Tax Credit for the Development of E-Business

CDAE for Software in Quebec

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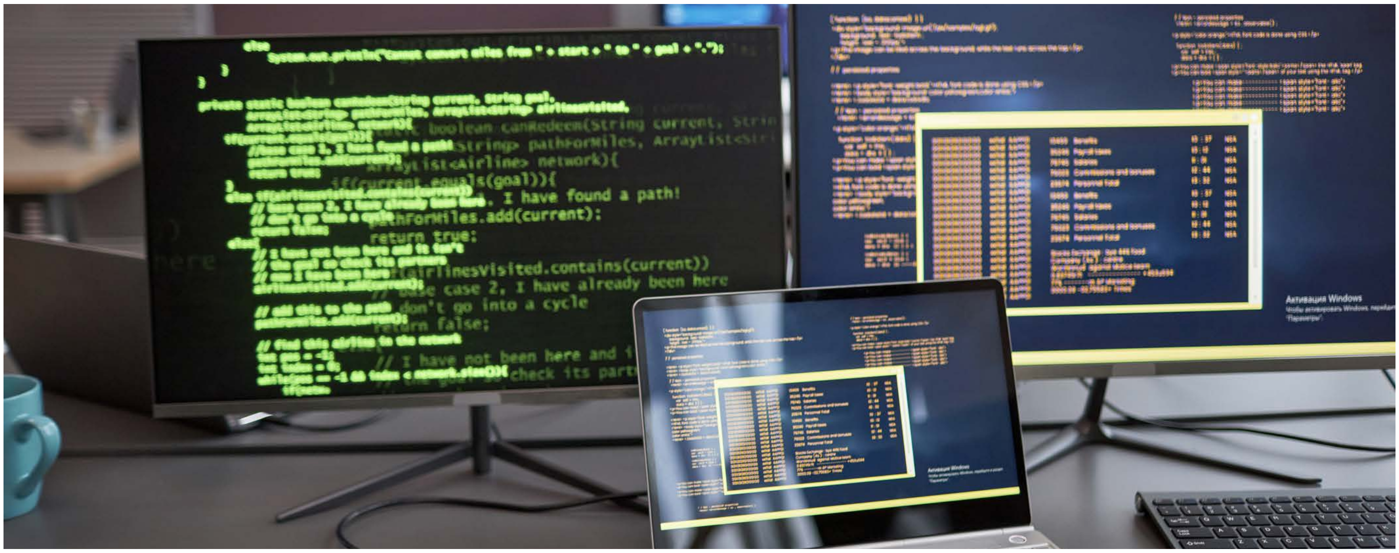
Among the most popular provincial tax credits is **Revenu Quebec's** Tax Credit for the Development of E-Business, which is commonly referred to as CDAE (from its French-language abbreviation). This program is only available to activities in Quebec, and while the program isn't mutually exclusive from the federal government's SR&ED tax credit, there are qualifying criteria specific to CDAE that can make it a tricky application to navigate.

A mix of refundable and non-refundable credits for SaaS development in Quebec

For starters, while both SR&ED and CDAE are tax credits, SR&ED is typically dispersed as a refundable tax credit for Canadian-controlled Private Corporations (CCPCs), while CDAE offers a mix of refundable and non-refundable taxes credit for any Quebec-based companies (CCPC or otherwise).

Specifically, 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 percent of gross revenue derived from IT sector activities**, with 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.

(There is flexibility here, as startups that have existed for less than 2 years will meet the eligibility criteria for CDAE once they have 6 eligible technical employees on the payroll for a given fiscal year.)

Restructuring for the future...

For CDAE, the Quebec government will scale up the non-refundable share—that is, the portion of the credits where businesses must pay tax to Quebec for qualification—from 6 percent today to 10 percent by 2028. Simultaneously, the refundable portion of the tax credit will be scaled down from 24 percent 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 prioritze net-new innovation).

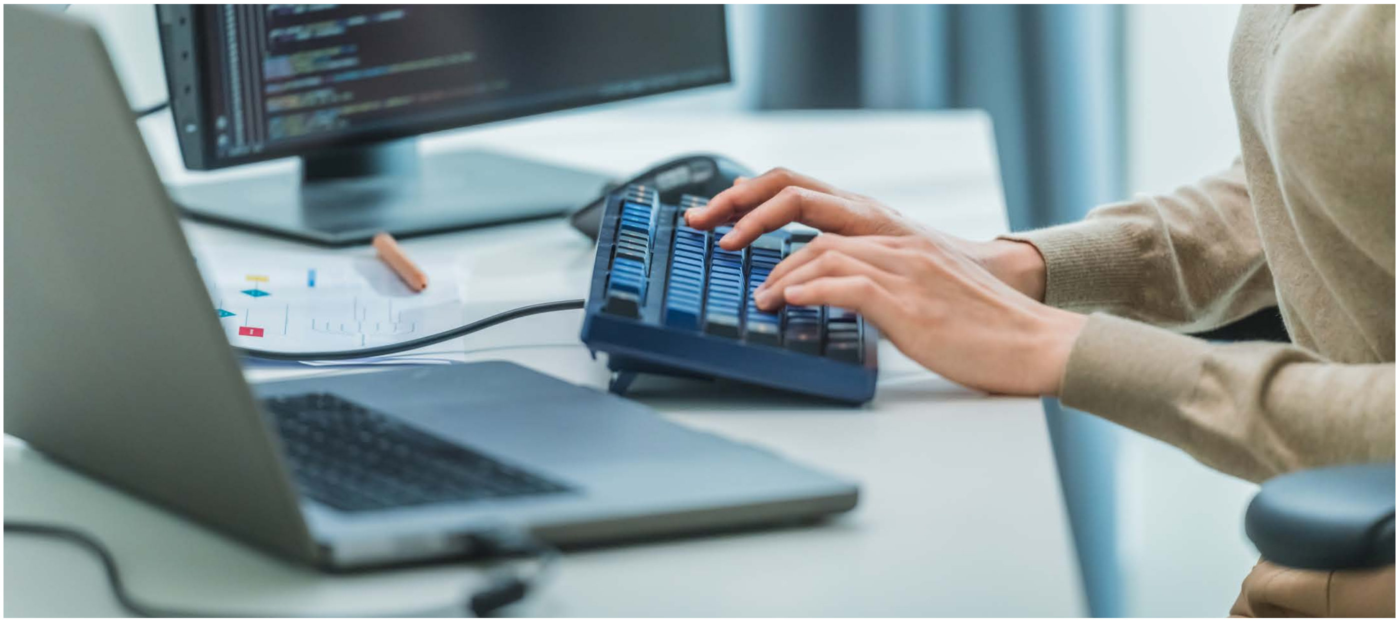
CDAE does *not*, however, offer tax credits for *any* programs that involve hardware, including software that controls hardware or is built into hardware, ala Internet-of-Things (IoT) systems or robotics. Similarly, projects that rely on external data sets—*namely*, *Artificial Intelligence (AI)*—are 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

Both SR&ED and CDAE are tools that founders can use to cover salaries, but the requirements (and credit amounts) vary pretty significantly given each program's focus.

For instance, 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 percent refundable tax credit** and an up to **6 percent 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.

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.



For SR&ED, on the other hand, businesses can claim tax credits on expenses such as salaries, wages, materials consumed or transformed, subcontractor expenses, and overhead—so long as they are directly related to eligible R&D activities in Canada. Put simply, the SR&ED refundable tax credit is based on the percentage of time an employee has spent on R&D activities relative to their salary.

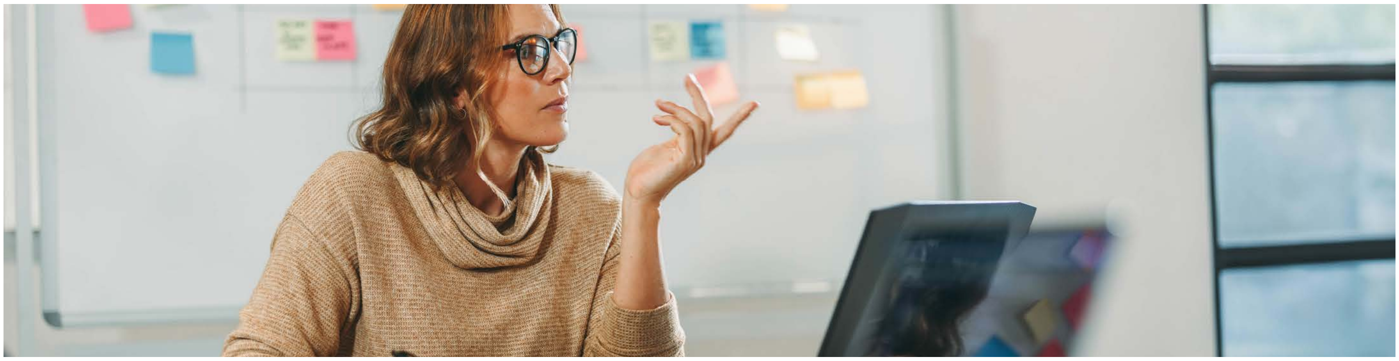
Unlike with CDAE, however, SR&ED credits can also cover the salaries and wages of support employees, such as HR or payroll staff who specifically hire engineers for the SR&ED project or handle payroll for project employees. That said, this practice is known as indirect SR&ED and is claimed in different manners federal and provincially—***chat with a member of our team* to learn more about the regional nuances.**

How to apply to CDAE

The application process for the CDAE takes place in two parts. First, companies must apply to Invest Quebec within 15 months of the fiscal year-end where eligible expenses were accrued.

From there, Invest Quebec begins a systematic review process before granting qualified businesses an eligibility certificate. Once that certificate is delivered, qualifying organizations must submit an application to Revenue Quebec within 18 months of the same fiscal year to receive their credits.

SR&ED tax credits must also be claimed within 18 months of the relevant fiscal year, though it’s not guaranteed that these applications are always audited—though applicants should expect at least one visit by the CRA when applying for their first year.



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.

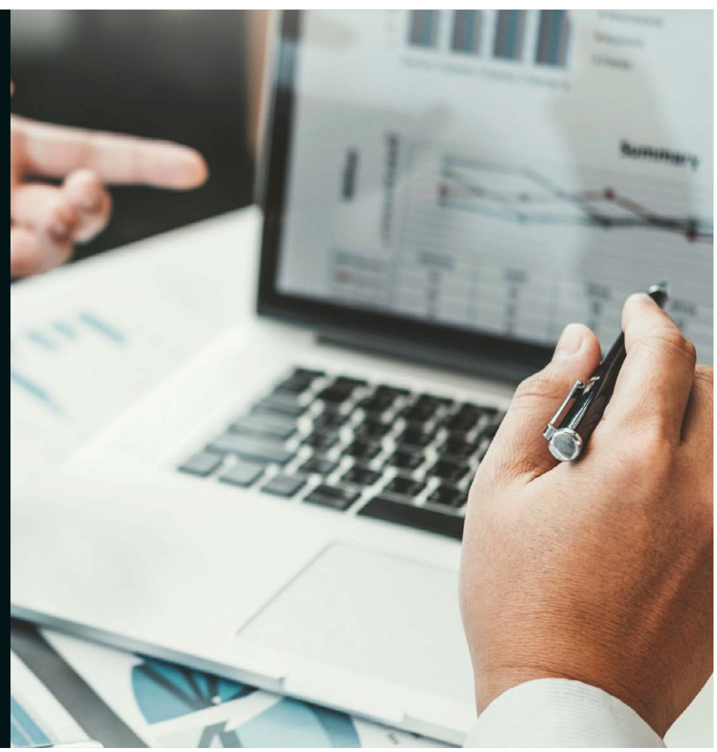
Stacking both CDAE and SR&ED

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.

This is especially critical for businesses that may be applying for the first time—or who have maybe struggled with their application in the past despite delivering on all relevant criteria.

To learn more about how to optimize your tax credit claims to help extend your R&D runway and drive greater innovation, book a call with a member of the Boast AI team today.



Boast AI accelerates the success of innovative businesses globally with software that integrates financial, payroll, and engineering data into a single platform of R&D intelligence. In tandem, Boast AI's in-house tax pros offer unmatched expertise in navigating R&D tax credit and SR&ED eligibility requirements to ensure organizations have access to all eligible sources of non-dilutive funding, even defending any claim against audit to ensure customers have the capital they need to further fuel innovation. With operations across the U.S. and Canada, more than 1,000 innovative companies have leveraged Boast AI to get more money, faster, for less time and risk.

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909 Davis St, Suite 500, Evanston Illinois, 60201

415 W Cordova St #208, Vancouver, BC, V6B 1E5, Canada