

Adjustments to certain fiscal measures and harmonization with various federal fiscal measures regarding sales taxes

This information bulletin provides certain clarifications regarding the tax credit for R&D, innovation and pre-commercialization, in particular to specify the nature of pre-commercialization activities.

It also announces an adjustment to the conditions that a person or partnership required to pay a tax provided for in section 222 of the *Act respecting municipal taxation* must meet to be exempt from the public utility tax.

Lastly, it makes public the position of the Ministère des Finances with respect to the legislative and regulatory proposals presented by the Department of Finance Canada on August 15, 2025, relating to the goods and services tax and the harmonized sales tax system.

To obtain information on the matters dealt with in this information bulletin, contact the Secteur du droit fiscal, de l'optimisation des revenus et des politiques locales et autochtones, at secteurdroitfiscaletdelafiscalite@finances.gouv.qc.ca.

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1. Clarifications regarding the introduction of the tax credit for R&D, innovation and pre-commercialization

As part of the March 25, 2025 budget speech,¹ a new tax assistance system fostering scientific research and experimental development (R&D) activities was introduced to improve the competitiveness and productivity of Québec businesses and boost the economic spinoffs from R&D activities undertaken in Québec.

The introduction of this new system notably led to the creation of the tax credit for R&D, innovation and pre-commercialization (CRIC), the consequential amendment of certain fiscal measures, and the consequential abolition of several fiscal measures.²

For the purposes of the CRIC, an eligible corporation can benefit from a refundable tax credit of 20% of its expenditures relating to R&D activities or expenditures relating to pre-commercialization activities that exceed the amount of the applicable exclusion threshold. This rate may be increased to 30% for a maximum of \$1 million in expenditures relating to R&D or pre-commercialization activities of an eligible corporation that exceed the amount of the applicable exclusion threshold.

Similarly, a corporation, other than an excluded corporation, that is a member of an eligible partnership, can benefit from a refundable tax credit of 20% on its share of expenditures relating to R&D or pre-commercialization activities of an eligible partnership that exceed the amount of the applicable exclusion threshold.

The CRIC applies to a taxation year or a fiscal period, as the case may be, beginning after March 25, 2025.

This information bulletin provides clarification regarding the nature of pre-commercialization activities eligible for the CRIC. Other technical clarifications are also provided.

¹ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2025-2026 – Additional Information*, March 25, 2025, pp. A.3-A.30.

² Abolished measures include the tax credit for scientific research and experimental development, the tax credit for university research and for research carried on by a public research centre or a research consortium, the tax credit for private partnership pre-competitive research, the tax credit for fees and dues paid to a research consortium, and the tax credit for technological adaptation services. The tax credit for design has also been adjusted to remove activities relating to industrial design.

❑ Clarification regarding pre-commercialization activities

For the purposes of the CRIC, a pre-commercialization activity undertaken by an eligible corporation or eligible partnership or caused to be undertaken on its behalf, means, 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 (hereinafter referred to as the “certification component”);
- product design, 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 (hereinafter referred to as the “design component”).

The tax legislation will be amended to clarify that, for the purposes of the CRIC, the certification component applies only to activities undertaken to obtain initial registration or initial certification necessary for the commercializing of a product or process. Similarly, the tax legislation will be amended to clarify that an activity relating to the quality control of a product or process will not constitute an activity under the certification component, unless that activity relates to the implementation of a quality control system required to obtain initial registration or initial certification necessary for the commercializing of a product or process.

Moreover, the tax legislation will be amended to clarify that an activity under the design component may constitute the continuation of R&D activities undertaken in Québec by the eligible corporation or eligible partnership or caused to be undertaken on its behalf, even if that activity is undertaken prior to the R&D activities.

❑ Clarification regarding the rules relating to contributions and other similar reduction rules

Various rules are in place to reduce the amount of eligible expenditures when calculating certain tax credits. This applies in particular to the former Québec tax credit for scientific research and experimental development (hereinafter referred to as the “tax credit for salaries (R&D)”)³.

These rules ensure that a taxpayer who benefits from the tax assistance provided by the tax credit for salaries (R&D) is the only one to bear the financial burden of the R&D work that he undertakes or causes to be undertaken on his behalf, without anyone else obtaining a benefit or advantage that would reduce this financial burden.

³ Subdivision 4 of Division II.4 of Chapter III.1 of Title III of Book IX of the *Taxation Act*.

Briefly, the tax credit is also reduced when the taxpayer or partnership, or a member thereof, obtains or is entitled to obtain a contribution.⁴

Similarly, where a taxpayer or a partnership causes R&D to be undertaken by an eligible public research centre, an eligible research consortium or an eligible university entity, and the consideration payable or paid by the taxpayer or the partnership for such R&D does not consist in whole of currency, the taxpayer or a taxpayer who is a member of the partnership, as the case may be, is not eligible for the tax credit for salaries (R&D) in respect of all or any part of the consideration that cannot reasonably be considered to be payable or paid in currency.

The tax legislation will be amended so that the rules relating to contributions and other similar reduction rules that apply to the tax credit for salaries (R&D) are carried over to the CRIC, with the necessary adaptations. For greater clarity, these rules will apply both to expenditures relating to R&D activities and to expenditures relating to pre-commercialization activities.

□ Clarification regarding the definitions of eligible corporation and eligible partnership

An eligible corporation, for a taxation year, for the purposes of the CRIC, means 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.

Similarly, an eligible partnership, for a fiscal period, for the purposes of the CRIC, means 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.

The tax legislation will be amended to clarify that, in order for a corporation to qualify as an eligible corporation for a taxation year, it must have an establishment in Québec.

The tax legislation will also be amended to clarify that, in order for a partnership to qualify as an eligible partnership for a fiscal period, it must have an establishment in Québec.

□ Application date

These changes will apply to a taxation year or a fiscal period, as the case may be, beginning after March 25, 2025.

⁴ In general, for the purposes of the tax credit for salaries (R&D), a contribution can only exist when it represents a former, present or future right in the proceeds of disposition of part or all of the intellectual property arising from an R&D project or an R&D contract, or when it constitutes property designated by the Minister as being a contribution.

2. Adjustment to 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 (PUT).⁵

The PUT was introduced in the 2004-2005 budget.⁶ 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.

However, a person or partnership that is required to pay a tax provided for in section 222 of the *Act respecting municipal taxation*⁷ (ARMT), in a fiscal period, in relation to an electric power production system the person or partnership operates, and that consumes all the electric power the person or partnership produces, is exempt from the PUT for the calendar year during which the fiscal period ends.

In addition, where a person or partnership that is required to pay a tax provided for in section 222 of the ARMT, in a fiscal period, in relation to an electric power production system the person or partnership operates, sells part of the electric power the person or partnership produces, the person or partnership is required to pay, for a calendar year, the amount of the PUT that exceeds the amount of the tax provided for in section 222 of the ARMT that it is required to pay in the fiscal period that ends in the calendar year.

An amendment will be made to ease the conditions these persons or partnerships must meet to be exempt from the PUT.

As such, the tax legislation will be amended so that a person or partnership that is required to pay the tax provided for in section 222 of the ARMT, in a fiscal period, in relation to an electric power production system the person or partnership operates, and that consumes at least 90% of the electric power the person or partnership produces is exempt from the PUT for the calendar year in which the fiscal period ends.

⁵ The rules regarding the PUT are set out in Part VI.4 of the *Taxation Act*.

⁶ MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2004-2005 – Additional Information on the Budgetary Measures*, March 30, 2004, Section 1, pp. 125-132.

⁷ CQLR, chapter F-2.1.

For greater clarity, a person or partnership that is required to pay the tax provided for in section 222 of the ARMT, in a fiscal period, in relation to an electric power production system the person or partnership operates, and that sells part of the electric power the person or partnership produces and who consumes less than 90% of the electric power the person or partnership produces will be required to pay, for a calendar year, the amount of the PUT that exceeds the amount of the tax provided for in section 222 of the ARMT that it is required to pay in the fiscal period that ends in the calendar year.

This amendment will apply as of the 2026 calendar year.

3. Harmonization with measures announced in the August 15, 2025 news release from the Department of Finance Canada regarding sales taxes

On August 15, 2025, the Department of Finance Canada made public in a news release⁸ legislative and regulatory proposals relating to the *Excise Tax Act*, the *Excise Act, 2001* and the *Excise Act* (hereinafter referred to as the “federal proposals”).

Given the general principle of harmonizing the Québec sales tax (QST) system with that of the goods and services tax and the harmonized sales tax (GST/HST), amendments will be made to the Québec taxation system to incorporate, by adapting them in accordance with its general principles and its specific features, and taking into account the provincial context in which the QST operates, the following federal proposals:⁹

- redemption of coupon (FLRP 1);
- real property (immovables) and certain corporeal movable property credits – financial institutions (FLRP 2);
- filing of returns – financial institutions and deceased individuals (FLRPs 3 and 4);
- *Selected Listed Financial Institutions Attribution Method (GST/HST) Regulations* – amounts not included in net tax adjustment formula (FLRP 8).

For real property (immovables) and certain corporeal movable property credits (FLRP 2), the amendments will notably take into account the fact that the QST rebate may apply, in certain circumstances, even in the absence of a taxable supply of property made in Québec.

⁸ DEPARTMENT OF FINANCE CANADA, *Legislative and Regulatory Proposals Relating to the Excise Tax Act, the Excise Act, 2001 and the Excise Act*, [Online], August 15, 2025, [<https://fin.canada.ca/drleg-apl/2025/excise-tax-act-loi-tax-accise-0825-eng.html>].

⁹ References in brackets correspond to the numbers of the federal legislative and regulatory proposals (FLRPs) announced by the Department of Finance Canada on August 15, 2025.

□ Application dates

The amendments relating to the Québec taxation system will be adopted only following assent to any federal statute or adoption of any federal regulation giving effect to the federal proposals, taking into account any technical amendments that may be made prior to the assent or adoption, as the case may be. Moreover, they will apply from the same dates as the dates chosen for the application of the federal proposals with which they harmonize. However, with respect to the federal proposal relating to amounts not included in net tax adjustment formula (FLRP 8), the date of October 8, 1998 will be replaced with that of January 1, 2013, with the necessary adaptations.