. 59 and 60.

<sup>127</sup> Briefly, an eligible seaman for a taxation year means an individual who is an employee of an eligible shipowner for the year and in respect of whom a certificate has been issued by the Minister of Transport.

<sup>128</sup> Eligible shipowner for a taxation year means a shipowner who, in the year, is a person resident in Canada, a corporation that is a foreign affiliate of such a person or a partnership whose members, resident in Canada, including a corporation controlled by persons resident in Canada, are the owners of interests in that partnership having a fair market value in excess of 10% of the fair market value of all interests in the partnership.

For greater clarity, this abolition will not impact the eligibility of individuals for whom a certificate has already been issued or who have already applied to the Minister of Transport for the issuance of a certificate on or before the day of the budget speech. These individuals will be able to benefit from the tax holiday for seamen under the current rules.

## 2.15 Abolishing the tax credit for patronage gift

The tax credit for patronage gift (hereinafter referred to as the “cultural patronage tax credit”) was introduced on July 3, 2013.<sup>129</sup> Its objective is to recognize the importance of the patronage role of certain individuals in funding cultural organizations.

Briefly, an individual (other than a trust) may claim, for a taxation year, in place of the tax credit for gifts and the additional tax credit for an initial major cultural gift, a non-refundable tax credit calculated at a rate of 30%, in respect of the total patronage gifts made to an eligible cultural donee.<sup>130</sup>

A patronage gift means the eligible amount of a gift of money of at least \$250 000, or at least \$25 000 where the gift is made in satisfaction of a registered pledge<sup>131</sup> in which the donor undertakes to make a gift of at least \$250 000 to the eligible cultural donee over a period of no more than 10 years, at a rate of at least \$25 000 per year.

Any unused portion of the cultural patronage tax credit can be carried forward to the next five taxation years. In addition, if the gift is made in the year of the individual's death, any unused portion can be carried back to the preceding taxation year.

Since January 1, 2016, the succession of an individual, subject to certain conditions,<sup>132</sup> can also make a patronage gift. However, a patronage gift made by an individual's succession can only be claimed in the taxation year in which the individual died or in the preceding taxation year.

The government's review of tax expenditures has revealed that the cultural patronage tax credit remains underutilized, and that the Mécénat Placements Culture program, the funding for which is enhanced in this budget, provides better support for organizations working in the field of culture and communications.

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<sup>129</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin* 2013-6, July 3, 2013, pp. 10-15.

<sup>130</sup> An eligible cultural donee is one of the following: a registered charity operating in Québec in the field of arts or culture, a registered cultural or communications organization, a registered museum, a museum established under the *National Museums Act* (CQLR, chapter M-44) or a museum situated in Québec and established under the *Museums Act* (S.C. 1990, c. 3).

<sup>131</sup> The pledge must be registered with the Minister of Culture and Communications.

<sup>132</sup> The criteria set out in section 752.0.10.10.0.1 of the *Taxation Act* must be met.

In this context, this tax credit will be abolished as of the day following the budget speech.

For greater clarity, an individual, or the individual's succession, who will have registered a pledge with the Minister of Culture and Communications on or before the day of the budget speech 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.

Similarly, the abolition of the cultural patronage tax credit will not affect the carry-forward and carry-back periods of the individual or the individual's succession, as the case may be, in respect of a patronage gift made on or before the day of the budget speech.

## **2.16 Abolishing the deduction relating to the acquisition of an income-averaging annuity respecting income from artistic activities**

In order to help artists make a better living from their art and avoid significant income variations from one year to the next, the government implemented, as part of its March 30, 2004 budget, a deduction allowing a recognized artist to defer the tax on a portion of their income.<sup>133</sup>

A recognized artist<sup>134</sup> may, therefore, if he acquires an eligible income-averaging annuity, spread, over a maximum period of seven years, the tax applicable to the portion of his year's income derived from artistic activities that exceeds a certain amount.<sup>135</sup>

As such, for a given taxation year, a recognized artist may deduct, in the calculation of his income for the year, an amount paid to acquire an eligible income-averaging annuity from an authorized person,<sup>136</sup> to the extent that that amount has not been deducted for the preceding taxation year.<sup>137</sup>

<sup>133</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2004-2005 – Additional Information on the Budgetary Measures*, March 30, 2004, Section 1, pp. 47-52.

<sup>134</sup> A recognized artist means an individual who is an artist within the meaning of the *Act respecting the professional status of artists in the visual arts, film, the recording arts, literature, arts and crafts and the performing arts* (CQLR, chapter S-32.1), s. 1.1.

<sup>135</sup> This amount was initially \$50 000. It was reduced to \$25 000 in the 2006-2007 budget. On this matter, see: MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2006-2007 – Additional Information on the Budgetary Measures*, March 23, 2006, section 1, pp. 29-30.

<sup>136</sup> An authorized person refers to a person who, on the one hand, is licensed or otherwise authorized by the laws of Québec or Canada to carry on an annuities business in Québec or offer trustee services in Québec and who, on the other hand, is authorized by the Minister of Revenue to offer an income-averaging annuity respecting income from artistic activities.

<sup>137</sup> The deduction that a recognized artist can claim may not exceed an amount obtained by subtracting, on the one hand, the recognized artist's income from artistic activities and, on the other hand, the sum of \$25 000 plus the amount of the deduction in respect of the copyright income of an individual that the recognized artist may have claimed for the year.

The income tax thus spread is payable over the next few years as payments under the income-averaging annuity are made.

The government's review of tax expenditures has revealed that the deduction relating to the acquisition of an income-averaging annuity respecting income from artistic activities was seldom used and that it therefore does not achieve the objective it was designed for.

This measure will be abolished for new income-averaging annuities respecting income from artistic activities acquired after the 2025 taxation year.<sup>138</sup>

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<sup>138</sup> For greater clarity, this measure will not affect an annuity acquired in 2025, but whose payment will take place in the first 60 days of 2026.

### **3. MEASURES RELATING TO CONSUMPTION TAXES**

#### **3.1 Harmonizing the rate of the tax on insurance premiums with that of the Québec sales tax**

The tax on insurance premiums applies to most amounts payable to obtain for oneself or another a benefit on the occurrence of a risk. The tax rate is currently 9%, while the rate of the Québec sales tax is 9.975%.

In the interest of uniformity, the rate of the tax on insurance premiums will be set at the same rate as the Québec sales tax. As a result, the tax on insurance premiums at the rate of 9.975% will apply to insurance premiums paid after December 31, 2026.

#### **3.2 Abolishing the fuel tax refund for biodiesel**

Under the fuel tax system, diesel is generally taxable. However, a refund of this tax is provided for biodiesel that is not mixed with another type of fuel at the time of its acquisition.

However, the government's review of tax expenditures has revealed that this measure, which was intended to encourage the use of this fuel, is seldom used.

Consequently, the fuel tax system will be amended to abolish this refund. This change will apply to biodiesel acquired after the day of the budget speech.





## 4. OTHER MEASURES

### 4.1 **Withdrawing the indexation of the total payroll threshold for the year for the purposes of calculating contributions to the Health Services Fund**

Under the *Act respecting the Régie de l'assurance maladie du Québec*,<sup>139</sup> an employer must pay a contribution to the Health Services Fund (HSF) in respect of the wages that the employer pays to an employee who reports for work at an establishment of the employer in Québec, is deemed to pay to the employee or pays in respect of the employee or to its employee for whom such wages, if the employee is not required to report for work at an establishment of the employer, are paid, deemed to be paid or paid in respect of such an establishment in Québec.

Currently, the contribution payable for a year to the HSF must be calculated using a rate of 4.26%.

This contribution rate is reduced when the employer is a specified employer for the year and its total payroll<sup>140</sup> is below the total payroll threshold applicable for the year (hereinafter referred to as the "total payroll threshold for the year"), which is \$7.8 million for 2025.

Briefly, a specified employer for a year is an employer<sup>141</sup> that has an establishment in Québec during the year and that is not the State, nor the government of another province or of Canada, or an employer that, at a particular time in the year, is:

- a mandatory body of the State, the government of another province or the Government of Canada;
- a municipality or a mandatory body of a municipality;
- a municipal or public body performing a function of government or a mandatory body of such a municipal or public body;
- a corporation, commission or association exempt from tax under section 985 of the *Taxation Act*.

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<sup>139</sup> CQLR, chapter R-5.

<sup>140</sup> The term "total payroll" is defined in the first paragraph of section 33 of the *Act respecting the Régie de l'assurance maladie du Québec*. Essentially, an employer's total payroll for a year means the aggregate of the wages paid or deemed to be paid in the year by the employer and by any other employer with which the employer is associated at the end of the year and that carries on at that time a business in which the employer ordinarily employs, for all or part of the year, at least one employee, whether full-time or part-time.

<sup>141</sup> For the purposes of employer contributions to the HSF, a partnership may be considered an employer in the same manner as a legal person or an individual.

The reduced HSF contribution rates apply in favour of specified employers carrying on small- and medium-sized businesses (SMBs) in the primary and manufacturing sectors,<sup>142</sup> provided they qualify as eligible specified employers,<sup>143</sup> as well as the services and construction sectors.

Accordingly, an eligible specified employer in the primary and manufacturing sectors with total payroll for the year equal to or less than \$1 million benefits from a contribution rate of 1.25%, while a specified employer in the services and construction sectors with total payroll equal to or less than \$1 million benefits from a contribution rate of 1.65%.

In addition, a specified employer—eligible or not—with total payroll for the year exceeding \$1 million also benefits from a gradual reduction of its contribution rate, provided total payroll does not exceed the total payroll threshold for the year.

### **❑ Total payroll threshold of a specified employer**

From 2018 to 2022,<sup>144</sup> the total payroll threshold for a year used to determine eligibility for the reduction of the HSF contribution rate offered to SMBs was gradually raised, from \$5 million to \$7 million. In addition, since 2023, this threshold has been automatically indexed each year, bringing it to \$7.8 million in 2025.

The government's review of tax expenditures has raised questions about the principle of indexing the total payroll threshold for a year since, of all the parameters in the general corporate tax system, this threshold is the only one subject to indexing. As a result, the threshold will remain at \$7.8 million.

Consequently, the *Act respecting the Régie de l'assurance maladie du Québec* will be amended to remove the automatic annual indexation of the total payroll threshold for a year as of 2026.

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<sup>142</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2014-11*, December 2, 2014, pp. 3-6.

<sup>143</sup> An "eligible specified employer" for a year means a specified employer whose total payroll for the year is both less than the employer's total payroll threshold for the year and attributable, in a proportion of more than 50%, to activities in the agriculture, forestry, fishing and hunting sectors; the mining, quarrying and oil and gas extraction sectors; or the manufacturing sector, that are included in the groups described under codes 11, 21 or 31 to 33 of the North American Industry Classification System (NAICS).

<sup>144</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *The Québec Economic Plan – Additional Information 2018-2019*, March 27, 2018, pp. A.49-A.60; *Id.*, *Information Bulletin 2018-7*, August 15, 2018, pp. 11-20.

## 4.2 Changing the public utility tax

In general, municipalities collect a property tax on immovables located in their territory. For this purpose, they draw up a property assessment roll by establishing the value of these immovables and this roll is used to calculate the property tax.

However, immovables that are part of a telecommunications system, a gas distribution system or an electric power production, transmission or distribution system are not included in municipalities' property assessment roll and are therefore excluded from the regular property tax system. The operator of any of these public utilities systems is subject to an alternative regime under which the operator must pay to the Minister of Revenue a public utility tax (hereinafter referred to as "PUT").<sup>145</sup>

The PUT was introduced in the 2004-2005 budget.<sup>146</sup> It replaced a tax that was then calculated on the income from the operation of a public utility system.

As such, a person or a partnership that is an operator of a telecommunications or gas distribution system or an electric power production, transmission or distribution system in a calendar year must pay the PUT for that year on or before March 1 of that year. Briefly, the PUT is calculated on the net value of the assets that are part of an operator's system.

The tax legislation stipulates that a municipality and a corporation or partnership all of the shares or interests of which are held directly or indirectly by a municipality, are exempt from the PUT.<sup>147</sup>

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<sup>145</sup> The rules regarding the public utility tax are set out in Part VI.4 of the *Taxation Act*.

<sup>146</sup> MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2004-2005 – Additional Information on the Budgetary Measures*, March 30, 2004, Section 1, pp. 125-132.

<sup>147</sup> *Taxation Act*, s. 1175.39.

The following table shows the various PUT rates currently applicable by type of system.

TABLE A.5

**Public utility tax rates**

(per cent)

Type of system	Net value of assets	
	First \$750 M	Over \$750 M
Electricity	0.20	0.55
Telecommunications <sup>(1)</sup>	0.70	0.70
Gas	0.75	1.50

(1) An amount in excess of \$750 M for telecommunications system assets acquired or leased before 2006 is subject to a rate of 10.5%.

The government's review of tax expenditures has revealed that certain adjustments needed to be made to the PUT.

Firstly, it is worth recalling that the PUT constitutes an amount in lieu of the property tax. However, the values attributable to real property used to calculate the property tax applicable for all Québec municipalities have increased significantly over the years with no impact on the expected performance of the PUT regime. Over the years, this has created an imbalance between the growth of PUT and that observed for property tax revenues.

In addition, it has been deemed necessary to amend the PUT regime so that it provides better conditions to encourage the involvement of certain municipal or public organizations in energy development projects carried out in Québec.

Consequently, changes will be made to:

- update the various rates used to calculate the PUT;
- exempt certain municipal or public bodies from the PUT, as are municipalities;
- provide a PUT refund for municipalities or municipal or public bodies where the tax exemption does not apply.

**□ Gradually increasing certain applicable rates**

The tax legislation will be amended to increase gradually certain PUT rates as of the 2027 calendar year until 2035.

These new rates will apply, for a particular calendar year, to all amounts corresponding to the portion of the net value of the assets forming part of an operator's telecommunications or gas distribution system, for the operator's last fiscal period that ends in the calendar year preceding the particular calendar year.

As for an electric power production, transmission or distribution system, this increase will only apply, for a particular calendar year, in respect of the portion of the net value of the assets that are attributable to an operator's electric power production, for the operator's last fiscal period that ends in the calendar year preceding the particular calendar year.

For greater clarity, no change will be made to the rates applicable to the portion of the net value of the assets that are attributable to electric power transmission or distribution. These assets will continue to be subject to the rates that currently apply. In this capacity, the PUT payable by an operator and attributable to electric power transmission or distribution will be calculated on the portion of the net value of the assets that are attributable to the operator's electric power transmission or distribution, regardless of the portion of the net value of the assets that are attributable to electric power production.

The following table shows the rates that apply after the changes.

TABLE A.6

**Public utility tax rates (after changes)**

(per cent)

Type of system	2027	2028	2029	2030	2031	2032	2033	2034	2035 <sup>(1)</sup>
Electricity – Production assets <sup>(2)</sup>	0.70	0.80	0.90	1.00	1.10	1.20	1.30	1.40	1.50
Electricity – Transmission assets									
– 1 <sup>st</sup> \$750 M	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
– Over \$750 M	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
Telecommunications	0.70	0.80	0.90	1.00	1.10	1.20	1.30	1.40	1.50
Gas									
– 1 <sup>st</sup> \$750 M	0.75	0.80	0.90	1.00	1.10	1.20	1.30	1.40	1.50
– Over \$750 M	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50

(1) The applicable rates for the 2035 calendar year will apply to subsequent years.

(2) The same rate will apply to the portion of the net value of the assets that are attributable to electric power production that either exceeds or not \$750 M.

## ■ Application date

These changes will take effect on January 1 of each calendar year concerned.

## ❑ Changing the PUT exemption

The tax legislation will be amended so that the PUT exemption will be granted, for a particular calendar year, to an operator that is a municipal or public body performing a function of government in Canada<sup>148</sup> (hereinafter referred to as a “body”) or a corporation all of the shares of the capital stock of which, or a partnership all of the interests in which will be held, throughout its last fiscal period that ended in the calendar year that precedes the particular calendar year, by one or more of the following entities:

- a municipality and/or a body;
- a corporation all of the shares of the capital stock of which are held, directly or indirectly through one or more corporations or partnerships, by a municipality and/or a body;
- a partnership all of the interests in which are held, directly or indirectly through one or more corporations or partnerships, by a municipality and/or a body.

The application of this change will be declaratory.

Where an operator meets the conditions to benefit from the PUT exemption for a calendar year in respect of which the operator has already paid the PUT, the operator will be able to benefit from this tax exemption in respect of that calendar year if they file with the Minister of Revenue a written request for a refund of the PUT, on or before June 30, 2026. In addition, interests on the amount refunded to the body, corporation or partnership, as the case may be, will only begin to run from the date the Minister of Revenue receives the request for a refund.<sup>149</sup>

Lastly, as of 2025, a body, corporation or partnership eligible for the new PUT exemption, for a calendar year, will be required to file with the Minister of Revenue a tax return for that calendar year. This declaration must be filed on or before the latest of the following dates: the filing due date for such a declaration under the currently applicable rules, or June 30, 2026.

## ❑ Reimbursement in respect of the PUT deemed paid

The PUT exemption currently provided for, and the tax exemption provided for in this budget speech, does not apply 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.

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<sup>148</sup> In particular, such a body may designate certain Indigenous administrations.

<sup>149</sup> The Minister of Revenue may make a reassessment despite the expiration of the time limit set out in section 1010 of the *Taxation Act*.

The tax legislation will therefore be amended to deem an amount in respect of the PUT paid by the municipality and/or body, and grant it a reimbursement in respect of the PUT deemed paid in such cases.

Therefore, where a corporation or partnership that is an operator in a particular calendar year is required to pay the PUT for the particular year, and a municipality and/or a body holds, throughout the last fiscal period of the operator that ended in the calendar year that precedes the particular calendar year, directly or indirectly through one or more corporations or partnerships, a portion of the shares of the capital stock of the corporation or a portion of the interests in the partnership, a reimbursement in respect of the PUT deemed paid will be granted to the municipality and/or the body.

This reimbursement in respect of the PUT deemed paid will be equal to the proportion of PUT paid for the particular calendar year by the operator represented by the proportion between the total voting shares of the capital stock of the corporation, or voting interests in the partnership, held, directly or indirectly, by the municipality and/or the body and the aggregate of voting shares of the capital stock of the corporation or voting interests in the partnership.

In cases where interests in a partnership are non-voting, the partnership will be deemed to be a corporation all of the voting shares of which are held by the members of the partnership, in the proportion that the member's share of the partnership's income or loss for the fiscal period is to the partnership's income or loss for that fiscal period.

However, if it is reasonable to consider that the distribution of voting shares aims mainly to increase the reimbursement with regard to the PUT deemed to be paid to a municipality and/or a body, this distribution will be, for the purposes of calculating the reimbursement, the one that is reasonable having regard to all the circumstances.

In order to benefit from the reimbursement with regard to the PUT deemed to be paid, for a calendar year, each municipality or body will be required to file with the Minister of Revenue, for that calendar year, a tax return containing the prescribed information.

## ■ **Application date**

The changes to the reimbursement with regard to the PUT deemed to be paid will apply as of the 2025 calendar year.



### 4.3 Changes to various parameters of Capital régional et coopératif Desjardins

Capital régional et coopératif Desjardins (hereinafter referred to as “CRCD”) was constituted on July 1, 2001. Under its constituting act,<sup>150</sup> CRCD’s main mission is to invest in “eligible Québec entities”<sup>151</sup> and to raise venture capital and development capital for projects located in Québec’s regions or emanating from the Québec cooperative sector.

Since CRCD was created, the government has supported its mission by allowing it to raise capital that provides a tax benefit. This tax benefit is in the form of a non-refundable tax credit granted to an individual<sup>152</sup> who acquires, as first purchaser, shares of the capital stock of CRCD.

This tax credit corresponds to 30% of the amount paid by the individual to acquire CRCD shares during an acquisition period<sup>153</sup> beginning in the particular year. The amount paid by this individual over an acquisition period cannot exceed \$5 000.<sup>154</sup>

CRCD is currently authorized to issue shares without par value that are redeemable at the investor’s request provided they have been held for at least seven years.

In order to reflect the fact that the financing of this investment fund is facilitated by the granting of a tax benefit, a number of measures have been taken to govern the organization of the fund, to protect investors in the fund and to ensure that the fund adheres to its mission.

In this regard, the CRCD constituting act requires that, for each fiscal year, its eligible investments represent at least 65% of its average net assets for the preceding fiscal year and that investments representing at least 50% of that percentage be made in eligible cooperatives or in entities situated in eligible regions of Québec.<sup>155</sup>

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<sup>150</sup> *Act constituting Capital régional et coopératif Desjardins* (CQLR, chapter C-6.1). [CRCD constituting act], s. 8.

<sup>151</sup> In general, this expression means either, on the one hand, an eligible cooperative and, on the other hand, a partnership or legal person that is actively operating an enterprise in Québec and is either Québec-owned or has a main decision-making centre that is operated in Québec. In this regard, see the CRCD constituting act, s. 18.

<sup>152</sup> Except for a dealer acting in their capacity as intermediary or firm underwriter.

<sup>153</sup> Acquisition periods begin on March 1 of a given calendar year and end on the last day of February of the following calendar year.

<sup>154</sup> *Taxation Act*, s. 776.1.5.0.11.

<sup>155</sup> Eligible regions include all regions of Québec, with the exception of municipalities in the Communauté métropolitaine de Montréal and the Communauté métropolitaine de Québec.

Since 2014,<sup>156</sup> the maximum amount that CRCD can raise for a given acquisition period (hereinafter referred to as the “annual limit amount”) has been determined as the lesser of the two following elements: the amount by which its paid-up capital is reduced due to redemptions or purchases by agreement during the previous acquisition period; or a ceiling of \$150 million.

Under its current parameters, CRCD’s business model is subject to limitations that could affect its ability to fully carry out its mission and could thus restrict the scope of its interventions.

To facilitate CRCD’s capitalization and increase its capacity to invest in eligible Québec entities, particularly those located in regions and territories facing economic difficulties, amendments will be made to the CRCD constituting act and to tax legislation. More specifically, these amendments are aimed at:

- setting the annual capitalization limit applicable until February 28, 2030 so that the rate of increase more closely matches the pace of growth in the Québec economy;
- introducing a cumulative subscription ceiling for each current and future shareholder;
- introducing a new class of shares with a maximum holding period of 14 years, entitling the holder to a non-refundable tax credit calculated at a reduced rate.

## **❑ Setting the annual capitalization limit**

In order to ensure greater predictability regarding the contribution of capital to CRCD, the CRCD constituting act and tax legislation will be amended so that the amount that CRCD will be able to raise, over the coming acquisition periods, will be temporarily set for the acquisition periods between March 1, 2025 and February 28, 2030, regardless of the amount attributable to all shares and fractional shares that were redeemed or purchased by agreement during the previous acquisition period.

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<sup>156</sup> Prior to 2014, CRCD could raise a maximum amount of \$150 M per acquisition period, since it had not yet reached at the end of an acquisition period at least \$1.25 G in paid-up capital in respect of shares and fractional shares issued and outstanding.

The annual limit amount will therefore correspond to the ceilings shown in the following table.

TABLE A.7

**Annual capitalization limit**  
(millions of dollars)

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Annual limit amount	150	155	160	165	170

**❑ Introduction of a cumulative subscription ceiling**

Tax legislation does not currently provide for a cumulative limit on the number of CRCD shares an individual may acquire. As a result, they can subscribe to CRCD shares every year, without ever being limited by a cumulative subscription ceiling.

In order to allow more individuals to subscribe to shares issued by CRCD, the tax legislation will be amended to introduce, for all classes of shares of CRCD's authorized share capital, a cumulative subscription ceiling of \$45 000 per shareholder, which will be applicable to both current and future CRCD shareholders, subject to the following:

- individuals who, on the day of the budget speech, have subscribed to CRCD shares for which they have paid an amount totalling more than \$45 000 will be able to keep all these shares and the related tax credits;
- amounts paid in respect of the following shares will not count toward an individual's cumulative subscription ceiling:
  - shares obtained by an individual as a result of the devolution of an estate,
  - shares redeemed by CRCD within 30 days of subscription,
  - shares purchased by agreement because no tax credit was obtained, in accordance with CRCD's purchase by agreement policy.

This cumulative subscription ceiling of \$45 000 per shareholder will apply as of the day following the day of the budget speech.

## ❑ Introduction of a new share class

In order to improve CRCD's capitalization, the CRCD constituting act will be amended to introduce a new class of shares to its authorized share capital, namely class C shares. These shares may be held for a maximum period of 14 years. The first purchaser of such shares will be entitled to a non-refundable tax credit at a rate of 25%.

## ■ Characteristics of class C shares

Class C shares will have essentially the same characteristics as those currently provided for class A shares<sup>157</sup> of CRCD's authorized share capital, except for the redemption obligation specific to class C and incumbent upon CRCD.

In fact, class C shares or fractional shares must be redeemed by CRCD on the last day of the acquisition period including the 14th anniversary day of the issue of the shares or fractional shares. To this end, the redemption price of class C shares or fractional shares will correspond to the price set by CRCD's board of directors at the time of the semi-annual valuation<sup>158</sup> of the shares as at December 31 preceding the day of redemption of the shares or fractional shares.

For greater clarity, like class A shares and class A fractional shares, class C shares will be redeemable at the investor's request, provided they have been held for at least seven years. To this end, the redemption price of class C shares or fractional shares, in this situation, will correspond to the price set by CRCD's board of directors in accordance with the terms and conditions currently provided for class A and class B shares.<sup>159</sup>

Class C shares will not be an eligible investment. As a result, they cannot be acquired in or transferred to a registered retirement savings plan (RRSP), a registered retirement income fund (RRIF), a tax-free savings account (TFSA) or a tax-free first home savings account (FHSA).

From the capitalization period beginning March 1, 2025, only class C shares or class C fractional shares may be issued by CRCD in connection with a new subscription to its share capital.<sup>160</sup>

<sup>157</sup> These shares are no-par value voting shares, entitling holders to dividends declared by the directors and to the remaining property in the event of the winding up or dissolution of CRCD.

<sup>158</sup> The valuation will be carried out in accordance with section 15 of the CRCD constituting act.

<sup>159</sup> See section 15 of the CRCD constituting act.

<sup>160</sup> No class A shares may be issued by CRCD on or after this date.

## ■ **Subscription right restriction**

Only a person of full age may acquire a class C share or fractional share. In addition, the holder of such a share or fractional share may not alienate it.

## ■ **New tax credit for the acquisition of class C shares**

The tax legislation will be amended so that an individual residing in Québec, at the end of December 31 of a given taxation year, can benefit from a non-refundable tax credit following the acquisition of CRCD class C shares or fractional shares.

This tax credit will correspond to 25% of the amounts paid by the individual to acquire these class C shares or fractional shares during the acquisition period that includes the December 31 in question. Amounts paid by an individual during an acquisition period cannot exceed \$5 000. Accordingly, the maximum amount that this tax credit can reach is \$1 250.

However, this tax credit cannot be claimed in respect of the amount paid during an acquisition period to subscribe to CRCD class C shares or fractional shares, if any of the following situations applies:

- redemption of these class C shares or fractional shares has been requested in writing within 30 days of their subscription date;
- CRCD has redeemed or purchased by agreement other shares of its capital stock held by the individual, acquired in the given acquisition period or in a prior acquisition period, in respect of which an individual had claimed the tax credit;
- the shareholder's cumulative subscription ceiling of \$45 000 has been reached.

Lastly, this tax credit cannot be taken into account in calculating the alternative minimum tax payable by an individual for a given taxation year, but it may be considered for the purposes of the rules governing the carry-forward of this alternative minimum tax.

## ■ **Recovering the tax credit**

The tax credit relating to the acquisition of a CRCD class C share or fractional share can be recovered by means of a special tax when the holding period of the class C share is less than seven years.

More specifically, a person who acquires a CRCD class C share or fractional share, hereinafter referred to as the "holder," or a person to whom such a share or fractional share devolves by succession, will have to pay a tax on the redemption or purchase by agreement of a share or fractional share for which the holder has obtained a tax credit, if such redemption or purchase occurs less than seven years after the date of issue.

This tax will be equal to the amount obtained according to the following formula:<sup>161</sup>

$$\frac{(2\,556 - A)}{2\,556} \times B$$

For the purposes of this formula:

- A represents the number of days during which the class C share or fractional share has been held by the holder and, if applicable, by the person to whom such a share or fractional share has been devolved by succession;
- B designates the lesser of 25% of the amount paid by the holder to acquire the class C share or fractional share, or the price paid for its redemption or purchase by agreement.

CRCD must withhold this tax from the amount payable upon redemption or purchase by agreement of the class C share or fractional share. It must remit the amounts so withheld to the Minister of Revenue, on behalf of the person who requested the redemption or purchase by agreement of the share or fractional share, within 30 days of the date of redemption or purchase by agreement of the share or fractional share.

In addition, CRCD must pay to the Minister of Revenue, on behalf of the person who obtained the redemption or purchase by agreement of a share or fractional share, any portion of the tax payable by this person that was not withheld at source at the time of the redemption or purchase by agreement of that share or fractional share. However, it may recover from this person the amount of tax thus paid.

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<sup>161</sup> *Taxation Act*, s. 1129.27.6.

The following table summarizes certain effects of the redemption or purchase by agreement of a CRCD class C share or fractional share.

TABLE A.8

**Effects of the redemption or purchase by agreement of a CRCD class C share or fractional share**

Reasons for redemption or purchase by agreement	Possibility for the holder to re-subscribe	Liability for the special tax
<b>Share redeemed</b>		
– After holding for seven years	NO	NO
– Due to disability	NO	YES
– Due to death	DOES NOT APPLY	YES <sup>(1)</sup>
– Within 30 days of purchase	YES	NO
<b>Share purchased by agreement</b>		
– Due to lack of tax assistance	YES	NO
– Due to emigration	NO	YES <sup>(2)</sup>
– Due to terminal illness	NO	YES
– Due to urgent need for cash	NO	YES

(1) Except for shares acquired in the year of death.

(2) Except for shares acquired in the year of emigration.

■ **Special tax specific to CRCD**

CRCD may be liable to pay a special tax if it issues shares for an amount in excess of the applicable annual limit amount for an acquisition period. This special tax is calculated by multiplying the applicable tax credit rate by the amount of paid-up capital of shares issued during the acquisition period in excess of the annual limit amount.

The provisions of the tax legislation relating to the special tax on excessive capitalization<sup>162</sup> will be amended in light of these changes.

These changes will apply from the acquisition period beginning on March 1, 2025.

■ **Tax cost of a class C share**

The tax credit for acquisition of a CRCD class C share will not reduce the adjusted cost base of the shares acquired for the purpose of determining the capital gain that may be realized following the disposition of such shares.

<sup>162</sup> Ibid., s. 1129.27.4.1 et seq.

However, in the event of a capital loss on the disposition of such shares, the loss will be reduced by the amount by which the tax credit obtained in that regard exceeds the amount of the special tax paid on the redemption or purchase of the shares.<sup>163</sup>

#### **4.4 Strengthening tax compliance with respect to foreign property held by Quebecers**

As part of its mission, Revenu Québec must ensure that all taxpayers pay their fair share of public services. However, globalization makes it increasingly difficult for this organization to identify Québec taxpayers' world income.

In order to promote tax compliance, reporting foreign property can be an efficient means for tax authorities to obtain the information they need to fulfil their mission.

In this respect, it is appropriate to specify that the Canada Revenue Agency (CRA) has been requiring, for several years now, that Canadian taxpayers report annually any foreign property with a total cost exceeding \$100 000 at any time during the year.<sup>164</sup>

Until now, Revenu Québec used the usual information exchange mechanism with the CRA to obtain relevant information. It is now right to implement a more optimal mechanism to obtain information.

Indeed, without the necessary and separate tools making it possible to obtain the information needed to make a notice of assessment for taxpayers who fail to report all their foreign property, Revenu Québec could have a hard time fulfilling its mission of ensuring the fair administration of fiscal laws.

#### **❑ Introducing a new reporting requirement for foreign property held outside Canada**

In order to further strengthen Québec's self-assessment tax system and increase its fairness and integrity, changes will be made to the Québec tax system to introduce a new reporting requirement for Québec taxpayers in respect of foreign property held outside Canada.

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<sup>163</sup> Ibid., s. 241.0.2.

<sup>164</sup> Section 233.3 of the *Income Tax Act* (ITA) was introduced by section 69 of the *Income Tax Budget Amendments Act, 1996* (S.C. 1997, c. 25). Where applicable, the Foreign Income Verification Statement form (T1135) must be filled out to specify all specified foreign property of a taxpayer the total cost of which is over \$100 000.



The new reporting requirement for foreign property held outside Canada will be satisfied by a new prescribed form to be completed and filed with Revenu Québec for a taxation year or fiscal period, as the case may be, taking into account the parameters set out below.<sup>165</sup>

### ■ Definition of “designated foreign property”

For the purposes of the Québec tax system, designated foreign property that will be subject to the new reporting requirement will be essentially the same as foreign property subject to the federal tax legislation, with the necessary adaptations.<sup>166</sup>

More specifically, designated foreign property, for the purposes of the Québec tax system,<sup>167</sup> will mean:

- funds or incorporeal property situated, deposited or held outside Canada;
- corporeal property situated outside Canada;
- a share of the capital stock of a corporation not resident in Canada;
- an interest in a trust not resident in Canada;
- an interest in a partnership that owns or holds designated foreign property;
- an interest in, or rights with respect to, an entity not resident in Canada;
- indebtedness owed by a person not resident in Canada;
- a right to any property (other than any property owned by a corporation or trust that is not the person) that is designated foreign property or rights with respect to such property, either immediately or in the future and either absolutely or contingently and under a contract;
- property that is convertible into, is exchangeable for or confers a right to acquire, property that is designated foreign property.

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<sup>165</sup> This new Québec form will be similar to the federal form T1135, with the necessary adaptations. For greater clarity, the requirements for filing a form equivalent to the federal T1134 and for reporting information on foreign affiliates are not part of this announcement.

<sup>166</sup> It should be noted that federal tax legislation uses the expression “specified foreign property.”

<sup>167</sup> For a common law application of designated foreign property, section 1.0.1 of the *Taxation Act* may be referred to.

## ■ **Property that is not “designated foreign property”**

The following property will not constitute designated foreign property:

- property that is used or held exclusively in the course of carrying on an active business of the person or partnership (determined as if the person or partnership were a corporation resident in Canada);
- a share of the capital stock or indebtedness of a corporation not resident in Canada that is a foreign affiliate corporation or a foreign affiliate of the person or partnership;
- an interest in, or indebtedness of, a trust not resident in Canada that is a foreign affiliate corporation or a foreign affiliate of the person or partnership;
- an interest in a trust not resident in Canada that was not acquired for consideration by either the person or partnership or by a person related to the person or partnership;
- an interest in a trust that is described in paragraph (a) or (b) of the definition “exempt trust”;<sup>168</sup>
- an interest in a partnership that is a specified Canadian entity or a designated Québec entity;
- a right with respect to, or indebtedness of, an authorized foreign bank that is issued by, and payable or otherwise enforceable at, a branch in Canada of the bank;
- personal-use property of the person or partnership;
- a right in, or a right to acquire, a property that is any excluded property aforementioned.

## ■ **Definition of “reporting entity”**

Similar to the report to file under the federal tax legislation, a person or an entity which will be required to file with the Québec Minister of Revenue a report in respect of designated foreign property it holds, for a taxation year or fiscal period, as the case may be, will mean a designated Québec entity whose total of all amounts each of which is the total cost amount, to the person or entity, of a designated foreign property exceeds \$100 000, at any time in the taxation year or fiscal period, other than a time when the person or entity is not resident in Canada.

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<sup>168</sup> For the definition of “exempt trust,” see subsection 233.2(1) of the ITA. Briefly, an exempt trust is governed by a foreign retirement arrangement or established under a superannuation, pension or retirement funds or plans or any funds or plans established to provide employee benefits. In addition, the trust is exempt from the payment of income tax in the country in which it is resident and it is maintained primarily for the benefit of non-resident individuals.

## ■ Definition of “designated Québec entity”

Subject to the exclusions mentioned below, a designated Québec entity will mean, for a taxation year or fiscal period, as the case may be:

- an individual resident in Québec in a taxation year;
- a corporation that simultaneously resides in Canada and has an establishment in Québec for that taxation year;
- a trust that is a resident in Québec in a taxation year;
- a partnership where the partner’s share of the income or loss is less than 90% of the partnership’s income or loss for the fiscal period.<sup>169</sup>

Moreover, the following will not be considered a designated Québec entity:

- a mutual fund corporation;
- an investment corporation owned by a person not resident in Canada;
- a person (other than a trust) all of whose taxable income for the year is exempt from tax under Part I of the *Taxation Act*;
- a trust all of the taxable income of which for the year is exempt from tax under Part I of the *Taxation Act*;
- a mutual fund trust;
- a trust described in any of paragraphs (a) to (d) of the third paragraph of section 647 of the *Taxation Act* (the Québec provisions corresponding to paragraphs (a) to (e.1) of the definition “trust” in subsection 108(1) of the ITA);
- a registered investment;
- a trust in which all persons beneficially interested are the entities aforementioned.

<sup>169</sup>

Under the definition of “specified Canadian entity” set out in subsection 233.3 of the ITA, such a partnership is a partnership where the total of all amounts, each of which is a share of the partnership’s income or loss for the fiscal period of a member (that is a non-resident person or a taxpayer referred to in the exclusions to the definition of “specified Canadian entity”) is less than 90% of the income or loss of the partnership for the period, and, where the income and loss of the partnership are nil for the fiscal period, the income of the partnership for the fiscal period is deemed to be \$1 M.

In other words, designated Québec entities, for a taxation year or fiscal period, as the case may be, will be represented by individuals and certain trusts resident in Québec, as well as corporations resident in Canada that have an establishment in Québec, as well as by certain partnerships.

### ■ **Filing-due date of the new Québec prescribed form**

The new Québec prescribed form will need to be filed with Revenu Québec by a reporting entity, for a taxation year or fiscal period, as the case may be, 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, in which case the filing-due date will be the same as that of the information return (or the one that would apply if the partnership were to file one).

### □ **Introducing new penalties**

Designated Québec entities qualifying as reporting entities that will be subject to the new reporting requirement in respect of designated foreign property that fail to comply with the requirement may incur significant penalties.

Therefore, the Québec tax legislation will be amended to introduce penalties corresponding to those in the federal tax system,<sup>170</sup> in particular:

- a penalty for failing to file the new Québec form of \$500 per month or part of a month for a maximum of 24 months, that is, a maximum of \$12 000, and, where the entity has been given formal notice to file the new return and has failed to meet the deadline, the double of that amount;<sup>171</sup>
- an additional penalty for failing to file the report for more than 24 months set at 5% of the total cost of the designated foreign property;
- a penalty in case of false statement or omission equal to or higher than \$24 000 or 5% of the total cost of designated foreign property.

### □ **Extending the assessment period**

In order to enable Revenu Québec to effectively administer this new reporting requirement for designated foreign property, a longer period for assessment or reassessment will be introduced into the Québec tax legislation.

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<sup>170</sup> The corresponding penalties in the federal tax legislation are provided in paragraphs 162(10), 162(10.1) and 163(2.4)c) of the ITA. The starting points for calculating deadlines will be the same as those set out in the federal tax legislation.

<sup>171</sup> The penalty that a reporting entity would incur under section 59 of the *Tax Administration Act*, where applicable, will have to be withdrawn from these new penalties.

Therefore, as in the federal tax legislation,<sup>172</sup> an extension of three years after the end of the normal reassessment period for the taxpayer in respect of the year will be introduced.

In other words, an assessment, reassessment or additional assessment will have to be made before the day that is three years after the end of the normal reassessment period for the taxpayer in respect of the year and if:

- the taxpayer, or a partnership of which the taxpayer is a member, has failed to file for the taxation year or fiscal period, as the case may be, a prescribed form as and when required or to report on the prescribed form the information required in respect of a designated foreign property held by the taxpayer at any time during the year; and
- the taxpayer has failed to report, in the return of income for the taxation year or fiscal period, as the case may be, an amount in respect of a designated foreign property that is required to be included in computing the taxpayer's income for the year.

#### ☐ **Application date**

These measures will apply as of a date to be determined by the government after the assent of the bill giving effect to them.

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<sup>172</sup> ITA, para. 152(4)b.2).

## 5. POSITION OF THE MINISTÈRE DES FINANCES DU QUÉBEC REGARDING THE TAX MEASURES ANNOUNCED IN THE GOVERNMENT OF CANADA'S 2024 FALL ECONOMIC STATEMENT

On December 16, 2024, the Department of Finance Canada presented the *2024 Fall Economic Statement*. At that time, the Department tabled supplementary information describing a number of new personal and business income tax measures.<sup>173</sup>

The Ministère des Finances du Québec wishes to make public its position on these new federal tax measures.

### **□ Income tax measures**

Québec tax legislation and regulations will be amended to incorporate some of the income tax measures proposed in the *2024 Fall Economic Statement*. However, the amendments to the Québec tax system 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. For greater clarity, these amendments will be applicable on the same dates as the federal measures with which they are harmonized.

### **■ Measures retained**

Québec tax legislation and regulations will be amended<sup>174</sup> to incorporate, with adaptations on the basis of their general principles, the measures relating to:

1. the exemption of the Canada Disability Benefit from tax;
2. capital gains rollover on investments;
3. reporting by non-profit organizations;
4. the scientific research and experimental development tax incentive program (SR&ED), with respect to the eligibility of capital expenditures for the deduction relating to SR&ED expenditures;
5. the extension of the Accelerated Investment Incentive and immediate expensing measures, subject to the rules set out below.

<sup>173</sup> DEPARTMENT OF FINANCE CANADA, *2024 Fall Economic Statement*, "Tax Measures: Supplementary Information," [Online], December 16, 2024, [<https://www.budget.canada.ca/update-miseajour/2024/report-rapport/tm-mf-en.html>].

<sup>174</sup> Some of the measures retained, however, may not require any changes to Québec's tax legislation or regulations.

- **Rules relating to the extension of the Accelerated Investment Incentive and immediate expensing measures**

The Department of Finance Canada proposes changes to the federal tax system with respect to the capital cost allowance so as to fully reinstate the Accelerated Investment Incentive and immediate expensing measures for qualifying property acquired on or after January 1, 2025, and that becomes available for use before 2030. These measures will be phased out starting in 2030 and fully eliminated for property that becomes available for use after 2033.

The extension of the Accelerated Investment Incentive will also apply to eligible Canadian development expenses and Canadian oil and gas property expenses.

- ***Qualifying intellectual property included in Class 14.1***

The Québec tax system is generally harmonized with the federal tax system with respect to the Accelerated Investment Incentive. However, property that is a qualifying intellectual property<sup>175</sup> included in Class 14.1 of Schedule B of the *Regulation respecting the Taxation Act* and which becomes available for use before 2026 benefits from a temporary accelerated capital cost allowance under the Québec tax system.<sup>176</sup>

Consequently, the extension of the Accelerated Investment Incentive will not apply to property that is a qualifying intellectual property included in Class 14.1 of Schedule B of the *Regulation respecting the Taxation Act*, and which becomes available for use before 2026. Such a property will continue to benefit from the tax treatment granted under the Québec tax system.

- ***Deduction for Canadian development expenses***

The Québec tax legislation is generally harmonized with the federal tax legislation with respect to the definition of “Canadian development expense.”<sup>177</sup> However, the Québec tax system is only partially harmonized with the federal tax system with respect to the deduction rate that applies to cumulative Canadian development expenses.

Briefly, under the Québec tax system, a development corporation carrying on a mining business may deduct, in computing its income for a taxation year, the aggregate of its cumulative Canadian development expenses at the end of the year. In addition, a development corporation carrying on an oil business may deduct, in computing its income for a taxation year, the aggregate of its cumulative Canadian development expenses incurred in Québec at the end of the year. Under the federal tax system, such corporations may deduct, in calculating income for a taxation year, up to 30% of their cumulative Canadian development expenses at the end of the year (without taking into account the enhancement for the Accelerated Investment Incentive).

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<sup>175</sup> A definition of this expression is provided in the *Regulation respecting the Taxation Act*, s. 130R3.

<sup>176</sup> See MINISTÈRE DES FINANCES DU QUÉBEC, *Information Bulletin 2018-9*, December 3, 2018, pp. 8-11.

<sup>177</sup> These expenses are called “Canadian development expenses” in the Québec tax legislation.

In other cases, the deduction rate applicable to cumulative Canadian development expenses is, for both the Québec and federal tax systems, 30% (without taking into account the enhancement for the Accelerated Investment Incentive).

Consequently, the extension of the Accelerated Investment Incentive will not apply to the deduction for cumulative Canadian development expenses claimed by a development corporation carrying on a mining business, neither will it apply to the deduction for cumulative Canadian development expenses incurred in Québec claimed by a development corporation carrying on an oil business.

### ■ **Measures not retained**

Certain measures have not been retained because they do not correspond to the characteristics of the Québec tax system or because the latter is satisfactory or does not contain similar provisions. These measures relate to:

- the Canada Carbon Rebate Rural Supplement;
- the reclassification of the islands of Haida Gwaii for the purposes of the Northern residents deduction;
- the Canada Carbon Rebate for Small Businesses;
- 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;
- the scientific research and experimental development tax incentive program, with respect to 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.





# Section B

## ENSURING TAX FAIRNESS

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## 1. ENSURING TAX FAIRNESS

The government is committed to preserving tax fairness in Québec by ensuring all Quebecers pay their fair share of taxes so that public services are appropriately funded.

To that end, the government is announcing a new series of measures to combat tax evasion with a view to:

- ensuring taxpayers' foreign-owned property is reported;
- expanding the obligation to hold the *Attestation de Revenu Québec* in the construction sector;
- fighting more effectively against tobacco smuggling;
- ensuring the funding of the regulation of money-services businesses.

## **1.1 Ensuring taxpayers' foreign-owned property is reported**

To effectively combat tax evasion involving tax havens, it is necessary that taxpayers report all their income, including income from assets located outside Canada.

This is why the government is announcing an obligation for taxpayers to report their assets located abroad when their total cost exceeds \$100 000 during the year.

With this additional information, the government will be able to preserve and improve the fairness and integrity of the Québec tax system.

Legislative amendments will be made to that end.

## 1.2 Expanding the obligation to hold the *Attestation de Revenu Québec* in the construction sector

The obligation to hold the *Attestation de Revenu Québec* for certain activities helps fight tax evasion by ensuring that businesses and individuals comply with their tax obligations.

The *Attestation de Revenu Québec* is a document confirming that a business or a person:

- has filed the returns required to be filed under Québec fiscal laws;
- has no overdue account payable to the Québec Minister of Revenue;
- has an overdue account and has entered into a payment agreement with which they are in compliance;
- has an overdue account, and the recovery of the debts of the business or person has been legally suspended.

The construction sector remains at risk of tax evasion. To more effectively combat tax evasion in the construction sector, including the residential renovation sector, the government will make it mandatory to hold the *Attestation de Revenu Québec* for obtaining and renewing a licence from the Régie du bâtiment du Québec.

The government will make the necessary regulatory amendments to implement this obligation.

Sectors in which the <i>Attestation de Revenu Québec</i> is mandatory
<p>Currently, the <i>Attestation de Revenu Québec</i> is mandatory for:</p> <ul style="list-style-type: none"> <li>— businesses and individuals carrying out construction contracts totalling \$25 000 or more in Québec;</li> <li>— businesses and subcontractors for maintenance contracts in respect of public buildings;</li> <li>— businesses that enter into a public contract;</li> <li>— employment agencies and recruitment agencies for temporary foreign workers.</li> </ul>

### 1.3 Fighting more effectively against tobacco smuggling

Having ACCES<sup>1</sup> tobacco<sup>2</sup> partners over Québec's entire territory allows for efficient detection of new tobacco smuggling schemes. It is important to adapt the legislative and regulatory framework to new problematic situations observed.

Accordingly, new legislative measures will be implemented. In particular, they include:

- the identification of pipe tobacco, snuff, chewing tobacco and leaf tobacco intended for sale in Québec using a stamp marked "QC" (Québec stamp), which will harmonize the stamping of these products with that of other tobacco products;
- the possibility of refusing to issue or renew any type of permit set out in the *Tobacco Tax Act*<sup>3</sup> upon failure to comply with any obligations under Québec or federal legislation governing tobacco taxation or regulation;
- the introduction in the *Tobacco Tax Act* of a requirement to hold a permit for certain activities related to tobacco product manufacturing equipment and filters;
- prohibiting a retailer from transferring tobacco into a different package or offering tobacco for sale in anything other than a duly identified package;
- the addition of measures facilitating certain anti-smuggling actions already carried out by the police, namely immobilizing vehicles and installing tracking devices.

These measures will increase pressure on smugglers and facilitate investigative and prosecution work by ACCES tobacco partners.

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<sup>1</sup> Actions concertées pour contrer les économies souterraines (concerted actions to counter the underground economy).

<sup>2</sup> ACCES tobacco brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, Québec's other police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Ministère de la Santé et des Services sociaux and the Ministère des Finances du Québec, plus the Royal Canadian Mounted Police, the Canada Revenue Agency and the Canada Border Services Agency.

<sup>3</sup> CQLR, chapter I-2.

## 1.4 Ensuring the funding of the regulation of money-services businesses

The licensing and inspection activities and criminal proceedings led by Revenu Québec in the money-services businesses sector bring a range of benefits, including:

- reducing unfair competition;
- increasing the confidence of investors, who perceive the environment as safer;
- reducing tax evasion and money laundering.

Since these businesses and the community enjoy many of these benefits, the government will revise the funding approach for these activities, which will continue to be partially funded by this industry.

The new funding parameters will be announced at a later date.

### Financial Action Task Force mutual evaluation of Canada

The Financial Action Task Force (FATF) is the global money laundering and terrorist financing watchdog. To fulfil its mandate, the FATF conducts mutual evaluations and in-depth reviews of the implementation and effectiveness of a country's anti-money laundering and counter-terrorist financing measures.

The FATF is currently conducting its 2025 mutual evaluation of Canada, with the last evaluation dating back to 2016. Québec is participating in this work aimed at evaluating the measures implemented and the steps taken to combat money laundering.

In recent years, Québec has been proactive in combatting money laundering. Of note are its efforts in the transparency of enterprises, including assenting to the *Act mainly to improve the transparency of enterprises*,<sup>1</sup> which introduced, in particular, the obligation for enterprises to declare their ultimate beneficiaries and allowed the public to search for a natural person by name in the enterprise register.

<sup>1</sup> S.Q. 2021, c. 19.





## 2. FOLLOWING UP ON ACTIONS TAKEN TO COMBAT TAX EVASION AND FRAUD AGAINST THE GOVERNMENT

The government has implemented various initiatives to promote the integrity of the tax system, foster healthy competition, and combat fraud against the government.

These initiatives are based on concerted actions by various government departments and bodies.

In 2024-2025, the government funded concerted actions to combat:

- unreported work in the construction sector;
- tobacco, cannabis and alcohol smuggling;
- economic and financial crime, and fraud against the government.

In addition, the government has funded projects to increase the recovery of criminal assets and civil forfeiture.

Concerted actions to combat tax evasion and fraud against the government
<p>The effectiveness of the government's committees and projects to combat tax evasion and fraud against the government depends on the concerted efforts of the partners.</p> <p>These partners benefit from the expertise of every member of the committees, expertise that varies according to a member's assigned roles, responsibilities and powers.</p> <p>Their coordinated work enables them to:</p> <ul style="list-style-type: none"><li>— establish policy directions in the fight against crime and offences;</li><li>— identify key areas for investigative unit interventions;</li><li>— analyze the legal aspects of investigations and propose legislative amendments as needed;</li><li>— improve information sharing among the partners;</li><li>— help develop and improve the training offered to partners;</li><li>— increase the recovery of criminal assets and civil forfeiture.</li></ul>

## 2.1 Combatting unreported work in the construction sector (ACCES construction)

The construction industry is a major sector of Québec's economy that is proving to be particularly exposed to tax evasion schemes and unreported work.

ACCES construction<sup>4</sup> brings together government departments and bodies to work jointly to combat tax evasion, unreported work and non-compliance with the obligations incumbent upon employers and workers in the construction industry. ACCES construction members carry out this work, in particular, through joint site visits and information sharing.

Concerted efforts by partners make it possible to combat tax evasion and unreported work effectively and recover money owed to the government, which is used to fund the services provided to the population.

### Example of an intervention by ACCES construction

After auditing a construction site in 2024, the Commission de la construction du Québec (CCQ) met with a worker who was performing work for which he did not hold the required competency certificate. The CCQ also discovered that the business for which the employee worked was non-compliant, as it did not hold a licence issued by the Régie du bâtiment du Québec and was not duly registered with the CCQ.

Upon further analysis, the CCQ found that the business had used tax numbers on the invoices that were invalid or belonged to other businesses. This information was transferred to Revenu Québec which, after reviewing the matter, ordered three directors of the business to pay fines totalling nearly \$127 000.

Source: Commission de la construction du Québec.

<sup>4</sup> ACCES construction brings together the Commission de la construction du Québec, the Régie du bâtiment du Québec, the Commission des normes, de l'équité, de la santé et de la sécurité du travail, the Registraire des entreprises du Québec, the Autorité des marchés publics, Revenu Québec, the Ministère du Travail, the Director of Criminal and Penal Prosecutions and the Ministère des Finances du Québec.

## 2.2 Combatting smuggling

Smuggling activities are the result of, in particular, the illegal production, transportation and sale of goods on the black market in order to avoid paying the applicable taxes.

To address this practice, the government has taken concerted actions that have seen police forces and partner government departments and bodies band together in combatting tobacco, cannabis and alcohol smuggling.

### ☐ **Combatting the illicit tobacco trade (ACCES tobacco)**

ACCES tobacco, whose effectiveness is recognized nationally and internationally, works to dismantle smuggling networks and recover the tax losses linked to the illicit trade in tobacco, thereby increasing revenue from the specific tax on tobacco products.

All smuggling activities are targeted by over 150 people in total, including more than 90 police officers. Their efforts result in:

- supporting police interventions in combatting smuggling networks, including neighbourhood networks;
- implementing police surveillance of the main contraband tobacco supply and transportation channels;
- adapting police responses to the schemes used by smugglers.

Example of an intervention by ACCES tobacco
<p>Project TENTACULE, concluded in April 2024 by the Sûreté du Québec and the Service de police de la Ville de Montréal, sought to dismantle a criminal organization implicated in smuggling tobacco from the United States.</p> <p>The 37 searches carried out resulted, in particular, in the seizure of a cigarette machine worth \$500 000. In addition, over 100 tonnes of tobacco were seized in connection with the interception of six carriers.</p> <p>This project also included the execution of a major criminal asset recovery component leading to seizures worth approximately \$1.5 million, including \$630 000 in cash, four trailers, four road tractors and two other vehicles.</p>

Sources: Sûreté du Québec, Service de police de la Ville de Montréal and the Ministère de la Sécurité publique.

**❑ Combatting the illicit cannabis trade (ACCES cannabis)**

ACCES cannabis<sup>5</sup> was set up following the legalization of cannabis to combat the illicit production and trade of cannabis.

The partners’ actions help detect the schemes used by smugglers and counter their operations by conducting investigations.

The actions are aimed, in particular, at:

- reducing the availability of illegal cannabis to young people under 21;
- disrupting the illicit cannabis supply chain.

The funding granted allows more than 150 people to be assigned to the fight against the illicit cannabis trade across Québec, and ensures the coordination of activities between police forces and other partners.

**Examples of an intervention by ACCES cannabis**

**Project REMPLAÇANT**

Project REMPLAÇANT, set up in January 2024 by the Sûreté du Québec and the Service de police de la Ville de Montréal, targeted a criminal network involved in the illicit possession and sale of cannabis. In February 2025, police officers arrested nine people in the regions of Mauricie, Estrie, Laurentides and Montréal as well as in New Brunswick.

The project resulted in the seizure of some 880 kilograms of cannabis, more than 410 kilograms of hashish and over 20 kilograms of hashish concentrate, approximately two litres of GHB and six firearms. It also resulted in the seizure of two homes, three vehicles, \$430 000, approximately \$35 000 in foreign currencies, as well as the equivalent of more than \$1 million in cryptocurrency.

**Investigation by the Service de police de la Ville de Montréal**

An investigation of a cannabis supplier by the Service de police de la Ville de Montréal began in January 2024. The operation resulted in the seizure of 230 kilograms of cannabis and more than 2 300 cannabis plants, nearly 30 kilograms of hashish, six luxury watches, \$358 000 in cash, \$300 000 in investments and \$30 000 in cryptocurrency.

Sources: Sûreté du Québec, Service de police de la Ville de Montréal and the Ministère de la Sécurité publique.

<sup>5</sup> ACCES cannabis brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, the Service de police de la Ville de Québec, Québec’s other police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Ministère de la Santé et des Services sociaux, the Société québécoise du cannabis, and the Ministère des Finances du Québec.

## ❑ **Combatting the illicit trade in alcoholic beverages (ACCES alcohol)**

ACCES alcohol<sup>6</sup> allows for targeted actions to combat the illegal procurement of alcoholic beverages and their illicit trade.

These actions, carried out by various police forces across Québec, target the entire supply chain and are divided into two main types of intervention, namely:

- inspection of establishments holding a liquor permit for consumption on the premises, which allows the detection of any offences involving the trade in alcoholic beverages;
- investigations to detect illegal schemes for the production, distribution and sale of alcoholic beverages.

These interventions ensure public safety, guarantee fair and healthy competition in the alcoholic beverage trade and reduce revenue losses for the government.

### **Examples of an intervention by ACCES alcohol**

#### **Investigation by the Service de police de la Ville de Montréal**

In May 2024, the Service de police de la Ville de Montréal dismantled a clandestine laboratory producing wine and spirits. The smuggler bottled and sold his own products and was also involved in the sale of narcotics. Craft spirit production poses a significant risk to public health. This operation resulted in the seizure of over 700 litres of contraband alcohol.

#### **Investigation by the Service de police de la Ville de Lévis**

In June 2024, in collaboration with the Régie des alcools, des courses et des jeux, the Service de police de la Ville de Lévis conducted a verification of a bar's permit. During the visit to the establishment, several offences were observed, in particular the procurement of beer from an unauthorized source. This operation resulted in the seizure of close to 330 containers of beer and over 280 containers of other alcoholic beverages, as well as some narcotics.

Sources: Service de police de la Ville de Montréal, Service de police de la Ville de Lévis and Ministère de la Sécurité publique.

<sup>6</sup> ACCES alcohol brings together the Sûreté du Québec, the Service de police de la Ville de Montréal, Québec's other police forces represented by the Association des directeurs de police du Québec, the École nationale de police du Québec, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Régie des alcools, des courses et des jeux, the Société des alcools du Québec and the Ministère des Finances du Québec.

## 2.3 Combatting economic and financial crime, and fraud against the government

Investigations to counter economic and financial crime, fraud against the government and organized networks of unreported work require a high level of expertise and close collaboration between various partners.

The Québec government has therefore brought together stakeholders in the fight against this type of crime through ACCEF<sup>7</sup> and the Forum contre la fraude envers l'État.<sup>8</sup>

As a result, partners can pool their complementary expertise to more effectively combat these crimes, which cause significant losses for the Québec government.

### ❑ Combatting economic and financial crime (ACCEF)

The ACCEF committee was established in 2004. Its mission involves improving the circulation of information among the main partners as well as detecting and repressing organized economic and financial crime. The ACCEF committee has three components:

- the fight against tax crimes, which helps put an end to complex tax evasion and money laundering schemes;
- the fight against crimes committed on financial markets, which focuses on schemes whose victims are usually investors;
- the fight against money laundering, which aims to conceal the source of illegally acquired money.

#### Example of an intervention by ACCEF

An investigation was led by the Autorité des marchés financiers into the company Trading Easy regarding solicitation promising returns of 5% per month allegedly generated through cryptocurrency and share transactions.

The respondents acted as brokers, securities advisors and investment fund managers without being registered with the Autorité. They are thought to have embezzled, for personal expenses, over \$1.4 million invested by over 160 persons.

The investigation led to the freezing of eight bank accounts, three accounts on cryptoasset platforms, some vehicles and a building.

Source: Autorité des marchés financiers.

<sup>7</sup> Actions concertées contre les crimes économiques et financiers (concerted actions against economic and financial crime). The members of this committee are the Sûreté du Québec, the Service de police de la Ville de Montréal, the Service de police de la Ville de Québec, the Ministère de la Sécurité publique, Revenu Québec, the Director of Criminal and Penal Prosecutions, the Autorité des marchés financiers, and the Ministère des Finances du Québec.

<sup>8</sup> Coordinated by the Ministère de la Sécurité publique, the forum consists of over 15 partner government departments and bodies involved in combatting fraud against the government.

## ❑ **Combatting fraud against the government**

Fraud schemes against the government are becoming increasingly complex and frequent, which requires effective actions to counter them.

The government has therefore set up a team at the Sûreté du Québec to conduct investigations in collaboration with government departments and bodies who are victims of fraud. The work of the Sûreté du Québec involves:

- coordinating criminal and penal investigations;
- supporting the training of investigators within government departments and bodies;
- providing technological support for complex investigations.

In addition, since fraud against the government often involves the use of falsified or counterfeit documents, the government departments and bodies that are victims of fraud can count on the expertise of the Laboratoire de sciences judiciaires et de médecine légale to:

- obtain training to quickly spot fake IDs;
- examine disputed documents to determine their authenticity or to determine whether they are falsified or counterfeit.

<b>Example of an intervention in combatting fraud against the government</b>
<p>The PROGICIEL investigation by the Sûreté du Québec was carried out following a complaint from the Ministère de l'Emploi et de la Solidarité sociale regarding a fraud scheme against a government assistance program.</p> <p>The defrauder submitted several applications for assistance using stolen identities to circumvent controls. In addition to the arrests of eight suspects in March 2024, the investigation led to the dismantling of a sophisticated laboratory used to produce false documents, where documents connected to over 50 000 identities were found.</p>

Sources: Sûreté du Québec and Ministère de la Sécurité publique.



**❑ Combatting organized networks of unreported work**

The Ministère de l'Emploi et de la Solidarité sociale and its partners have been working together since 2011 to combat criminal networks linked to employment agencies.

- These networks exploit vulnerable workers, often newcomers, generally by paying them in cash, thereby depriving them of the protections and employee benefits provided for in Québec.
- Fraudulent employment agencies also neglect to report their income, which generates significant tax losses for the Québec government.

The concerted actions of the partners help identify these networks, recover sums owed to the government, take deterrent action and support the entry into the legal labour market of people who have performed unreported work.

**Example of an intervention in the fight  
against organized networks of unreported work**

The REPRISE investigation, conducted by the Service des enquêtes spécialisées of the Ministère de l'Emploi et de la Solidarité sociale, started in March 2024.

A fraudulent employment agency used various strategies, including hiring workers receiving last-resort financial assistance, producing false documents and using nominees. In addition, the agency did not report to the government employment income paid to workers.

Moreover, this agency recruited migrant workers who had recently arrived in Québec and could be more easily exploited because they had little or no knowledge of worker protection laws in Québec.

Source: Ministère de l'Emploi et de la Solidarité sociale.

## 2.4 Recovering criminal assets and civil forfeiture

The recovery of criminal assets and civil forfeiture are steps that contribute significantly to the fight against crime and increase government revenue.

These steps deprive offenders and criminals of assets acquired unlawfully or used to carry out unlawful activities, which restricts their pursuit and funding of these activities, in particular.

### ☐ Recovery of criminal assets

To make the police investigations related to the recovery of criminal assets more efficient, the government allocated funding to the École nationale de police du Québec in 2024-2025. As of February 25, 2025, 155 police officers have been trained in this field.

In addition, 15 members of Director of Criminal and Penal Prosecutions personnel were assigned to the recovery of criminal assets. Between April 1 and November 30, 2024, close to \$9.9 million was forfeited.

### ☐ Civil forfeiture

The government has recently implemented various measures to increase civil forfeiture:

- an order on sharing, adopted in February 2024, to allow police forces to obtain funds from civil forfeitures, thereby increasing their incentives to submit cases;
- a new method of administrative forfeiture, introduced in March 2024, for assets valued at \$100 000 or less;
- a funding increase for the Ministère de la Justice to efficiently address the rise in cases submitted by police forces.

Thanks to these measures, the number of forfeiture cases submitted to the Attorney General of Québec rose from 99 in 2023-2024 to 211 in 2024-2025 as at January 2025.

In 2024-2025, as at February 28, 2025, 216 cases have been analyzed. The forfeiture potential from these cases is \$6.6 million, and \$1.9 million has already been forfeited.

## 2.5 Return on and funding for concerted actions

To enable government departments and bodies to carry out their concerted activities to combat tax evasion and fraud against the government, the Ministère des Finances grants them funding from the Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government and from the Fund to Combat Addiction.<sup>9</sup>

### ☐ Results of concerted actions to combat tax evasion and fraud against the government

In 2023-2024, the concerted actions to combat tax evasion and fraud against the government yielded a total return of over \$650 million.

— The return per dollar invested in projects funded was \$7.26.

TABLE B.1

#### **Total return on concerted actions**

(millions of dollars, unless otherwise indicated)

	2023-2024
ACCES construction	235.0
ACCES tobacco	194.1
ACCES cannabis	35.7
ACCES alcohol	109.8
ACCEF and combatting fraud against the government <sup>(1)</sup>	78.6
Recovery of criminal assets <sup>(2)</sup>	0.5
<b>TOTAL</b>	<b>653.7</b>
Funding granted to partners <sup>(3)</sup>	90.0
<b>RETURN PER DOLLAR INVESTED (IN DOLLARS)</b>	<b>7.26</b>

(1) This includes the fight against organized networks of unreported work.

(2) This includes only returns from the Director of Criminal and Penal Prosecutions and thus does not include returns from police forces, which are included in those from ACCEF.

(3) Some projects have objectives that do not translate into a financial return. The funding of these projects is excluded from the amount used to calculate the return per dollar invested.

<sup>9</sup> The Fund to Combat Addiction finances initiatives to prevent the use of psychoactive substances, pathological gambling and other forms of addiction, as well as to combat their harmful effects.

## ❑ Funding for concerted actions

In 2024-2025, the Ministère des Finances du Québec allocated \$100.5 million to fund concerted actions to fight tax evasion and fraud against the government.

TABLE B.2

### Funding for concerted actions to combat tax evasion and fraud against the government in 2024-2025 (millions of dollars)

	Provision <sup>(1)</sup>	Fund <sup>(2)</sup>	Total
ACCES construction	13.2	—	13.2
ACCES tobacco	9.8	9.3	19.1
ACCES cannabis	0.0	30.0	30.0
ACCES alcohol	0.0	9.4	9.4
ACCEF and combatting fraud against the government <sup>(3)</sup>	24.3	—	24.3
Recovery of criminal assets <sup>(4)</sup> and civil forfeiture	2.3	—	2.3
Other initiatives	2.1	—	2.1
<b>TOTAL</b>	<b>51.8</b>	<b>48.7</b>	<b>100.5</b>

Note: Totals may not add due to rounding.

(1) Provision to increase any appropriation for initiatives concerning revenues of and fraud against the government.

(2) Fund to Combat Addiction.

(3) This includes the fight against organized networks of unreported work.

(4) This amount represents the funding granted to the Director of Criminal and Penal Prosecutions and the École nationale de police du Québec. It does not include the funding granted to police forces under ACCEF.



# Section C

## MEASURES REQUIRING LEGISLATIVE OR REGULATORY AMENDMENTS

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# 1. MEASURES REQUIRING LEGISLATIVE OR REGULATORY AMENDMENTS

Certain measures presented in the 2025-2026 budget documents require legislative or regulatory amendments that are not of a fiscal nature.

These amendments will be presented by the Minister of Finance in a bill aimed mainly at implementing certain provisions of the Budget Speech of March 25, 2025, or by the ministers responsible for the laws or regulations requiring amendments.

## 1.1 Reducing wait times involved in accessing data for research purposes

Under its constituting act, the Institut de la statistique du Québec (ISQ) has the responsibility of ensuring that data is passed on to researchers associated with a public body.<sup>1</sup>

That said, although ISQ's improvements to its research data access services are having an effect, substantial wait times persist. To remedy the situation, amendments to the *Act respecting the Institut de la statistique du Québec* (CQLR, chapter I-13.011) will be proposed with a view to providing additional tools enabling the ISQ to respond rapidly to requests from researchers. Furthermore, these amendments will be aimed at optimizing the ISQ's statistics outputs.

Legislative amendments will also be proposed to facilitate the mandates entrusted to the ISQ.

Details of this measure are presented in Section B, "Stimulating Wealth Creation," of the *Québec Budget Plan – March 2025*.

## 1.2 Improving retirement pensions for workers who have suffered an employment injury

To enable certain workers who have suffered an employment injury to benefit from a higher retirement income, the Québec Pension Plan will exclude from the calculation of their retirement pension the months of disability covered by the Commission des normes, de l'équité, de la santé et de la sécurité du travail during which they were able to return to work. Amendments to the *Act respecting the Québec Pension Plan* (CQLR, chapter R-9) and the *Act respecting industrial accidents and occupational diseases* (CQLR, chapter A-3.001) will be proposed to implement this initiative.

Details of this measure are presented in Section C, "Supporting Quebecers," of the *Québec Budget Plan – March 2025*.

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<sup>1</sup> Currently, data from the fields of health, education and taxation are accessible to researchers.



### **1.3 Increasing the funding of the Mécénat Placements Culture program**

The Mécénat Placements Culture program enables eligible cultural bodies to set up a permanent fund financed through a fundraising campaign and government matching of donations received.

Amendments to the *Act respecting the Ministère de la Culture et des Communications* (CQLR, chapter M-17.1) will be proposed to boost its donation-matching capacity. As a result, the annual amount drawn from the revenue generated by the specific tax on tobacco products to fund the Mécénat Placements Culture program will rise from \$5 million to \$6 million per year as of 2026-2027.

Details of this measure are presented in Section C, “Supporting Quebecers,” of the *Québec Budget Plan – March 2025*.

### **1.4 Updating the additional registration fee for luxury vehicles**

Amendments to the *Regulation respecting road vehicle registration* (CQLR, chapter C-24.2, r. 29) will be proposed to raise the threshold for the additional registration fee for luxury vehicles. The purpose of this measure is to ensure that the fee meets its original objective, namely that motorists choosing a more expensive vehicle contribute more to the funding of transportation networks.

In addition, the exemption applicable to electric vehicles and plug-in hybrids will be withdrawn. The rapid growth in the number of these vehicles on the road in Québec and the convergence toward price parity between combustion and electric vehicles show that this exemption is no longer necessary.

Details of this measure are presented in Section D, “Results of the Review to Improve the Tax System,” of the *Québec Budget Plan – March 2025*.

### **1.5 Introducing an annual contribution for electric and plug-in hybrid vehicles**

Motorists pay the specific tax on fuel and registration fees on the basis of the “user pays” principle, since these contributions are used to fund the road network and public transit. However, motorists using electric or plug-in hybrid vehicles contribute less to this funding, even though they enjoy the same benefits of these transportation networks.

Provisions will therefore be proposed to introduce an annual contribution for electric and plug-in hybrid vehicles. Amendments to the *Regulation respecting fees exigible under the Highway Safety Code and the return of confiscated objects* (CQLR, chapter C-24.2, r. 27) will be proposed.

Details of this measure are presented in Section D, “Results of the Review to Improve the Tax System,” of the *Québec Budget Plan – March 2025*.

## 1.6 Revising the land register consultation fee

Amendments to the *Act respecting registry offices* (CQLR, chapter B-9) will be proposed to set the land register consultation fee at \$1.50 per document as of April 1, 2026, and subsequently index it to inflation.

Details of this measure are presented in Section D, “Results of the Review to Improve the Tax System,” of the *Québec Budget Plan – March 2025*.

## 1.7 Adjusting the debt reduction targets

The *Act to reduce the debt and establish the Generations Fund* (CQLR, chapter R-2.2.0.1) stipulates that, for fiscal years 2032-2033 and 2037-2038, the net debt presented in the government’s financial statements may not exceed 35.5% and 32.5% of Québec’s gross domestic product (GDP), respectively. These ratios correspond to the maximum limit of a net debt reduction objective of 33% and 30% of GDP, respectively.

Developments in the budgetary situation since the March 2023 budget and the current uncertain economic context call for a review of the net debt reduction targets.

Amendments to the Act will be proposed so that the net debt presented in the government’s financial statements may not exceed 38.0% and 35.0% of GDP in 2032-2033 and in 2037-2038, respectively. These ratios correspond to the maximum limit of a net debt reduction objective of 35.5% and 32.5% of GDP, respectively.

Details of this measure are presented in Section G, “The Québec Government’s Debt,” of the *Québec Budget Plan – March 2025*.

## 1.8 Fighting more effectively against tobacco smuggling

Amendments to the *Tobacco Tax Act* (CQLR, chapter I-2), the *Regulation respecting the application of the Tobacco Tax Act* (CQLR, chapter I-2, r. 1), the *Tax Administration Act* (CQLR, chapter A-6.002) and the *Regulation respecting fiscal administration* (CQLR, chapter A-6.002, r. 1) will be proposed to efficiently detect new tobacco smuggling schemes, increase pressure on smugglers and facilitate investigative and prosecution work by ACCES<sup>2</sup> tobacco partners.

Details of this measure are presented in Section B of Additional Information, “Ensuring Tax Fairness,” of the *Québec Budget Plan – March 2025*.

<sup>2</sup> ACCES is the acronym for Actions concertées pour contrer les économies souterraines (concerted actions to counter the underground economy).

## 1.9 Funding the regulation of money-services businesses

Amendments to the *Regulation respecting fees and tariffs payable under the Money-Services Businesses Act* (CQLR, chapter E-12.000001, r. 2) will be proposed to review the funding model for licensing and inspection activities as well as criminal prosecutions conducted by Revenu Québec in the money-services businesses sector, which will continue to be partially funded by this industry.

Details of this measure are presented in Section B of Additional Information, “Ensuring Tax Fairness,” of the *Québec Budget Plan – March 2025*.





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