E-BUSINESS TAX CREDIT

CDAE for Software in Quebec

CDAE tax credits are geared toward businesses developing and selling software licenses or services (ie. Software-as-a-Service or SaaS).

To pass this threshold, companies must have:

- 75% of gross revenue derived from IT sector activities,
- 50% percent of these activities related to a core subset of the IT sector.

Additionally, a qualifying company must have at least **6 full-time technical employees** for the entire fiscal year of the CDAE claim, which differs from SR&ED in that it doesn't have revenue or employee-number requirements (per se) as part of the qualifying criteria.

CDAE covers **only the salary of employees in technical roles** (ie. developers and quality engineers) during the product development life cycle. This is delivered in the form of an up to **24% refundable tax credit** and an up to **6% non-refundable tax credit** of each eligible employee's salary. These credits are also applied to the total salary of the qualified individual, regardless of the portion that is directly related to the CDAE activities.

Restructuring for the future...

The Quebec government announced they will scale up the non-refundable share of CDAE—that is, the portion of the credits where businesses must pay tax to Quebec for qualification—from 6% today to 10% by 2028. Simultaneously, the refundable portion of the tax credit will be scaled down from 24% in 2024 to just 20 percent by 2028.

YEAR	REFUNDABLE	NON-REFUNDABLE
2024	24%	6%
2025	23%	7%
2026	22%	8%
2027	21%	9%
2028	**20%**	**10%**

Source: Government of Quebec

What are CDAE-qualified employee activities?

The software-specific caveat for CDAE is perhaps the most important distinction between Quebec's innovation tax credit and the federal government's SR&ED program. Although SR&ED has no revenue or minimum employee requirements, it's also geared toward expensing R&D costs in almost any industry, making it a much broader mandate than CDAE (beyond just geography).

On the flip side, while the CDAE's revenue requirements are more restrictive, its eligible activities are less rigid and can include routine development (as opposed to the highly-vetted "Why?" and "How" requirements put forth by SR&ED that prioritize net-new innovation).

CDAE *does not*, however, offer tax credits for *any* programs that involve hardware, including software that controls hardware or is built into hardware, ala Internet-of-Things (IoT) systems or robotics. Similarly, projects that rely on external data sets—***namely, Artificial Intelligence (AI)***—are ineligible for CDAE, as data used during R&D must be internally owned and generated by the company's clients.

A vehicle for expensing technical salaries

There's an additional caveat, of course, as the CDAE only covers salaries up to $83,333, which means companies can only reap ***up to $20,000 in refundable credits and up to $5,000 in non-refundable credits per employee.*** However, there is no restriction on the number of employees that can be covered by CDAE, so long as previous revenue and activity requirements are met.

When to use CDAE vs. SR&ED —or both?

CDAE is most beneficial to more mature companies that have made progress in their development but need additional, non-dilutive funding to scale—especially as it relates to bringing software-based innovations to market.

A classic scenario for many startups is that they'll receive more SR&ED tax credits as their R&D projects first ramp up and then eventually increase their CDAE funding as fewer of their activities are covered by SR&ED. In that same vein, because CDAE covers more routine development activities versus SR&ED's focus squarely on net-new innovation, businesses can reap CDAE tax credits when maintaining or improving existing technology.

Because CDAE tax credits are fixed regardless of size or ownership structure—unlike SR&ED which offers lower, non-refundable credits to non-CCPC and larger companies—it can be an attractive credit for large or foreign-owned businesses as well.

Stacking both CDAE and SR&ED

There are options for businesses that want to optimize both CDAE and SR&ED on the provincial level to maximize the tax credit amount.

Doing this is tricky, however, and requires not just deep knowledge of existing tax code, but the ability to communicate the nature of innovation both from the business-side and technical-side of R&D.

Talk to an expert at Boast today to understand which tax credits make sense to maximize your innovation and extend your runway.