BUDGET 2025-2026

FOR A STRONG QUÉBEC

INNOVATING TO PROSPER

March 2025

Votre gouvernement

Québec

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Finances Québec

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SUMMARY

Over the past decade, Québec has seen a downward trend in business research and development (R&D), while several other jurisdictions have recorded significant increases in this area.

— In 2022, the ratio of business enterprise expenditures on R&D (BERD) as a percentage of Québec's GDP was below that of our key partners, particularly Ontario, which had been far behind Québec in 2014.

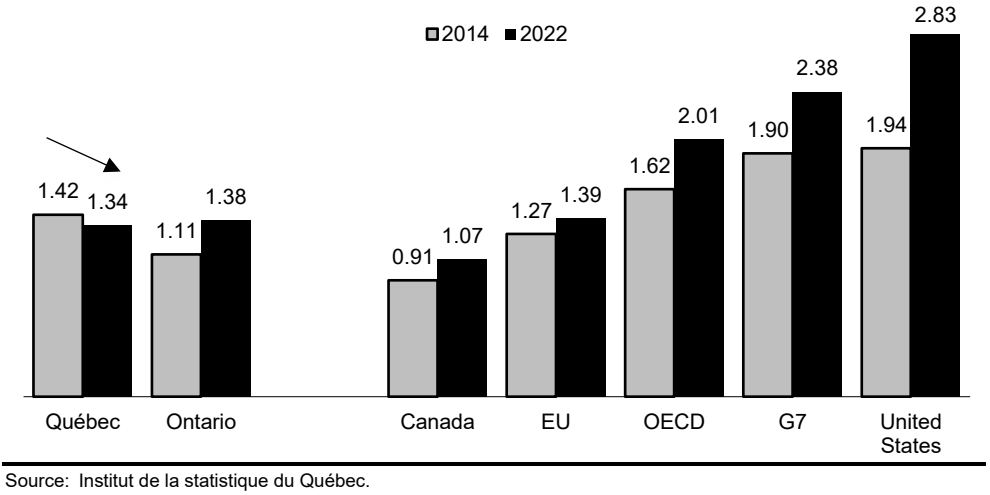
— The decline in business R&D spending is partly due to the tightening of R&D tax credits in 2014, as part of the work of the Québec Taxation Review Committee.

This trend raises concerns about the future prospects for Québec businesses in the face of outside competition.

This decline comes at a time when the business environment has become even more complex due to uncertainties created by trade tensions with the United States.

CHART 1

Business enterprise expenditures on R&D as a percentage of GDP – 2014 and 2022
(per cent)



Source: Institut de la statistique du Québec.

A broad scientific consensus recognizes that innovation has positive effects on wealth creation through improved business productivity and competitiveness.

However, Québec's current tax assistance system for innovation is complex, and R&D results in recent years indicate that changes are needed to establish an attractive innovation ecosystem for businesses.

Against this backdrop, the government is introducing, in Budget 2025-2026, a new simplified tax assistance system for innovation to reduce the administrative requirements and maximize its impact on businesses in order to boost the economic benefits in Québec.

The introduction of the tax credit for research, innovation and commercialization (CRIC) will be the pillar of the new tax assistance system for innovation, which will contribute to greater productivity and competitiveness for Québec businesses.

The introduction of the new tax assistance system for innovation will provide additional financial support totalling $271.5 million over five years.

— It will help stimulate innovation and prepare Québec businesses to meet current and future economic challenges.

TABLE 1

Financial impact of the new tax assistance system for innovation
(millions of dollars)

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
Simplifying tax assistance for innovation	3.3	101.1	646.6	678.7	711.4	2 141.1
Introducing the CRIC	—	−106.0	−715.9	−769.5	−821.2	−2 412.6
TOTAL	**3.3**	**−4.9**	**−69.3**	**−90.8**	**−109.8**	**−271.5**

1. INNOVATION TO FACE THE NEW ECONOMIC ENVIRONMENT

The new economic environment poses major challenges that Québec will have to overcome in order to achieve its wealth creation objectives and finance its public services.

To foster a prosperous economy in an uncertain international context, Québec must rely on innovative and high-performing businesses.

— These businesses must be able to count on an efficient innovation ecosystem that stimulates their creativity and gives them the means to achieve their ambitions.

1.1 The challenges of a competitive and complex business environment

Recent years have ushered in rapid transformations in many sectors. Think of the advent of artificial intelligence (AI), which is having major repercussions on society.

More recently, the business environment has become even more complex due to economic uncertainties created by U.S. tax reforms and trade tensions.

— Given the extent to which the Québec economy is integrated with the economies of a number of U.S. states, this situation is likely to cause a major disruption to supply chains.

To address this, Québec must reposition itself, particularly by developing new markets to ensure the resilience of businesses and, thereby, support the achievement of its growth objectives.

However, Québec businesses are facing a productivity deficit that hinders their ability to position themselves favourably on international markets.

Innovation is a key lever for increasing the productivity of Québec businesses so that they are better positioned to face competition on the international stage.

1.2 A new tax assistance system for innovation

In response to the new business environment, the government is announcing, in Budget 2025-2026, significant changes to the current tax assistance system for innovation. The objectives are to:

— simplify the tax system by abolishing ineffective or underutilized measures;

— encourage businesses to innovate more and enhance support for those most likely to maximize the benefits for Québec;

— expand support to promote the commercialization of innovations in Québec.

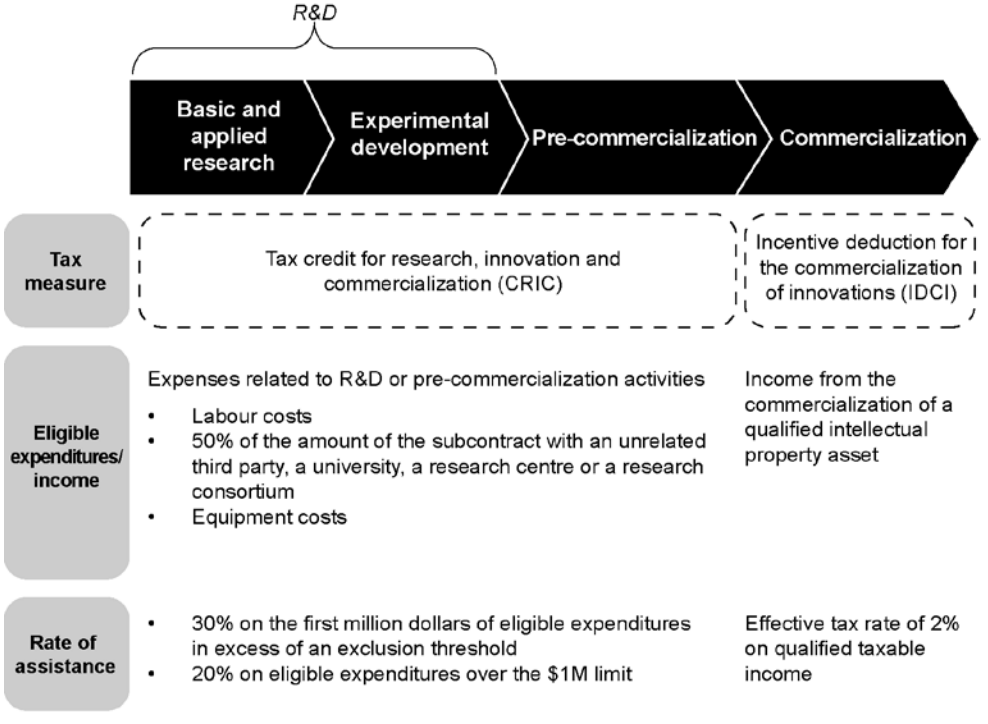
The new tax assistance system for innovation will be based on two measures that will support a broader range of activities and expenses related to the innovation process, namely:

— the new tax credit for research, innovation and commercialization (CRIC);

— the incentive deduction for the commercialization of innovations (IDCI), which is already in effect.

ILLUSTRATION 1

New tax assistance system for innovation based on stage of development



Incentive deduction for the commercialization of innovations (IDCI)

Introduced in 2021, the IDCI aims to encourage the retention and valorization of intellectual property (IP) assets developed in Québec.

– In short, it takes the form of a deduction in the calculation of a corporation's taxable income, allowing it to benefit from an effective tax rate of 2% on the qualifying portion of its income from the commercialization of a qualifying IP asset.

Main parameters of the IDCI

Qualified corporation	A corporation operating a business with an establishment in Québec and earning income from the commercialization of a qualified intellectual property asset (hereinafter referred to as the "asset")
Qualified intellectual property asset	Incorporeal property of the corporation that can be: – an invention protected by a patent or a certificate of supplementary protection – software protected by copyright – a plant variety protected by a plant breeder's rights certificate(1) Must result from R&D activities carried out in whole or in part in Québec and that have significantly contributed to the creation, development or improvement of the asset
Type of qualified income	– Income from the sale or lease of property that includes the asset – Income from the supplying of a service intrinsically related to the asset – Royalty, that is, a payment for the use of or the right to use the asset – Amount obtained as damages from judicial remedies relating to the asset
Effective tax rate	2% on qualified taxable income

(1) Creation, discovery or development of a new plant species.

2. INNOVATION AT THE HEART OF WEALTH CREATION

Innovation contributes, in particular, to improving the productivity of businesses, while enabling them to stand out in a competitive environment and position themselves in high-value-added markets.

By encouraging the development of new technologies and more efficient processes, innovation becomes a lever not only for overcoming competitiveness challenges but also for creating new business opportunities in Québec's key economic sectors, thereby fostering the growth of the Québec economy.

2.1 The innovation process for businesses: Three main stages to complete

Business innovation generally consists of a structured process with a sequence of steps that begins with the birth of an idea and culminates in its market launch, encompassing the following three main stages of development:

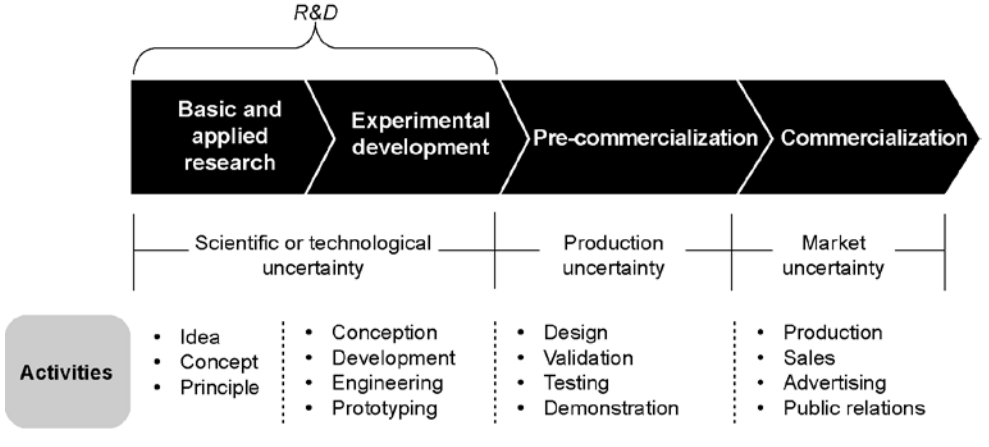
— basic and applied research, which serves as the foundation for scientific discoveries and allows for the advancement of science with practical applications in mind;

— experimental development, which is aimed at creating or improving products or processes;

— pre-commercialization, which is aimed at carrying out a validation and demonstration of technologies before commercialization.

ILLUSTRATION 2

Innovation process for businesses



2.2 An economic activity that impacts the entire economy

The effects of supporting business innovations ripple through the entire economy in three ways.

- Supporting innovation stimulates investments within businesses.
- The adoption of innovations by businesses, including organizational innovations and market innovations, enhances their productivity and increases their revenue.
    - This boosts the competitiveness of businesses in their respective sectors.
- At the macroeconomic level, the effects of innovation are reflected in an increase in GDP, employment rates and exports as well as in the creation of new businesses.
    - Moreover, innovation yields social benefits, such as improvements in public services, the reduction of poverty and adaptation to climate change.

As such, there is a direct and compelling link between supporting innovation and the socio-economic benefits it generates, justifying the importance of encouraging innovation to stimulate business growth and competitiveness.

2.3 The effects of innovation on business growth

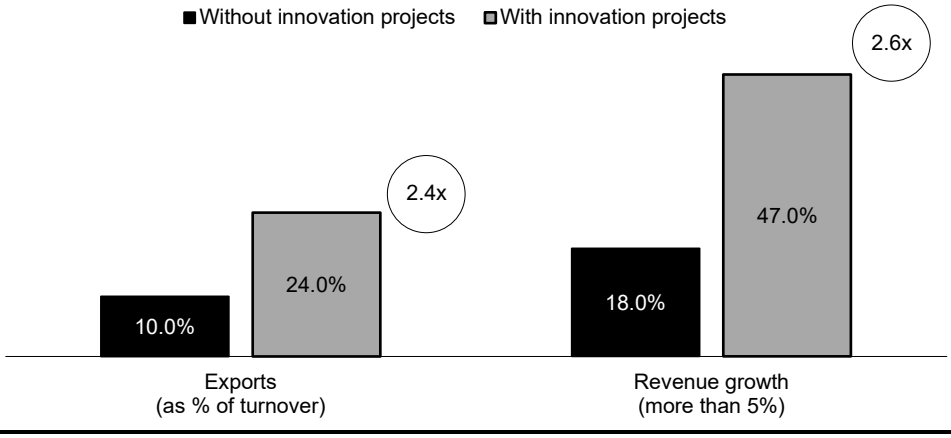
R&D spending improves business growth and performance. Moreover, innovative businesses encourage their suppliers and competitors to imitate their practices and thereby stay competitive, in this way fostering a culture of innovation within the economic ecosystem.

— Increased R&D activities by businesses leads to a rise in GDP and, ultimately, an increase in government tax revenue.

Innovation enables businesses to be more competitive on international markets, thereby benefiting from a wider and more diversified clientele, which has a positive effect on turnover. It also tends to accelerate the pace of corporate revenue growth.

CHART 2

Effects of innovation on business growth – 2024



Source: Conseil de l'innovation du Québec, *Résultats de la Grande enquête sur l'innovation des entreprises 2024*.

3. THE STATE OF INNOVATION IN QUÉBEC

Over the years, considerable effort has been made to put in place mechanisms and tools to improve Québec's innovation performance and develop a rich and diversified innovation ecosystem.

However, since 2014, Québec has seen a decline in business R&D spending, unlike many jurisdictions.

Québec must therefore step up its efforts to stimulate innovation, particularly in certain high-value-added sectors where there is strong competition for attracting investment.

2022-2027 Québec Research and Innovation Investment Strategy

To encourage business R&D spending, the government has implemented the 2022-2027 Québec Research and Innovation Investment Strategy (QRIIS^2).

- It represents investments of more than $7.5 billion over five years, about 40% of which would stem from tax assistance measures for innovation, aimed at leveraging innovation to enhance prosperity for all Quebecers.

Under the QRIIS^2, government objectives include ensuring that business R&D spending reaches 1.50% of GDP and that the share of business R&D spending represents at least 60% of total R&D spending in Québec.

The QRIIS^2 includes an array of government initiatives aimed in particular at:

- optimizing R&D assistance;
- increasing education in science, technology, engineering and mathematics (STEM) as well as attracting international talent;
- providing enhanced support to help businesses bring their innovative projects to market;
- encouraging the adoption of new technologies, driving collaboration between businesses and the educational community and supporting SMBs in their innovation initiatives;
- introducing measures to spur R&D spending by Québec businesses;
- developing regional and sectoral centres of excellence to support strategic sectors, such as artificial intelligence, life sciences and clean technologies.

3.1 Innovation in Québec is concentrated in a few sectors of activity

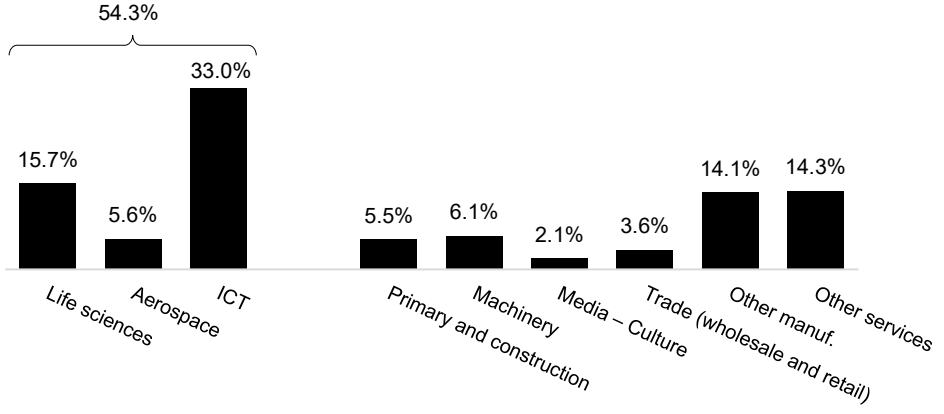
In Québec, innovation spending is concentrated in a few economic sectors.

— The life sciences, information and communications technologies (ICT) and aerospace sectors accounted for 54.3% of R&D carried out in Québec in 2022.

These sectors feature mature, world-renowned businesses, cutting-edge research infrastructure, a qualified workforce and a comprehensive, homegrown ecosystem, consisting of a wide array of small, medium and large businesses.

CHART 3

Distribution of business enterprise expenditure on R&D, by industry, Québec – 2022



Sources: Institut de la statistique du Québec and Ministère des Finances du Québec.

3.2 Business innovation investment is low

R&D requires significant, risk-exposed investments from both a technical and a commercial standpoint.

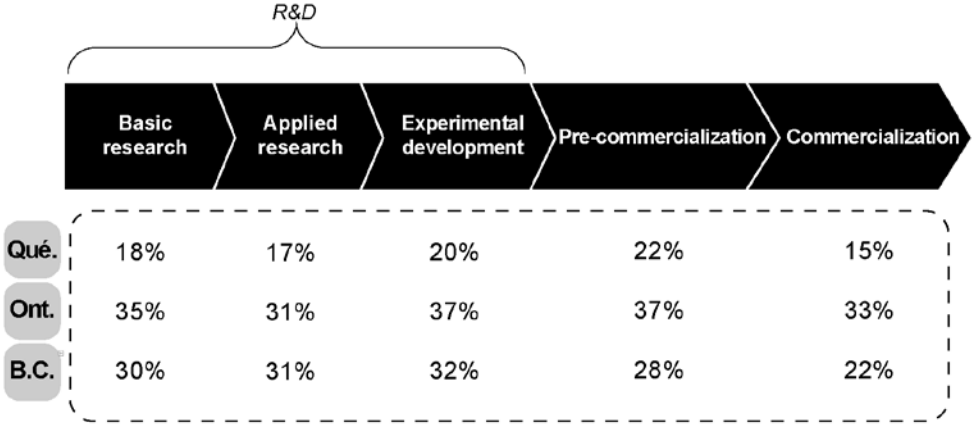
— Businesses tend to prioritize lower-risk, quick-return investments.

Québec businesses spend less on R&D than their peers in the rest of Canada. This also applies to pre-commercialization and commercialization spending.

— According to the results of a 2024 survey conducted by the Conseil de l'innovation du Québec (CIQ), only 22% of Québec businesses have engaged in pre-commercialization activities, compared to 37% in Ontario and 28% in British Columbia.

ILLUSTRATION 3

Proportion of businesses engaged in innovation activities based on stage of development, Québec, Ontario and British Columbia – 2024



Sources: Conseil de l'innovation du Québec, *Résultats de la Grande enquête sur l'innovation des entreprises 2024* and Ministère des Finances du Québec.

3.3 Québec lags in R&D spending

For several years, Québec business spending on R&D has been slowing compared to other jurisdictions.

From 2014 to 2022, the ratio of business enterprise expenditure on R&D (BERD) as a percentage of GDP[1] fell in Québec, while it rose elsewhere in Canada and internationally.

— In 2022, the ratio was 1.34% in Québec, compared to 1.38% in Ontario: a reversal of the situation from 2014.

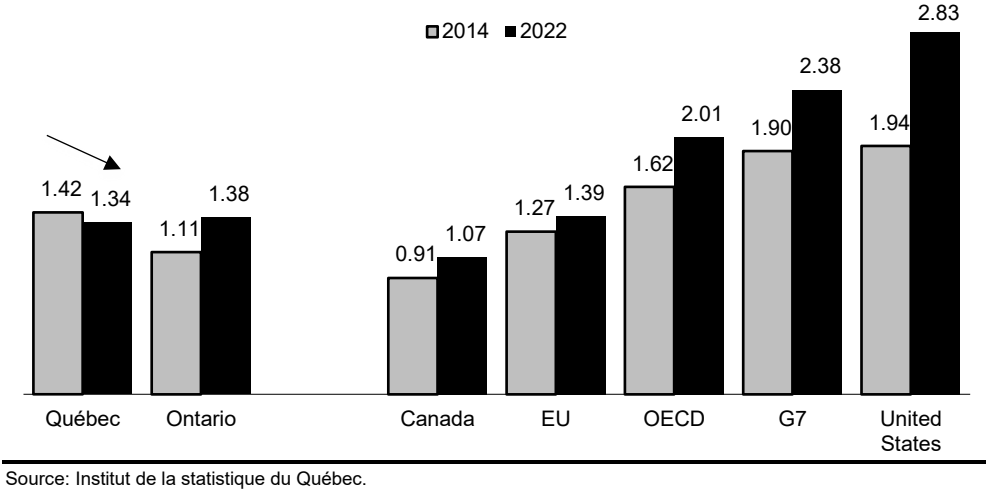
— Québec's ratio also fell below that of European Union countries, which stood at 1.39% in 2022, while the gap has widened with the ratios of OECD and G7 countries, as well as the United States.

This decline in R&D spending intensity by Québec businesses is partly due to the significant tightening of R&D tax credits in 2014, as part of the work of the Québec Taxation Review Committee.

— Those changes consisted of a 20% reduction in assistance rates and the introduction of exclusion thresholds for eligible expenditures, which led to a reduction in the tax expenditure by more than 30%.

CHART 4

Business enterprise expenditures on R&D as a percentage of GDP – 2014 and 2022
(per cent)



Source: Institut de la statistique du Québec.

[1] The ratio of business enterprise R&D expenditure (BERD) as a percentage of GDP is a concept used by the Organisation for Economic Co-operation and Development (OECD) to measure the R&D intensity of businesses in a jurisdiction.

3.4 The current tax assistance system for innovation is complex and uncompetitive

Québec's current tax assistance system for innovation is characterized by its complex structure and application.

- It is made up of nine tax measures, seven of which are aimed at businesses and two at individuals.

- These tax assistance measures impose what are, at times, complex eligibility criteria that can require several administrative steps, which impede the use of the measures and, in turn, reduce their potential impact on Québec's innovation ecosystem.

The current tax assistance system for innovation fails to provide Québec with a competitive edge, which is detrimental to maintaining and attracting R&D-intensive businesses.

❑ Nine tax measures to support innovation

During 2023-2024, the cost of tax assistance for innovation amounted to $627 million, benefiting approximately 4 000 businesses and nearly 600 individuals.

Of that amount, 89% stemmed solely from the R&D tax credit for researcher salaries and wages.

Some tax assistance measures target pre-commercialization activities, in particular the tax credits for technological adaptation services and design, which represented 1.1% of the cost of tax assistance measures for innovation.

The IDCI, which offers a tax reduction on profits from the commercialization of Québec innovations, accounted for 7.3% of the cost of tax assistance for innovation.

TABLE 2

Overview of the nine tax measures to support innovation – 2023-2024

Tax assistance	Number of beneficiaries[1]	Amount ($million)
Corporations		
R&D tax credits		
– Researcher salaries and wages	3 702	557.4
– University research	135	4.2
– Private partnership pre-competitive research	20	0.8
– Contributions and fees paid to a research consortium	27	0.9
Tax credit for an in-house design activity (industrial design component)[2]	108	5.2
Tax credit for technological adaptation services	105	1.6
Incentive deduction for the commercialization of innovations	27	46.0
Subtotal	**4 067**	**616.1**
Individuals		
Tax holiday for foreign researchers	379	8.7
Tax holiday for foreign experts	204	2.4
Subtotal	**583**	**11.1**
TOTAL	**4 650**	**627.2**

(1) The total number of beneficiaries takes into account the fact that some businesses benefit from more than one measure. As a result, totals may not add up to the number of beneficiaries per measure.
(2) The tax credit for an in-house design activity also applies to the fashion sector, but the data in this table exclude the number of beneficiaries and amount of tax assistance associated with them.

❑ Competitiveness of Québec R&D tax assistance in Canada

Like Québec, 9 of the 10 Canadian provinces and the Yukon also offer an R&D tax credit.

— The federal government also offers a tax credit to encourage scientific research and experimental development (SR&ED), in addition to the assistance offered by the provinces or the Yukon.

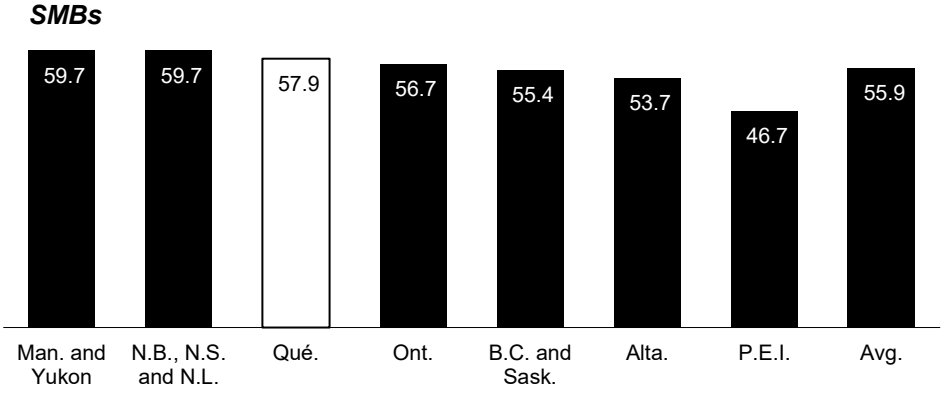
Among the provinces and territory offering an R&D tax credit, the competitiveness of Québec's tax credit, which targets researcher salaries and wages, varies by business size.

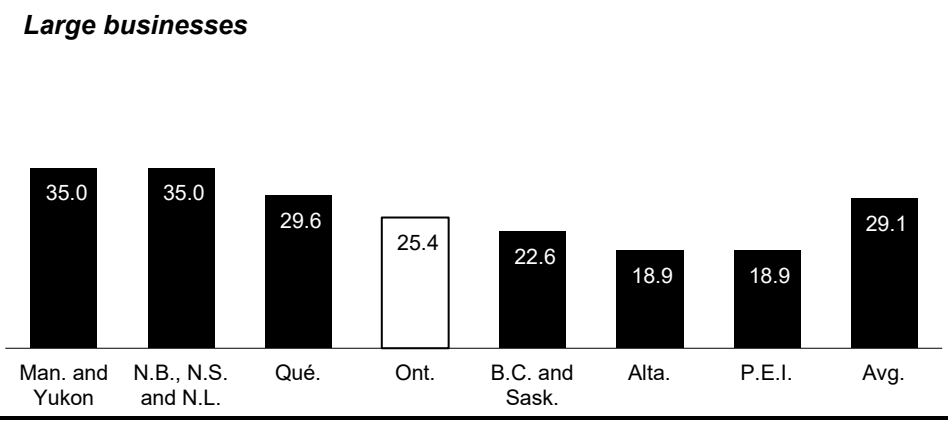
— For SMBs, Québec ranks sixth out of 11 jurisdictions in Canada, with support slightly exceeding that of Ontario and the Canadian average.

— For large businesses, the R&D assistance tax system ranks eighth, slightly outperforming Ontario, but underperforming the Canadian average.

CHART 5

Effective rate (federal and provincial) of R&D tax credits for SMBs and large businesses, by Canadian province/territory – 2024
(per cent)





Notes: Businesses are profitable and tax assistance includes R&D tax credits (provincial and federal).
For SMBs, R&D spending is distributed as follows: 70% on salaries and wages, 25% on other current expenditures and 5% on capital expenditures (equipment), while for large businesses, the distribution is 60% on salaries and wages, 33% on other current expenditures and 7% on capital expenditures.
For Québec, a standard expenditure was set at $400 000 for an SMB and $4 million for a large business for the purpose of computing the R&D tax credit for researcher salaries and wages. The threshold for eligible expenditures applied is $50 000 for SMBs and $225 000 for large businesses.
Source: Ministère des Finances du Québec.

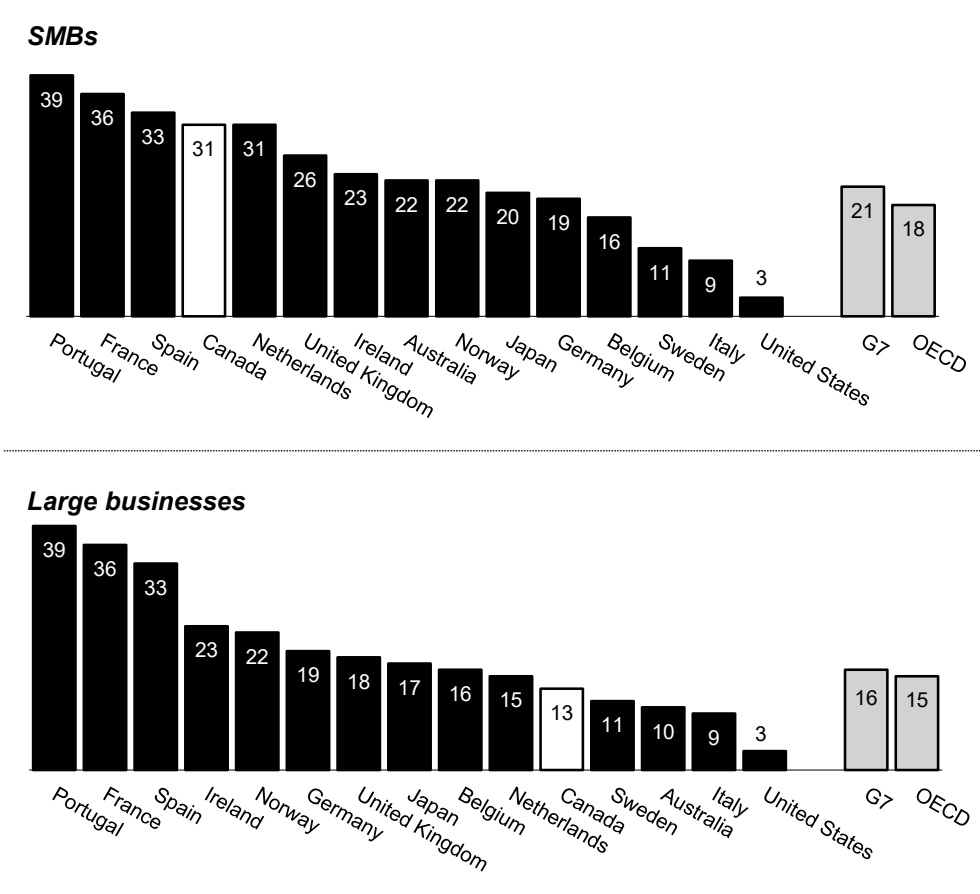
❑ Competitiveness of Canada's R&D tax assistance internationally

A significant R&D tax assistance system component can be assessed by comparing Canada's net tax subsidy rate with that of other countries.

— For SMBs, Canada is internationally competitive. However, it is less competitive for large businesses, as it offers a lower net tax subsidy rate than in many countries. Canada ranks fifth among G7 countries, which average 16%.

CHART 6

Net tax subsidy rate per R&D expenditure dollar, OECD countries – 2023
(per cent)



Note: The rate takes into account the R&D expenditure made by a business whose cost is reduced by government assistance from R&D-specific tax assistance at the national level. The rate does not take into account direct investments from various countries. Some countries, such as the United States, support business R&D primarily through budgetary measures, while France and Canada provide support mainly through tax assistance.

Sources: Organisation for Economic Co-operation and Development and Ministère des Finances du Québec.

The intensity of business R&D spending in a jurisdiction can depend on numerous factors.

— Tax incentives, which are increasingly used in developed economies, can be one of the determinants of innovation.

However, there are other mechanisms and tools that a government can put in place to encourage R&D activities across its territory, in addition to being able to count on several advantageous economic factors, such as an industrial structure built around innovative sectors and composed of large international companies.

Catalysts for innovation

Several factors can explain the differences in innovation performance between countries. For example:

- innovation-friendly public policies, which may include tax or budgetary incentives to encourage R&D, venture capital to finance businesses, and a protection regime for innovation;
- an industrial structure more inclined to innovation, with a strong presence of innovative sectors (e.g. military, biotechnology, aerospace, information technology and artificial intelligence);
- the presence of several large national businesses on the international stage subject to greater competition, compared to SMBs whose markets are mainly local;
  - National champions are required to innovate to remain competitive in a global economy, and produce a ripple effect on their suppliers.
- the risk-taking culture of entrepreneurs in a jurisdiction, which can influence the nature and scale of investments in innovative projects;
- a rich and diversified ecosystem, which fosters collaboration between businesses, universities and research institutes, thereby creating synergies that can lead to the development of major innovations;
- leading-edge technological infrastructures that are accessible to university researchers and innovative businesses.

4. INCREASING THE EFFECTIVENESS AND MAXIMIZING THE BENEFITS OF TAX ASSISTANCE

The government intends to provide a business environment in which the determinants of innovation may thrive and will support bringing the most promising discoveries to market.

Drawing on the findings and recommendations of the entrepreneurs and experts consulted, the government is implementing a major reform of the tax assistance system for innovation.

4.1 A new, simpler and more effective tax assistance system for innovation

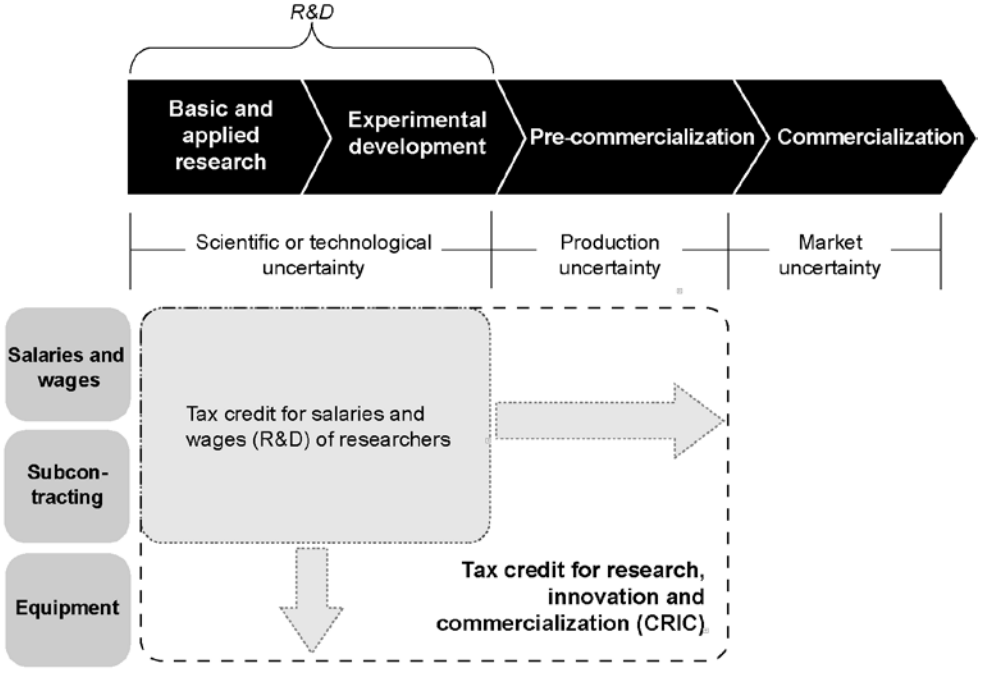
In Budget 2025-2026, to provide a simpler and more effective tax assistance system for innovation, the government is introducing significant changes by:

— abolishing eight tax measures currently in effect;

— introducing the tax credit for research, innovation and commercialization (CRIC) to replace these tax measures.

ILLUSTRATION 4

Illustration of the broader range of eligible expenditures for the tax credit for research, innovation and commercialization



Expert recommendations regarding innovation assistance

In implementing the new tax assistance system for innovation, the government has drawn heavily on expert recommendations. The changes planned in Budget 2025-2026 will make it possible to follow up on several courses of action identified to improve Québec's business innovation and R&D ecosystem.

Conseil de l'innovation du Québec

In its report *Vers un Québec innovant*, released on April 23, 2024, the Conseil de l'innovation du Québec proposes a series of recommendations to optimize Québec's business R&D financial support model, particularly with a view to:

- redirecting a portion of the financial incentives from basic to applied research activities, experimental development and the commercialization of innovations;
- encouraging businesses to accelerate digital and technological infrastructure upgrades;
- prioritizing strategic sectors and niches for Québec;
- focusing on high-potential businesses that meet strict growth and export criteria, by offering them high-value-added services;
- boosting value chains and strengthening the adoption of local innovations to develop Québec's industrial fabric;
- introducing new tools to improve the government's capability to support the innovation investment cycle in Québec;
- reducing red tape and delays and centralizing access to the various programs.

Research Chair in Taxation and Public Finance

In fall 2024, the Université de Sherbrooke's Research Chair in Taxation and Public Finance (RCTPF) produced analyses on the Québec government's innovation support. The RCTPF proposed reviewing certain parameters under Québec's R&D tax credits, aimed in particular at:

- expanding eligible expenditures to also include other current expenditures and capital expenditures;
- indexing the parameters for the exclusion threshold of eligible expenditures for large businesses;
- restricting the refundability of the enhanced assistance rate for certain loss-making SMBs.

The RCTPF also challenged whether it is appropriate to continue offering an enhanced SMB rate given that such a preferential measure is unavailable in most OECD countries.

Lastly, the RCTPF suggested that the government abolish the various tax holidays for foreign workers, including tax holidays for researchers and experts, as they create a tax inequality compared to Québec workers performing the same tasks within businesses.

4.1.1 **Abolishing eight tax measures**

With a view to streamlining the tax assistance system for innovation and considering that many of the current tax measures fail to meet the objectives sought and are underused, the government plans to abolish the following eight tax measures:

— the four R&D tax credits, namely the tax credit for salaries and wages of researchers, the tax credit for university research or research carried out by a public research centre or a research consortium, the tax credit for private partnership pre-competitive research and the tax credit for contributions and fees paid to a research consortium;

— the tax credit for in-house design activities applicable to industrial design, while fashion design activities will remain eligible;

— the tax credit for technological adaptation services;

— the two tax holidays for foreign researchers and experts.

Business R&D is supported through four refundable tax credits. The tax credit for salaries and wages of researchers represents 99% of the assistance granted to a little over 3 700 businesses, while the other three tax credits benefit some 180 businesses.

— This approach is rarely used in Canada, as the federal government and the vast majority of Canadian provinces support R&D through a single tax measure.

Québec also promotes certain pre-commercialization activities through the tax credit for an in-house design activity and tax credit for technological adaptation services, which are nonetheless rarely requested.

In addition, tax holidays for foreign researchers and experts are intended for recruiting foreign talent by lowering their income tax bill for a five-year period. However, these two tax holidays are not efficiently handled.

— They involve a multi-step administrative process and, in some cases, workers only learn that they qualify after arriving in Québec, thereby eliminating the incentive effect.

— These holidays can also give researchers and experts already working in Québec the impression of unequal tax treatment despite performing the same tasks within the businesses in question.

— They may apply to a labour expenditure already supported by the government, as the salaries and wages of foreign researchers may qualify for an R&D tax credit for the businesses that employ them.

4.1.2 Introducing the tax credit for research, innovation and commercialization

The government will introduce the tax credit for research, innovation and commercialization (CRIC), a more effective assistance mechanism that is better suited to the needs of innovative businesses, which will:

— offer enhanced assistance for the initial eligible expenditures by any business;

— support more activities and eligible expenditures;

— promote higher-value-added jobs.

In short, the CRIC will be fully refundable and will support R&D and pre-commercialization activities. It will apply to:

— labour expenditures;

— equipment acquisition costs;

— 50% of the amount of a subcontract which may be entered into with a university, public research centre or research consortium.

  — The partial inclusion is intended to ensure equity with in-house activities as subcontracts also include overhead and material costs that are not eligible for the CRIC.

TABLE 3

Main parameters of the tax credit for research, innovation and commercialization

Qualified corporation	Rate	Eligible expenses	Exclusion threshold
Corporation with an establishment in Québec that carries on a business here	30% on the first million dollars of eligible expenditures in excess of the exclusion threshold 20% for eligible expenditures in excess of the $1-million limit	Expenditures related to R&D or pre-commercialization activities:(1) – labour costs or 50% of the value of a contract entered into with a subcontractor – equipment acquisition costs	The higher of: – the exclusion threshold amounts per employee(2) – $50 000

(1) To be eligible, pre-commercialization activities must constitute a continuation of an R&D project carried out in Québec.

(2) The exclusion threshold amount for an employee represents the basic personal amount under the personal income tax system (e.g. $18 571 in 2025) adjusted to the proportion of their time spent carrying out eligible R&D or pre-commercialization activities.

The refundability of the CRIC will enable all businesses to benefit fully from the amount of assistance they are entitled to in a taxation year, regardless of their tax payable for the year.

— This advantage will provide liquidity quickly to businesses that sometimes have little revenue during the product development process, which can take several years and require considerable investment before businesses can realize any benefits.

To support business innovation, Revenu Québec will work with industry representatives to ensure the efficient administration of the CRIC.

❑ Assistance rate of 30% on the first million dollars of eligible expenditures, regardless of business size

Currently, R&D tax credit rates vary according to the size of the business, determined based on the level of its assets.

— When a corporation's assets, including those of associated corporations, are $50 million or less, the tax credit rate is 30%.

— The rate is 14% for a corporation with assets of $75 million or more, or for any corporation not controlled by Canadian residents.

— A linear reduction in the rate from 30% to 14% applies for a corporation with assets of between $50 million and $75 million.

However, applying a rate based on the size of the business acts as a disincentive for growing businesses, since the level of assistance is reduced once their assets exceed $50 million.

Moreover, the size criterion based on a corporation's assets can create issues of inequity between more and less capital-intensive sectors of activity.

To better support initial innovation expenditures, CRIC rates will be adjusted according to the level of expenditures rather than corporation size, namely:

— a rate of 30% for the first million dollars of eligible expenditures in excess of an exclusion threshold;

— a rate of 20% for eligible expenditures in excess of the $1-million limit.

By offering more generous assistance on the first expenditures incurred by corporations, tax assistance will be more effective and may play a decisive role in a corporation's decision to undertake new innovation activities.

❑ Supporting pre-commercialization expenditures

To generate significant benefits for a business, R&D activities must lead to products or technologies that can be commercialized.

However, commercial uncertainty can represent a very significant risk for an innovative business, which has to make additional investments with no guarantee of success.

To encourage the commercialization of innovations, the CRIC will focus on pre-commercialization activities, namely the first steps following R&D work carried out in Québec in the product or technology development process.

Eligible pre-commercialization activities will include:

- tests, validations and studies carried out to meet regulatory requirements and aimed at obtaining approval or certification with a view to bringing a product or process to market, such as testing and validation:
  - of a prototype in terms of its functionality and performance to ensure that the final product will meet regulatory expectations and requirements,
  - of a pilot plant's production process to ensure that the technology meets the quality requirements and that the results produced will consistently meet expected standards;
- the design of products, notably enabling the development of their form and aesthetics, the improvement of their functionality and the choice of materials.

To be eligible, pre-commercialization activities must constitute a continuation of an R&D project carried out in Québec.

The eligibility of these pre-commercialization activities will make it possible to support projects that have reached a more advanced level of technological maturity, and thereby contribute to the objective of fostering the development of innovations and intellectual property that can be commercialized out of Québec.

Innovation: an intrinsically risky activity

Innovation, from fundamental research to the commercialization of ideas, is intrinsically risky, which can lead businesses to under-invest in such activities.

- The R&D stage consists of carrying out activities aimed at resolving scientific or technological uncertainty possibly stemming from shortcomings or limitations in current technology, which prevent the development of a new or improved capability.
  - For a business, this scientific or technological uncertainty means investing sometimes significant sums, with the risk that these investments will not lead to any meaningful results.
- At the pre-commercialization stage of a product or process, technological uncertainty is resolved, but production or business uncertainty remains.
  - This stage can involve significant work on the development, adaptation and validation of quality and functionalities to ensure that the product or process meets performance, quality and safety expectations and standards.
  - Generally speaking, a product must obtain certification or approval before it can be brought to market, and the standards required can vary from one jurisdiction to another, representing a significant investment for a business wishing to access new markets.
- Even if a business manages to resolve all the uncertainties and is able to bring its innovative product or process to market, commercial and market uncertainty remains.
  - Despite all its efforts and investment, there is therefore a risk of low market acceptance or high price sensitivity.

Innovation activities therefore entail significant financial risk for businesses, especially as most of them incur expenditures that are unrelated to their main activity and do not generate any short-term revenue growth.

❑ Encouraging the acquisition of R&D or pre-commercialization equipment

In order to better support Québec's technology sectors in acquiring the equipment needed for their work and to create an environment that is more conducive to innovation, eligible expenditures for the CRIC will include, in addition to salaries and wages, those related to equipment used in eligible R&D and pre-commercialization activities.

— By supporting equipment expenditures, more capital-intensive sectors of activity will be able to benefit from assistance better suited to their needs and improve their competitiveness on the world stage.

Québec will therefore enhance its ability to attract large-scale projects against a backdrop of stiffer competition and challenges concerning the relocation of innovative activities.

Capital-intensive sectors

Québec's cutting-edge sectors, which account for the bulk of the province's innovation activities, require significant investment in equipment due to the nature of the activities involved.

Artificial intelligence

The field of AI is highly capital-intensive, since the design of advanced algorithms and machine learning models requires data centres and supercomputers.

Aerospace

Aerospace is traditionally one of the most capital-intensive sectors. Designing a new aircraft requires specialized tools and facilities.

Life sciences

The life sciences sector, which covers biotechnology, medical devices and pharmaceuticals, requires significant investment in state-of-the-art equipment.

Advanced materials

Advanced materials, such as battery components and nanomaterials, play an essential role in industries such as automotive, aerospace and renewable energy. Their development relies on costly facilities, such as laboratories and pilot plants.

❑ Promoting higher-value-added jobs

Currently, the R&D tax credit for researcher salaries and wages has an exclusion threshold of $50 000 for SMBs and $225 000 for large businesses.[2]

— Only expenditures in excess of this threshold are eligible for tax assistance.

However, the application of a single threshold for an SMB or large business can have a highly variable effect depending on the level of its R&D expenditures.

In order to refocus tax assistance on higher-value-added jobs and ensure greater fairness between businesses according to the size of their innovation projects, the CRIC provides for the application of an exclusion threshold corresponding to the higher of the following two amounts:

— the basic personal amount under the personal income tax system applicable for each employee, adjusted to the proportion of their time spent carrying out eligible R&D or pre-commercialization activities;

— $50 000.

This new exclusion threshold will enable tax assistance to be refocused on higher-value-added jobs, while the effective rate of assistance will increase based on the employee's salaries and wages.

— In addition, tax efficiency for the government will be increased, given that tax assistance will be granted only on the portion of wages generally subject to personal income tax.

Equity among businesses will be improved, as the new exclusion threshold will vary according to the number of employees carrying out R&D and pre-commercialization work.

— However, a minimum threshold of eligible expenditures will be maintained in order to support projects of a certain size.

— This threshold will also be less restrictive for many SMBs due to the broader range of eligible expenditures.

[2] For clarification, an SMB is defined as a business with assets of $50 million or less, while a large business is one with assets of $75 million or more. The eligible expenditure threshold increases linearly from $50 000 to $225 000 for businesses with assets of more than $50 million but less than $75 million.

❑ Supporting businesses operating in Québec

To increase the economic and tax benefits generated by R&D tax assistance in Québec, a corporation will need to operate a business in Québec and have an establishment there to be eligible for the CRIC.

— Currently, the terms and conditions of Québec's R&D tax credits stipulate that a corporation must carry out, or have carried out on its behalf, R&D activities in Québec, operate a business in Canada, and have a permanent establishment in Canada.

— In its current form, Québec tax assistance can therefore be granted to a corporation that has no establishment in Québec and pays no Québec taxes.

This change will ensure that tax assistance is granted to corporations that are established in Québec, and will strengthen Québec's innovation ecosystem.

A significant step in optimizing innovation assistance

The tax changes proposed in Budget 2025-2026 represent a significant step toward optimizing innovation assistance. Special attention will be paid to ensuring that budgetary and tax interventions are well coordinated to increase their effectiveness and ensure optimal use of public resources.

Budgetary support measures must consider the scope of tax measures, to avoid overlap between different financial interventions.

– Better coordination will lead to harmonization of efforts, simplify procedures for businesses, and increase the overall impact of government support.

In addition, greater transparency and better monitoring of results will allow resources to be reallocated efficiently to the most promising sectors and projects.

In this respect, an evaluation of the impact of the introduction of the tax credit for research, innovation and commercialization (CRIC) on innovation expenditures will be carried out periodically to ensure its effectiveness.

❑ Summary of changes

TABLE 4

Summary of changes to the tax assistance for innovation announced in Budget 2025-2026

New measure		
Refundable tax credit for research, innovation and commercialization (CRIC)	Rate: – 30% on the first million dollars of eligible expenditures in excess of the exclusion threshold – 20% for eligible expenditures in excess of the $1-million limit Exclusion threshold, which corresponds to the higher of: – the basic personal amount under the personal income tax system applicable for each employee, adjusted to the proportion of their time spent carrying out R&D or pre-commercialization activities – $50 000 Eligible expenditures for R&D or pre-commercialization work: – salaries and wages or 50% of the cost of a contract with a subcontractor (e.g. university) – equipment costs	
Abolished measures	**Before Budget 2025-2026**	**After Budget 2025-2026**
R&D refundable tax credit (RTC) for researcher salaries and wages	Rate: – SMBs: 30% on the first $3 million of eligible expenditures – large businesses: 14% Exclusion threshold: – $50 000 (SMBs) and $225 000 (large businesses) Eligible expenditures: – R&D salaries and wages or 50% of the cost of an R&D subcontract	Measure replaced by the CRIC for the following eligible R&D or pre-commercialization expenses: – salaries and wages – 50% of the amount of a subcontract – equipment costs
R&D RTC for university research	Rate: 30% (SMBs) and 14% (large businesses) Exclusion threshold: none Eligible expenditures: – 80% of the amount of an R&D contract entered into with a university, public research centre or research consortium	Measure replaced by the CRIC for the following eligible R&D or pre-commercialization expenses: – 50% of the amount of a contract entered into with a university, public research centre or research consortium
R&D RTC for private partnership pre-competitive research	Rate: same as those for R&D RTC for researcher salaries and wages Exclusion threshold: none Eligible expenditures: – 100% of current R&D expenses for an eligible project – 80% of the amount of an R&D subcontract	Measure replaced by the CRIC for the following eligible R&D or pre-commercialization expenses: – salaries and wages – 50% of the amount of a subcontract – equipment costs

TABLE 4

Summary of changes to the tax assistance for innovation announced in Budget 2025-2026 (cont.)

Abolished measures	Before Budget 2025-2026	After Budget 2025-2026
R&D RTC for contributions and fees paid to a research consortium	Rate: same as those for R&D RTC for researcher salaries and wages Exclusion threshold: none Eligible expenditures: – 100% of the amount of consortium fees and dues	Measure abolished
RTC for an in-house design activity (industrial design component)(1)	Rate: – SMBs: 24% – large businesses: 12% Eligible expenditures: – salaries and wages of designers and patternmakers – 65% of the amount of a subcontract Annual salary cap per employee: – $60 000 for a designer – $40 000 for a patternmaker	Measure replaced by the CRIC for the following eligible product design expenses: – salaries and wages – 50% of the amount of a subcontract – equipment costs Product design activities must be consistent with an R&D project carried out in Québec
RTC for technological adaptation services	Rate: 40% Eligible expenditures: – 80% of fees for liaison and transfer services provided by a college centre for technology transfer (CCTT) or liaison and transfer centre (LTC)	Measure replaced by the CRIC for the following eligible expenditures: – 50% of the amount of a subcontract for certain activities carried out by a CCTT or an LTC for eligible pre-commercialization activities
Tax holiday for foreign researchers	Deduction from an individual's income: – 100% for the first two years – 75%, 50% and 25%, respectively, for the following three years	Measure abolished
Tax holiday for foreign experts	Deduction from an individual's income: – 100% for the first two years – 75%, 50% and 25%, respectively, for the following three years	Measure abolished

(1) For clarification, fashion design activities will remain eligible for the tax credit for an in-house design activity.

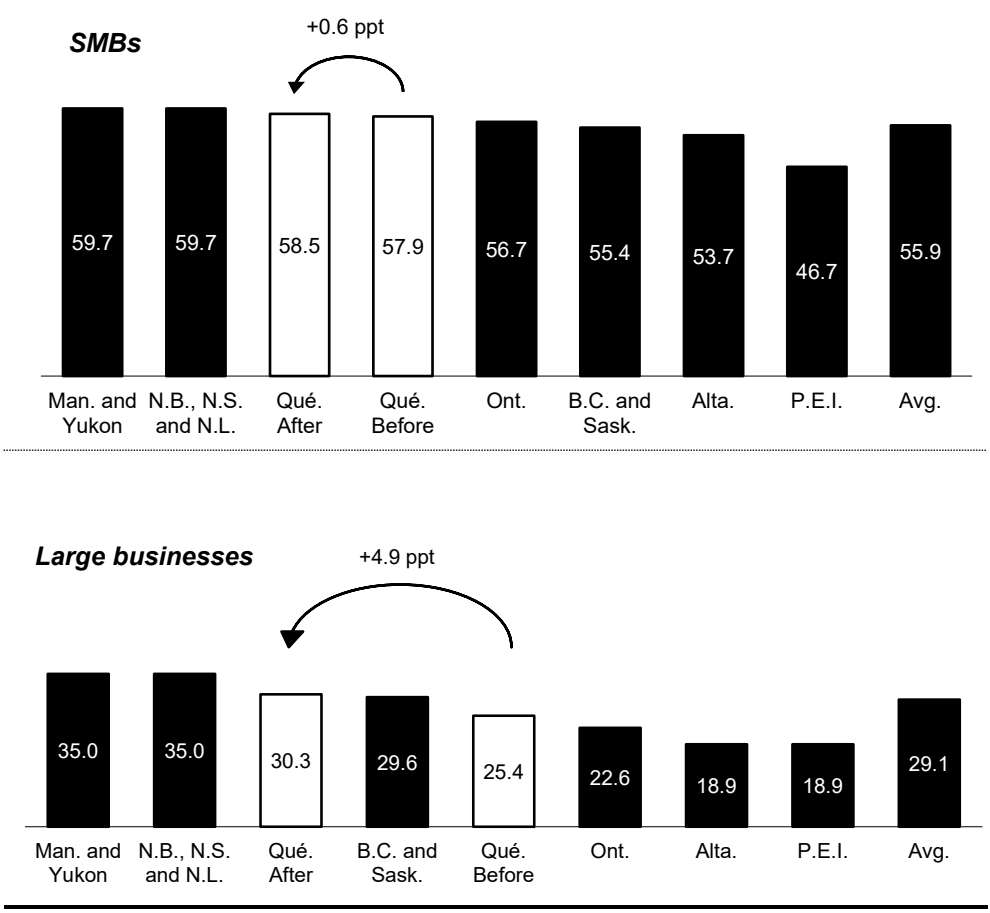
4.2 More competitive tax support

The CRIC improves the competitiveness of the Québec tax assistance system for innovation compared to its Canadian partners. It offers SMBs and large businesses alike an enhanced effective rate of assistance, thanks to a broader range of activities and eligible expenditures, as well as a new rate structure.

— The effective rate is more enhanced for large businesses than for SMBs since SMBs already benefit from a higher level of assistance and tax assistance for large businesses is less competitive.

CHART 7

Comparison of the effective rate of R&D tax assistance, before and after Budget 2025-2026
(per cent)



Notes: Businesses are profitable and tax assistance includes R&D tax credits (provincial and federal).
For SMBs, R&D spending is distributed as follows: 70% on salaries and wages, 25% on other current expenditures and 5% on capital expenditures (equipment), while for large businesses, the distribution is 60% on salaries and wages, 33% on other current expenditures and 7% on capital expenditures.
For Québec, a standard expenditure was set at $400 000 for an SMB and $4 million for a large business.
The threshold used in Québec for SMBs is $50 000 under the current system and $57 776 for the CRIC.
For large businesses, the threshold used is $225 000 under the current system and $495 225 for the CRIC.
Source: Ministère des Finances du Québec.

Complementarity of the CRIC with the federal SR&ED tax credit

The tax credit for research, innovation and commercialization (CRIC) will support business salaries and wages beyond the R&D stage, while the addition of equipment expenditures will encourage the acquisition of technologies and earning assets used in R&D or pre-commercialization activities.

As these expenditures are not currently eligible for the federal government's SR&ED tax credit, the related CRIC assistance will not affect the amount of federal tax assistance.

- For R&D salary and wage expenditures, a business will be able to combine the two tax credits.

As a result, Québec's new tax assistance system for innovation, featuring the CRIC, will be more complementary to the federal government's tax support.

Federal government's *2024 Fall Economic Statement*

The federal government has notably announced enhancements to the SR&ED tax credit. It wishes to:

- re-establish the eligibility of capital expenditures;
- raise the cap on qualified expenditures for the enhanced rate from $3 million to $4.5 million;
- extend enhanced tax credit eligibility to Canadian public corporations;
- increase the taxable capital thresholds for qualified expenditures for the enhanced tax credit rate.

Adoption of the proposed changes to the federal SR&ED tax credit remains uncertain, however, due to the prorogation of the federal Parliament until March 24, 2025, effectively suspending work on current and future bills, including those relating to the *2024 Fall Economic Statement*.

❑ Illustration of the benefit procured by the CRIC

The CRIC will provide enhanced assistance for innovation projects of all sizes involving R&D and pre-commercialization expenses for salaries and wages and equipment.

- For a $500 000 innovation project carried out by an SMB, the overall tax assistance provided by the CRIC will be 17% higher than under the current tax assistance system.
- For a $5-million innovation project carried out by a large business, the overall tax assistance provided by the CRIC will be 90% higher than under the current tax assistance system.

TABLE 5

Illustration of the tax assistance granted for an innovation project carried out by an SMB, before and after Budget 2025-2026

	Before Budget 2025-2026			After Budget 2025-2026		Difference	
	$	Tax credit	$	Tax credit	$	$	%
R&D expenditures[1]							
Salaries and wages	280 000	R&D salaries and wages[2]	69 000	CRIC[3]	66 667	−2 333	
Other current expenses	100 000		—		—	—	
Capital expenditures	20 000		—	CRIC[3]	6 000	6 000	
Subtotal	**400 000**		**69 000**		**72 667**	**3 667**	**+5%**
Pre-commercialization expenditures[1]							
Salaries and wages							
– Product design	35 000	Design[4]	8 400	CRIC[3]	8 333	−67	
– Testing/Validation	35 000		—	CRIC[3]	8 333	8 333	
Subtotal – Salaries and wages	70 000		8 400		16 667	8 267	
Other current expenses	25 000		—		—	—	
Capital expenditures	5 000		—	CRIC[3]	1 500	1 500	
Subtotal	**100 000**		**8 400**		**18 167**	**9 767**	**+116%**
TOTAL	**500 000**		**77 400**		**90 834**	**13 434**	**+17%**

Note: Totals may not add due to rounding.

(1) R&D and pre-commercialization spending is distributed as follows: 70% on salaries and wages, 25% on other current expenditures and 5% on capital expenditures (equipment).

(2) The tax credit rate is 30% for an SMB. The threshold for eligible expenditures is $50 000 to apply the R&D tax credit for researcher salaries and wages.

(3) The tax credit rate is 30% for the first million dollars of eligible expenditures, after applying the exclusion threshold corresponding to $72 221, representing 3.9 full-time equivalent employees with an average salary of $90 000 multiplied by the basic personal amount of $18 571 in 2025. For calculation purposes, the exclusion threshold amount is distributed in proportion to R&D and pre-commercialization expenditures.

(4) The tax credit rate is 24% for an SMB.

TABLE 6

Illustration of the tax assistance granted for an innovation project carried out by a large business, before and after Budget 2025-2026

		Before Budget 2025-2026		After Budget 2025-2026		Difference	
	$	Tax credit	$	Tax credit	$	$	%
R&D expenditures[1]							
Salaries and wages	2 400 000	R&D salaries and wages[2]	304 500	CRIC[3]	480 955	176 455	
Other current expenses	1 320 000		—		—	—	
Capital expenditures	280 000		—	CRIC[3]	56 000	56 000	
Subtotal	**4 000 000**		**304 500**		**536 955**	**232 455**	**+76%**
Pre-commercialization expenditures[1]							
Salaries and wages							
– Product design	300 000	Design[4]	36 000	CRIC[3]	47 619	11 619	
– Testing/Validation	300 000		—	CRIC[3]	47 619	47 619	
Subtotal – Salaries and wages	600 000		36 000		95 239	59 239	
Other current expenses	330 000		—		—	—	
Capital expenditures	70 000		—	CRIC[4]	14 000	14 000	
Subtotal	**1 000 000**		**36 000**		**109 239**	**73 239**	**+203%**
TOTAL	**5 000 000**		**340 500**		**646 193**	**305 693**	**+90%**

Note: Totals may not add due to rounding.

(1) R&D and pre-commercialization spending is distributed as follows: 60% on salaries and wages, 33% on other current expenditures and 7% on capital expenditures (equipment).

(2) The tax credit rate is 14% for a large business. The threshold for eligible expenditures is $225 000 to apply the R&D tax credit for researcher salaries and wages.

(3) The tax credit rate is 30% for the first million dollars of eligible expenditures, after applying the exclusion threshold corresponding to $619 033, representing 33.3 full-time equivalent employees with an average salary of $90 000 multiplied by the basic personal amount of $18 571 in 2025. The rate for any eligible expenditures in excess of that amount is 20%. For calculation purposes, the exclusion threshold amount is distributed in proportion to R&D and pre-commercialization expenditures.

(4) The tax credit rate is 12% for a large business.

FINANCIAL IMPACT

The new tax assistance system for innovation will come into force for corporate taxation years that begin after the day of the budget speech.

— The abolished tax credits can be claimed for corporate taxation years that began no later than on the day of the budget speech.

With regard to tax holidays for foreign researchers and experts, no new foreign workers can be certified after the day of the budget speech. Individuals who already have their certification can continue to benefit from the measure for the remainder of their five-year period.

TABLE 7

Financial impact of the new tax assistance system for innovation
(millions of dollars)

	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030	Total
Simplifying tax assistance for innovation with the abolition of eight tax measures						
– R&D tax credit for researcher salaries and wages	—	93.4	626.3	655.7	686.2	2 061.6
– R&D tax credit for university research	—	0.4	3.6	3.7	3.8	11.5
– R&D tax credit for private partnership pre-competitive research	—	0.1	1.8	1.9	1.9	5.7
– R&D tax credit for contributions and fees paid to a research consortium	—	—	1.0	1.1	1.1	3.2
– Tax credit for an in-house design activity (industrial design component)	—	0.8	4.3	4.4	4.6	14.1
– Tax credit for technological adaptation services	—	1.0	1.7	1.7	1.8	6.2
– Tax holiday for foreign researchers	2.5	4.2	6.1	7.9	9.3	30.0
– Tax holiday for foreign experts	0.8	1.2	1.8	2.3	2.7	8.8
Subtotal	3.3	101.1	646.6	678.7	711.4	2 141.1
Introducing the CRIC	—	−106.0	−715.9	−769.5	−821.2	−2 412.6
TOTAL	**3.3**	**−4.9**	**−69.3**	**−90.8**	**−109.8**	**−271.5**

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