2023–2024 Québec Budget: Lower tax rates and other fiscal measures of interest

March 23, 2023

On March 21, 2023, the Minister of Finance, Éric Girard, tabled the 2023–2024 Québec budget. Again this year, the provincial budget focuses on mitigating the impact of high inflation on individuals and businesses, as well as supporting capital investment. The following measures are of particular interest.

For individuals

General reduction of income tax on individuals

To help Québecers fight inflation and stimulate the job market, the Legault government is announcing a one-percent reduction in the tax rates applicable to the first two taxable income brackets. This change will be retroactive to January 1, 2023. As of that date:

1. The tax rate on the first taxable income bracket (up to $49,275) will be reduced from 15 per cent to 14 per cent.
2. The tax rate for the second bracket (over $49,275 but less than $98,540) will be reduced from 20 per cent to 19 per cent.

This reduction will benefit all taxpayers and can result in tax savings of up to $814 for a single person and up to $1,627 for a couple.

Enhancement of the housing component of the refundable solidarity tax credit

To support low-income taxpayers, the government introduced the refundable solidarity tax credit in 2010. The credit has three components, one of which is housing, which takes into consideration the cost of occupying an eligible dwelling.

Due to inflation in 2022, many owners of rental properties were forced to raise their rents significantly. To offset this increase, indexing of the housing component of the solidarity tax credit applicable for the period from July 2022 to June 2023 will be doubled—from 6.44 per cent to 12.88 per cent—for the payment period beginning July 1, 2023.

For companies

Tax holiday for large capital investment projects

As of the day after the budget speech, delivered on March 21, 2023, a company carrying out a large investment project in Québec can, under certain conditions, benefit from an income tax holiday and a holiday on employer contributions to the HSF.

This new 10-year tax holiday will be calculated by applying a rate of 15 per cent, 20 per cent or 25 per cent to the cumulative total of eligible project expenditure. The rate to be used will be based on the economic vitality index of the territory where the project is carried out. The cumulative total of eligible project expenditure must not exceed $1 billion.

To qualify as a large investment project enabling the company to claim the tax holiday, the project must not be carried out in an excluded sector of activity, and the company must not carry on activities in an excluded sector. The minimum investment threshold of $100 million must be reached before the expiry of the 48-month investment period, beginning on the date indicated on the initial certificate issued for the project.

To benefit from the tax holiday, the company will have to obtain this initial certificate as well as annual certificates issued by the Minister of Finance. The application for an initial certificate must be submitted to the Minister no later than December 31, 2029.

Changes to the refundable tax credit for Québec film or television production

This credit applies to the labour expenditure incurred by a corporation in the making of a Québec film. The labour expenditure on which the tax credit is calculated may not exceed 50 per cent of the production costs incurred by the corporation for that particular film. The basic rate for this credit is usually 32 per cent but can be increased to 40 per cent under certain circumstances.

To adapt the tax credit to the reality of online distribution and support the growth of the Québec film industry, the framework legislation will be amended; specifically, the operating requirements will include an undertaking by the aggregator to make the film available in Québec.

In addition, the legislation will be amended to exclude stock footage from production cost requirements.

Enhancement of the refundable tax credit for book publishing

The purpose of this credit is to support Québec publishers by making it easier for them to develop foreign markets for Québec works, produce large-scale publishing projects and tap into the translation market.

Due to fierce competition in the publishing market and significant growth in operating costs, the tax credit will be enhanced. The cap on labour expenditure attributable to preparation and digital version publishing will be raised from 50 per cent to 65 per cent.

In addition, the refundable tax credit for eligible labour expenditure attributable to printing and reprinting will increase from 27 per cent to 35 per cent.

Other tax measures

Changes to the Québec Pension Plan (hereinafter the QPP)

Following consultations in 2022, the Legault government has decided to offer more financial flexibility to workers aged 65 and over as a way of encouraging experienced workers to remain in the workforce. The QPP will therefore be amended as of January 1, 2024, to allow workers the option of ceasing contributions to the QPP as of their 65th birthday, as long as they are receiving a QPP or CPP retirement pension. This election by the taxpayer will take effect on the first day of the month following the month in which it was made, and may be made only once a year. The election must be made on the prescribed form and given to the employer, who must keep it.

Once the election is made by an employee, it will also apply to the employer, who may stop contributing to the QPP as soon as the employee does.

The QPP will be further modified so that as of 2024, workers over the age of 72 will no longer be required to contribute.

Strengthening of tax compliance regarding cryptoassets

To ensure tax compliance of taxpayers holding cryptoassets, the Legault government has announced new reporting requirements. The tax legislation and regulations will be amended to give the Minister of Revenue the power to ask taxpayers whether they own cryptoassets or have used cryptoassets in transactions during a tax year, and if so, to request details of the transaction.

Changes to the legislation governing tax-advantaged funds

The legislation establishing three tax-advantaged funds—the Fonds de solidarité des travailleurs du Québec, the Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi, and Capital régional et coopératif Desjardins—will be amended to optimize their economic benefits. The amendments are designed to rein in the associated tax expenditure, ensure a better match between the investment horizons of labour-sponsored funds and the minimum holding period for shares eligible for the non-refundable tax credit, and allow a greater number of individuals to become shareholders in these funds.

The objectives are as follows:

1. Simplify the investment standard for the three tax-advantaged funds by reorganizing the investment categories in each of the constituting statutes;

2. Clarify the missions of the three funds by updating and enhancing the functions currently outlined in each of the constituting statutes and, in particular, by including the concept of savings;
3. Maximize the economic impact of investments from labour-sponsored funds by increasing the minimum holding period for shares in such funds;
4. Refocus tax assistance on taxpayers with greater savings needs by introducing a rule limiting access to the non-refundable labour-sponsored funds tax credit.

Conclusion

To sum up, this budget contains few new measures. It confirms the government's goal of reducing the recent impact of inflation by lowering taxes. According to the budget plan, the deficit will be limited to $4 billion in 2023–2024 and will then decline by $1 billion a year. A return to a balanced budget is expected in 2027–2028.

By

Joseph (Hovsep) Takhmizdjian, Kevin Bianchini, Alessandro Cotugno, Noah Weinstein, Francis Jacob

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BLG Offices

Calgary
Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa
World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver
1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal
1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto
Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749

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