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Quebec Small Business Tax Rate 2026: CCPC Rates Explained

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Published by 2727 Coworking · 2026-10-29 · small business tax rate quebec · ccpc tax rate quebec 2026 · small business deduction quebec

Original article: <https://2727coworking.com/articles/small-business-tax-rate-quebec-2026-federal-provincial-ccpc>



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The short answer: the 2026 combined small-business rate

A Canadian-controlled private corporation (CCPC) operating in Quebec pays federal tax to the Canada Revenue Agency (CRA) and Quebec tax to Revenu Québec. On active business income that qualifies for the small business deduction in both systems, the rates as of October 2026 are:

Layer	Rate on qualifying income	Source
Federal, with the small business deduction	9%	CRA, Corporation tax rates
Quebec, taxation years starting on or before April 29, 2026 (rate in the Taxation Act today)	3.2%	Revenu Québec, CO-17.G, table 5
Quebec, taxation years starting after April 29, 2026 (announced, not yet enacted; see below)	2.2%	Finances Québec, Bulletin 2026-3; Revenu Québec, May 4, 2026
Combined, announced Quebec rate	11.2%	Sum of the two layers
Combined, general rate (no small business deduction)	26.5% (15% federal + 11.5% Quebec)	CRA and Revenu Québec pages above

Three conditions decide whether a corporation actually gets the low rate:

1. It is a CCPC, and its income is active business income (not investment income and not income from a personal services business).
2. Its income falls within the business limit: \$500,000, shared with associated corporations, and reduced by passive investment income and large capital.

3. For the Quebec layer only, it meets the **5,500 remunerated-hours test** or qualifies as a primary and manufacturing sectors corporation. A service business that fails this test pays the full 11.5% Quebec rate, even if it gets the federal 9%.

Consultants who incorporate alone most often miss the third.

Who qualifies as a CCPC

The CRA tests CCPC status at the end of the tax year. In summary, a corporation is a CCPC if it is a private corporation resident in Canada, incorporated in Canada (or resident since June 18, 1971), not controlled directly or indirectly by non-residents or public corporations (or any combination of them), and has no class of shares listed on a designated stock exchange ([CRA, Type of corporation](#)).

Two practical points:

- **Control, not ownership, is the test.** A Montreal company with a foreign co-founder can still be a CCPC if non-residents do not control it. A company controlled by a non-resident founder generally is not, and loses access to the small business deduction. The CRA's definition also has a combined-ownership rule: if all the shares owned by non-residents and public corporations were owned by one hypothetical person, that person must not own enough shares to control the corporation ([CRA, Type of corporation](#)). Two unrelated non-resident co-founders with 30% each therefore make the company a non-CCPC, even though neither controls it alone.
- **The small business deduction requires CCPC status throughout the year.** The T2 guide says corporations that were CCPCs "throughout the tax year" may be able to claim it ([CRA, T2 guide, chapter 4](#)).

Associated corporations are corporations linked by common control, for example two companies controlled by the same person or by related people. Associated CCPCs share one business limit and must file Schedule 23 to allocate it ([CRA, T2 guide](#)).

Federal rates: general, abatement and the small business deduction

The federal corporate rate is built in layers ([CRA, Corporation tax rates](#)):

Step	Rate
Basic Part I rate	38% of taxable income
After the federal tax abatement (income earned in a province)	28%
After the general tax reduction: net general rate	15%
CCPC claiming the small business deduction: net rate	9%

The small business deduction itself is 19% of the least of four amounts: active business income earned in Canada, taxable income, the business limit, and the reduced business limit after any assignment ([CRA, T2 guide](#)). Because it is "the least of", a corporation with \$120,000 of active business income gets the deduction on \$120,000, not on \$500,000.

The \$500,000 business limit

For a corporation that is not associated with any other corporation, the maximum federal business limit is \$500,000 ([CRA, T2 guide](#)). Quebec applies its small business deduction to the same first \$500,000 of annual income from an eligible business carried on in Canada ([Revenu Québec](#)).

What counts and what does not:

- **Counts:** active business income, meaning income from a business source, including income incidental to the business.
- **Does not count:** passive investment income, which is taxed under separate rules and, above \$50,000, also shrinks the limit (see below).
- **Does not count:** income from a personal services business, unless the corporation employs more than five full-time employees throughout the year or provides the services to an associated corporation ([CRA, T2 guide](#)).

The limit shrinks in three situations:

1. **Association.** Associated corporations split one \$500,000 limit; the total of the percentages allocated on Schedule 23 cannot exceed 100%.
2. **Large taxable capital.** Federally, the limit is reduced on a straight-line basis when taxable capital employed in Canada in the previous year is between \$10 million and \$50 million, and a CCPC at \$50 million or more gets no small business deduction ([CRA, T2 guide](#)). Quebec uses paid-up capital with the same \$10 million to \$50 million window ([Bulletin 2026-3](#)).
3. **Passive income.** Covered in the next section.

When both the capital reduction and the passive income reduction apply, the federal T2 uses the greater of the two, not the sum.

Passive income above \$50,000 reduces your limit

Owners who leave profits in the corporation and invest them should know this rule before the investment income grows. Federally, the business limit is reduced when the CCPC and its associated corporations earn combined passive investment income between \$50,000 and \$150,000, and it is nil once that income exceeds \$150,000. The measure used is "adjusted aggregate investment income" (AII), calculated on Schedule 7 ([CRA, T2 guide](#)).

The formula sits in paragraph 125(5.1)(b) of the Income Tax Act: for a corporation with the full \$500,000 limit, the reduction is $5 \times (\text{AII} - \$50,000)$, where AII is measured for the taxation years that ended in the preceding calendar year ([Income Tax Act, s. 125](#)). In plain terms: every \$1 of passive income above \$50,000

removes \$5 of business limit, with a one-year lag.

Prior-year AAI (corporation plus associates)	Federal business limit (illustrative)
\$50,000 or less	\$500,000
\$80,000	\$350,000
\$100,000	\$250,000
\$150,000 or more	\$0

Quebec reduces its business limit over the same \$50,000 to \$150,000 window and eliminates it at \$150,000 ([Revenu Québec](#)). The Quebec calculation is made on form CO-771.1.3.AJ, *Plafond des affaires ajusté*, filed with the CO-17 ([CO-17.G](#)).

Quebec: the 11.5% general rate and the small business deduction

Quebec's general corporate income tax rate is 11.5%. A CCPC with paid-up capital of \$10 million or less and adjusted aggregate investment income of \$50,000 or less receives a rate reduction, the small business deduction (SBD), on the first \$500,000 of income from an eligible business ([Bulletin 2026-3](#)).

On April 29, 2026, the Ministère des Finances announced that the maximum SBD rate rises from 8.3% to 9.3%, so the minimum Quebec rate on eligible income falls from 3.2% to 2.2%. The change applies to "taxation years starting after the day this information bulletin is published", that is, taxation years beginning after April 29, 2026 ([Bulletin 2026-3](#)). Revenu Québec confirmed the same dates and rates in a tax news notice on May 4, 2026 ([Revenu Québec](#)).

Legal status as of October 28, 2026: announced, not enacted. The amendment is section 34 of Bill 6, introduced by the Minister of Finance on May 12, 2026, which would raise the rate in s. 771.0.2.4 of the Taxation Act to 9.3% for taxation years beginning after April 29, 2026 ([Bill 6, 43rd legislature, 3rd session](#)). The bill never went past introduction: the session ended on August 27, 2026, when the Assembly was dissolved for the October 5, 2026 general election, and the bill died with it. The Taxation Act therefore still provides 8.3% (3.2% tax). Revenu Québec's May 4 notice, still online, presents 9.3% as the rate it will apply, but the measure becomes law only once the new legislature re-enacts it.

The trigger is the **start** of the taxation year, and neither source describes any proration for a year that straddles April 29, 2026:

Taxation year	Quebec rate on SBD-eligible income
January 1 to December 31, 2026	3.2%
April 1, 2026 to March 31, 2027	3.2%
May 1, 2026 to April 30, 2027	2.2% (announced)
January 1 to December 31, 2027	2.2% (announced)

A calendar-year corporation therefore sees the 2.2% rate for the first time on its 2027 taxation year. Your instalment calculations may change with it; see our [Quebec tax instalments calendar](#).

The 5,500 paid-hours condition

Quebec's SBD is not automatic for a CCPC. The corporation must also either be a primary and manufacturing sectors corporation or meet a remunerated-hours criterion ([Bulletin 2026-3](#)).

The hours test. A corporation qualifies for the highest SBD rate for a taxation year if either:

- the remunerated hours of its employees totalled at least 5,500 in that year; or
- in the preceding taxation year, the remunerated hours of its employees and those of its associated corporations totalled at least 5,500.

Between 5,500 and 5,000 hours, the SBD rate is reduced linearly. At 5,000 hours or fewer, it is zero, and the corporation pays 11.5% in Quebec on all its income.

For scale: three full-time employees at 40 paid hours a week for 52 weeks total 6,240 hours; a solo consultant or a two-person team usually falls short.

The primary and manufacturing alternative. A corporation is a "primary and manufacturing sectors corporation" if more than 25% of its activities are primary or manufacturing activities. At 50% or more it gets the highest SBD rate; between 25% and 50% the rate is reduced linearly; at 25% or less it is zero.

Illustrative Quebec rates under the new 9.3% SBD (taxation years starting after April 29, 2026):

Total remunerated hours	Quebec SBD rate	Quebec tax rate on eligible income
5,500 or more	9.3%	2.2%
5,250	4.65%	6.85%
5,000 or fewer	0%	11.5%

How hours are counted. Section 771.2.1.2.1 of the Taxation Act sets the rules, which Revenu Québec's form CO-771 applies ([Taxation Act, s. 771.2.1.2.1](#); [CO-771](#)):

- **40-hour weekly cap, paid hours only.** At most 40 hours per person per week count, only paid hours count, and the pay must be an expense of the year being measured. Overtime does not help.
- **The controlling shareholder counts even unpaid.** A person holding, directly or indirectly, shares carrying more than 50% of the votes is treated as an employee: unpaid hours worked in a week to take an active part in the business count as $1.1 \times$ those hours, with at most 36.36 unpaid hours a week (so the same 40-hour ceiling), **provided the corporation records them in a register**. A founder paid only in dividends still counts, but only with a timesheet.
- **Short years are grossed up.** Hours for a taxation year under 365 days are multiplied by 365 over the number of days; the prior-year associated-group count is not.

Example: a controlling founder who logs 1,800 unpaid hours counts for 1,980 ($1,800 \times 1.1$); adding one full-time employee ($40 \times 52 = 2,080$ paid hours) brings the total to 4,060, still under 5,000, so the Quebec SBD rate stays at zero. A minority shareholder counts only for paid hours.

Worked example: a Montreal consultancy with and without employees

Illustrative only: it ignores investment income, tax credits, instalments and personal tax on the owner's pay.

Assumptions: a Montreal CCPC, not associated with any other corporation, taxation year January 1 to December 31, 2027, with \$200,000 of active business income (equal to its taxable income). The Quebec figures use the announced 2.2% rate, which applies to this year if the measure is re-enacted as announced. Two versions of the same company:

- **Company A:** a solo consultancy. Remunerated hours total 2,000 for the year.
- **Company B:** the same profit, but with a small team paid for 5,800 hours in total.

	Company A (2,000 hours)	Company B (5,800 hours)
Federal tax at 9%	\$18,000	\$18,000
Quebec rate	11.5% (no SBD)	2.2% (full SBD)
Quebec tax	\$23,000	\$4,400
Total corporate tax	\$41,000	\$22,400
Combined effective rate	20.5%	11.2%

Both companies get the federal 9% rate, because the hours test is a Quebec rule only. The \$18,600 gap comes entirely from the Quebec layer.

Two variations on the same illustrative numbers:

- If Company B's taxation year had started on January 1, 2026, its Quebec rate would be 3.2%, giving \$6,400 of Quebec tax and \$24,400 in total.
- If Company B had only 5,250 hours, its Quebec rate would be 6.85% (\$13,700), for \$31,700 in total.

Company B also pays deductible salaries that Company A does not, so this shows how the rate works, not which structure is cheaper. Whether incorporating makes sense at all is covered in [when should a Quebec freelancer incorporate](#).

Quebec files its own corporate return

The CRA collects provincial corporate tax for most provinces, but Quebec and Alberta "do not have corporation tax collection agreements with the CRA", which is why the CRA's provincial rate table excludes them ([CRA, Corporation tax rates](#)).

In practice, a corporation with an establishment in Quebec at any time in the year files:

- the federal **T2** return with the CRA; and
- Quebec form **CO-17**, the corporation income tax return, with Revenu Québec ([Revenu Québec, CO-17](#)).

A corporation can qualify for the SBD federally and not in Quebec, as the worked example shows. For incorporation itself, see [Canada incorporation costs in 2026](#).

Related changes: dividend tax credit and personal-level effects

Because of the SBD increase, and "to ensure a better integration of the Québec corporate tax system with the personal tax system", Quebec is also cutting the personal credit on non-eligible dividends. The Quebec dividend tax credit for non-eligible dividends falls from 3.42% to 2.69% of the grossed-up amount of a dividend received or deemed received after December 31, 2026. The gross-up rate itself does not change ([Bulletin 2026-3](#)). The bulletin notes that 2.69% of the grossed-up amount equals 3.09% of the actual dividend. This change was in the same Bill 6 (section 33, amending s. 767 of the Taxation Act) and has the same status: announced, not yet enacted.

In practice, non-eligible dividends received in 2027 and later carry slightly more Quebec personal tax, so the lower corporate rate mainly benefits income that stays in the corporation. Whether to pay a dividend before or after December 31, 2026 has to be decided before that date.

Planning checklist

- [] **Taxation year start date**: decides whether the announced 2.2% rate can apply this year or next.
- [] **Remunerated hours**: this year, and last year including associated corporations.
- [] **Association**: a holding company, a spouse's company or a second venture shares the \$500,000 limit and counts in the prior-year hours test.
- [] **Personal services business risk** on one-client contracts.
- [] **Passive income**: every \$1 of AAIL above \$50,000 cuts next year's federal limit by \$5.
- [] **Quebec instalments** for the first year at the new rate.

This article is general information as of October 2026, not tax advice; associated groups, non-resident shareholders and significant investment portfolios need advice on their own facts.

Frequently asked questions

Does the 5,500-hour test apply to a personal services business?

Usually it does not arise: personal services business income is not eligible for the federal small business deduction, unless the corporation employs more than five full-time employees throughout the year or provides the services to an associated corporation ([CRA, T2 guide](#)). The hours test only decides access to the Quebec SBD for income that is otherwise eligible. The test for a personal services business is whether the individual

doing the work would reasonably be regarded as an officer or employee of the client if the corporation did not exist, and that individual owns, alone or with related persons, at least 10% of a class of the corporation's shares ([Income Tax Act](#), s. 125(7)).

My corporation's year started on January 1, 2026. Do I get 2.2% for 2026?

No. Based on the start date rule in [Bulletin 2026-3](#), a taxation year that began on or before April 29, 2026 stays at 3.2% (if all SBD conditions are met). Your first taxation year starting after that date would get 2.2% once the measure is re-enacted; until then 3.2% is the rate in the Taxation Act.

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Source links

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