

Budget 2025-2026

Improving the tax system

Québec city, March 25, 2025 – The government has completed the review of tax expenditures begun last year and is announcing, in Budget 2025-2026, efforts to improve the tax system that will free up amounts of nearly \$3.0 billion over five years. These efforts are aimed at optimizing tax assistance for businesses, simplifying and updating the tax system, and fostering the funding of public services.

Over the past year, close to 170 tax measures have been reviewed to determine ways of improving the efficiency of the Québec tax system. The review also provided an opportunity to go over taxation and rate measures to ensure that they are effective and equitable, and that they meet their socioeconomic objectives.

Optimizing tax assistance for businesses

As part of Budget 2025-2026, the government is announcing the optimization of certain tax measures for businesses, with the aim of redirecting support toward activities which, in the current economic context, offer high added value.

More specifically, the current tax credit for the development of e-business (CDAE) will be replaced by a new CDAE integrating artificial intelligence (AI) to target AI solutions and maximize benefits in Québec. To enable Québec to develop the potential and business opportunities presented by developing critical and strategic minerals (CSMs), the government is also planning changes to offer a renewed tax credit relating to resources, which will notably enhance tax assistance for CSMs.

In addition to these measures, a new tax assistance system for innovation has been introduced, with the tax credit for research, innovation and commercialization (CRIC), replacing eight currently available tax measures, in particular R&D tax credits.

Simplifying the tax system

The review of tax expenditures provided an opportunity not only to assess the consistency of the system's components, but also to compare it with the federal and other provinces' tax systems and analyze the differences. The government is announcing two initiatives to simplify Québec's tax system: harmonizing the tax rate on insurance premiums with that of the Québec sales tax (QST), and adjusting the flow-through share regime.

Updating the tax system

In order to remain relevant and contribute to achieving Québec's objectives, the Québec tax system must adapt to economic and social changes. Against this backdrop, the government is announcing the updating of its tax system. The changes are aimed at adapting tax assistance to new economic and social realities, strengthening the fairness of the tax system and eliminating inefficient or little-used tax expenditures.

Planned changes include excluding certain practitioners from the tax credits for medical expenses and adjusting tax assistance to the cooperative sector. In addition, to take into account the significant growth in vehicle prices in recent years, the threshold for the additional registration fee for luxury vehicles will be raised from \$40 000 to \$62 500.

Also, in view of the rapid increase in the number of electric and plug-in hybrid vehicles on the road in Québec, and the convergence towards price parity between combustion and electric vehicles, the incentive exemption applicable to electric and plug-in hybrid vehicles will be withdrawn.

Fostering the funding of public services

In Budget 2025-2026, the government is also announcing measures that will contribute to the long-term funding of the health care system and the sustainable funding of transportation infrastructure and services.

An annual contribution for electric and plug-in hybrid vehicles will also be introduced on January 1, 2027, and free access to toll bridges and ferries for vehicles with green licence plates will be ended on April 1, 2027. The aim of both measures is to increase fairness among motorists by ensuring that owners of electric and plug-in hybrid vehicles, as users of the road network and beneficiaries of public transport, contribute to its funding.

Quotation:

“The rigorous analysis of all the tax measures available in Québec will enable us to improve our tax system, which will be better adapted to today’s realities and in line with Québec’s priorities.”

Eric Girard, Minister of Finance and Minister Responsible for Relations with English-Speaking Quebecers

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