

## Increase in the small business deduction rate and harmonization with federal tax measures

This information bulletin announces an increase in the small business deduction rate, along with a corresponding adjustment to the non-eligible dividend tax credit rate.

It also sets out the position of the Ministère des Finances regarding the harmonization of Québec's tax legislation and regulations with certain amendments to the federal 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](mailto:secteurdroitfiscaletdelafiscalite@finances.gouv.qc.ca).

The English and French versions of this bulletin are available on the government website [Quebec.ca](http://Quebec.ca).

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## 1. Increase in the small business deduction rate

In Québec, the general tax rate applicable to corporations is 11.5%.

A Canadian-controlled private corporation whose paid-up capital is \$10 million or less and whose adjusted aggregate investment income is \$50 000 or less receives a tax rate reduction of 8.3 percentage points on the first \$500 000 of annual income—the business limit<sup>1</sup>—from an eligible business, which lowers the tax rate applicable to the first \$500 000 from 11.5% to 3.2%. This reduced tax rate is also known as the small business deduction, or SBD.

To benefit from the SBD, a corporation must also be a primary and manufacturing sectors corporation, or meet a criterion pertaining to the number of remunerated hours.

A corporation is a “primary and manufacturing sectors corporation” for a taxation year if over 25% of its activities consist of primary and manufacturing sectors activities. A corporation whose proportion of primary and manufacturing sectors activities reaches 50% qualifies for the highest rate of the SBD. The corporation's SBD rate is reduced linearly, where its proportion of primary and manufacturing sectors activities is between 25% and 50%, and reaches zero when this proportion is 25% or less.

A corporation satisfies, for a given taxation year, the criterion pertaining to the number of remunerated hours and may benefit from the highest rate of the SBD if either of the following conditions are met:

- for the given year, the remunerated hours of its employees totalled at least 5 500;
- for the taxation year preceding the given year, the remunerated hours of its employees and those of the corporations with which it is associated totalled at least 5 500.

To ensure that a corporation does not lose all of its SBD because of a minor discrepancy with the required threshold, a corporation's SBD rate for a taxation year is reduced linearly, where the total number of remunerated hours is between 5 500 and 5 000, and reaches zero when the total does not exceed 5 000 hours.

### □ Increase in the small business deduction rate

To ease the tax burden on SMBs and help them become more competitive, the current 8.3% SBD rate will be raised so that the maximum rate available to a corporation will be 9.3%.

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<sup>1</sup> The \$500 000 business limit is gradually reduced if the corporation's paid-up capital and that of the corporations with which it is associated is between \$10 million and \$50 million and if the adjusted aggregate investment income of the corporation and the corporations with which it is associated is between \$50 000 and \$150 000. It is totally eliminated when paid-up capital reaches \$50 million or the adjusted aggregate investment income reaches \$150 000.

As a result, the minimum tax rate applicable to income eligible for the SBD, currently at 3.2%, will drop to 2.2%.

This change will apply to a corporation's taxation years starting after the day this information bulletin is published.

The other terms and conditions pertaining to the SBD— as regards, for example, the linear reduction of the SBD rate on the basis of the number of remunerated hours and the proportion of primary and manufacturing sectors activities—will remain unchanged.

### ❑ **Corresponding adjustment in the rate of the dividend tax credit for non-eligible dividends**

Due to the increase in the SBD rate and in order to ensure a better integration of the Québec corporate tax system with the personal tax system, the rate of the dividend tax credit for non-eligible dividends will be reduced.

Consequently, the rate of the tax credit for non-eligible dividends, which is currently 3.42% of the grossed-up dividend amount of a dividend received or deemed received, will be reduced to 2.69% of the grossed-up dividend amount of a dividend received or deemed received after December 31, 2026.<sup>2</sup>

For greater clarity, no change will be made to the non-eligible dividend gross-up rate.

## **2. Harmonization with certain measures contained in *An Act to implement certain provisions of the budget tabled in Parliament on November 4, 2025 (Bill C-15)***

On March 26, 2026, Bill C-15, *An Act to implement certain provisions of the budget tabled in Parliament on November 4, 2025* (the short title of which is "*Budget 2025 Implementation Act, No. 1*"), was assented to.<sup>3</sup>

This Act is intended, among other things, to pursue certain tax measures introduced in the federal budget of November 4, 2025. It also implements other measures relating to the *Income Tax Act* and the *Income Tax Regulations*, some of which were covered by legislative and regulatory proposals made public on August 12, 2024 and August 15, 2025. In addition, it introduces technical changes to increase the tax system's certainty and integrity.

The Ministère des Finances du Québec has already announced its position with regard to several of the tax measures included in the *Budget 2025 Implementation Act, No. 1*. However, certain measures implemented by Part 1 of this Act require clarification of its position towards them.

<sup>2</sup> The rate of the tax credit for non-eligible dividends will thus correspond to 3.09% of the actual amount of the dividend received or deemed received after December 31, 2026.

<sup>3</sup> S.C. 2026, c. 3.

A number of the new measures introduced by Part 1 of the *Budget 2025 Implementation Act, No. 1* will be incorporated into Québec's tax legislation and regulations.

More specifically, Québec's tax legislation and regulations will be amended<sup>4</sup> to incorporate, with adaptations based on their general principles, the measures relating to:

- the inclusion in income of certain amounts related to the investment tax credit (section 2);<sup>5</sup>
- the reduction in the capital cost of a depreciable property by the amounts of deducted investment tax credits (subsections 3(1) and (2));
- the amounts to be deducted from the undepreciated capital cost (subsections 3(3) to (5));
- the amendments to the definitions of “adjusted taxable income,” “excluded interest,” and “special purpose loss corporation,” in the context of the excessive interest and financing expenses limitation rules (section 4);
- the amendment to the deduction from business investment loss (section 6);
- the technical amendment related to dispositions to employee ownership trusts (subsection 7(2));
- the adjustment to the adjusted cost base (subsections 9(1), (3) and (4));
- the rules applicable to capital gains stripping and butterfly transactions (section 10);
- the addition, in the exceptions to the inclusion in a taxpayer's income, of an amount paid or transferred from a registered pension plan, in respect of an unlocated individual, to an unclaimed property authority (section 11);
- the amendment to the definition of “assistance” in the context of the deduction of exploration and development expenses for a principal-business corporation (section 13);
- the adjustment relating to resource expenses of a limited partner (section 16);
- the amendment to the deemed proceeds of disposition of a property on certain transfers (section 17);
- the amendment to the deemed gain or loss on loans or transfers of property between spouses (section 18);

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<sup>4</sup> However, certain measures retained may not require any amendment to Québec's tax legislation or regulations.

<sup>5</sup> The references in parentheses correspond to the section numbers in the *Budget 2025 Implementation Act, No. 1*.

- the adjustment to spousal attribution rules relating to a first home savings account (FHSA) (section 19);
- amounts not included in income (subsections 20(1), (2) and (4));
- immediate intergenerational business transfers (section 21);
- the exception concerning share exchanges of controlled foreign affiliates (section 22);
- the amalgamation of foreign corporations (subsections 23(4) and (5));
- the winding-up of a corporation (subsections 24(2) and (3));
- the amendments to the definitions of “capital dividend account” and “general rate income pool” (section 25);
- specified provisions in the case of shares held by a partnership (section 26);
- foreign accrual business income (section 27);<sup>6</sup>
- tracking interests in the case of non-resident commercial trusts (section 28);
- the determination of certain components of “foreign accrual property income” and amendments relating to tracking arrangements (section 29);
- limited partnership losses (subsection 30(1));
- the amendment to the application of income tax reporting obligations for a trust acting as agent for all the beneficiaries under the trust with respect to all dealings with all of the trust’s property (subsection 31(1));
- the addition of the FHSA to cases of property transfers that do not result in a change in beneficial ownership (section 32);
- the addition of two years to the one-year carryback period for certain amounts related to rights to acquire securities held by a taxpayer immediately before their death (section 33);
- the technical and consequential amendments to the definitions of “annual gains limit” and “cumulative net investment loss” relating to employee ownership trusts and worker cooperatives (subsections 35(1) to (4));
- the amendments to the conditions allowing an individual to access the capital gains deduction for a qualifying business transfer (section 36);

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<sup>6</sup> The elections provided for in new subsections 93.4(2) and 93.4(3) of the *Income Tax Act* will constitute “binding elections” for the purposes of the Québec tax system. For greater clarity, Chapter V.2 of Title II of Book I of Part I of the *Taxation Act*, relating to the making of certain elections, will apply to those elections.

- the introduction of a capital gains deduction for qualifying worker cooperative conversions (section 37);<sup>7</sup>
- the amendments to the rules relating to deductible losses (section 38);
- the amendment to the order of applying provisions of the *Income Tax Act* in computing taxable income and the introduction of a rule to prevent a double deduction (section 39);
- the computation of a loss on shares held by a trust (subsection 40(2));
- the amendments to the foreign tax deduction (section 46);
- the amendment to the definition of “contract payment” (subsection 47(5));<sup>8</sup>
- the non-inclusion of the Canada Carbon Rebate for Small Businesses in computing the income of a corporation (subsection 50(3));
- the adjusted taxable income determined for the purposes of computing the alternative minimum tax (section 58);
- the amendments to the rules applicable in the case of the bankruptcy of an individual (section 60);
- the amendments to registered retirement savings plans to include the new measures related to unclaimed property authorities (section 66);
- the amendments to trusts held in tax-free savings accounts applicable upon the holder’s death (section 67);
- the amendments to registered retirement income funds to include the new measures related to unclaimed property authorities (section 68);
- the technical amendments to the FHSA (section 69);
- the introduction of new rules applicable to tax-deferred transfers of the value of an annuity from a registered pension plan in certain circumstances (section 70);
- the amendments to the obligations of trusts to file an income tax return (section 71);
- the amendments to income tax withholding requirements to allow exceptions for an unclaimed property authority (section 73, except subsection 73(4));
- the consequential amendment relating to penalties for a trust’s failure to file an income tax return (subsection 78(3));

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<sup>7</sup> The election provided for in paragraph 110.62(1)(e)(i) of the *Income Tax Act* will constitute a “binding election” for the purposes of the Québec tax system. For greater clarity, Chapter V.2 of Title II of Book I of Part I of the *Taxation Act*, relating to the making of certain elections, will apply to this election.

<sup>8</sup> For greater clarity, the definition of “contract payment” will be adjusted both for the purposes of the scientific research and experimental development tax credit (section 1029.8.17 of the *Taxation Act*) and for the purposes of the scientific research, experimental development and pre-commercialization tax credit (section 1029.8.21.16.1 of the *Taxation Act*).

- the amendments to dispositions of property of a deceased taxpayer and the addition of two years to the one-year carryback period for certain amounts by the taxpayer’s legal representatives (section 79);
- the amendment to the tax on corporate distributions (section 80);
- the amendments relating to securities lending arrangements (subsection 84(2));
- the introduction of new definitions and amendments to the definition of “superannuation or pension benefit” to implement new measures involving unclaimed property authorities (subsections 94(2) and (14));
- the amendments to the definitions of “employee ownership trust,” “qualifying business,” and “qualifying business transfer” for the purposes of the capital gains deduction for a qualifying business transfer to an employee ownership trust (subsections 94(5) to (7));
- the amendment to the determination of a non-arm’s length relationship between a taxpayer and an employee ownership trust (section 95);
- the definition of “specified provision” for the purposes of deemed acquisition of control provisions (section 96);
- the technical consequential amendments relating to the new measures involving unclaimed property authorities (sections 98 and 99);
- the technical consequential amendments and the introduction of new requirements relating to amendments to the obligations of trusts to file an income tax return (section 100);
- the technical consequential amendments relating to certain late, amended or revoked elections (section 101);
- the repeal of certain technical provisions following amendments to the rules governing dispositions of a deceased taxpayer’s property by their legal representatives (section 102);
- the addition of certain property pertaining to ships as property to be included in a separate class (subsection 104(2));
- the addition of certain property pertaining to ships as property not included in a class (subsection 105(1));
- the definitions of “transmission equipment,” “eligible transmission equipment,” and “eligible electrical generation equipment,” and amendments related to compliance for the purposes of Classes 43.1 and 43.2 (subsections 106(5) to (8));
- the calculation of policy reserves for non-life insurance policies (section 107);
- the prescribed benefits relating to tax shelters (section 110);

- the addition of navigation devices for low vision to the list of medical devices and equipment eligible for the medical expense tax credit (section 111);
- the amendments to the definitions of “exempt surplus,” “hybrid surplus,” “hybrid underlying tax,” “taxable surplus,” and “underlying foreign tax” for surplus account calculations (section 112);
- the technical consequential addition following the introduction of new rules applicable to tax-deferred transfers of the amount of an annuity from registered pension plans in certain circumstances (section 114);
- the amendments relating to prescribed property that is not mark-to-market property (section 115);
- Class 43.1 (section 116);
- Class 57 (section 118);
- Class 58 (section 119).

The amendments to the Québec tax system will be applicable on the same dates as the federal measures with which they are harmonized.