

LEYTON

THE COMPLETE GUIDE TO CDAEIA

FROM CDAE TO AI FOCUSED TAX CREDITS



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UNDERSTANDING THE TRANSITION: WHAT CHANGED AND WHY?

The Tax Credit for the Development of E-business (CDAE) has undergone a fundamental transformation. For fiscal years starting after December 31st, 2025, it becomes the [Tax Credit for the Development of E-Business and Artificial Intelligence \(CDAEIA\)](#), reflecting Quebec's strategic focus on AI innovation.

WHY THE CHANGE:

Quebec's government recognized the digital landscape has evolved dramatically since the original CDAE program launched. The new CDAEIA aims to:

- Channel support toward high-value AI projects that drive real innovation
- Align tax incentives with the rapidly evolving tech sector
- Ensure public investment generates meaningful AI advancement
- Position Quebec as a leader in AI development

TIMELINE OF IMPLEMENTATION:

EFFECTIVE DATE	CHANGES
January 1, 2025	New credit structure begins (30% total: 23% refundable + 7% non-refundable)
March 25, 2025	Early adoption option becomes available for qualifying companies
January 1, 2026	Full CDAEIA requirements take effect, including mandatory justified, consistent or meaningful AI integration
2028 and beyond	Final credit structure (30% total: 20% refundable + 10% non-refundable)

NEW CDAEIA REQUIREMENTS

AI INTEGRATION: THE GAME CHANGER

The most significant change is the mandatory AI integration requirement. Unlike the previous CDAE program, CDAEIA demands that AI be a substantial component of your developed solutions.

What this means:

- AI cannot be superficial or cosmetic
- AI must actively drive improvements in efficiency, decision-making or innovation
- AI components must substantially modify system performance, processes or value



CORE ELIGIBILITY CRITERIA

- 01 Physical establishment**
- Maintain a physical establishment in Quebec
 - Conduct eligible activities from this Quebec location



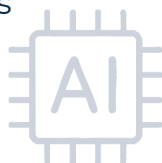
- 02 Minimum workforce**
- Employ at least 6 eligible employees
 - Employees must dedicate at least 75% of their workload on qualifying AI/tech activities



- 03 Revenue requirements**
- Generate at least 75% of gross revenue from the IT sector
 - Ensure at least 50% of revenue comes from specific eligible activities:
 - Software publishing
 - Computer systems design
 - Data processing and hosting
 - Custom computer programming services
 - Other qualifying IT activities



- 04 AI integration mandate (starting 2026)**
- Developed solutions must include substantial AI components
 - AI must contribute meaningfully to system functionality
 - Clear documentation of AI's role and impact required



NEW CREDIT STRUCTURE: GRADUAL TRANSITION

While the total credit rate remains 30%, its composition changes over time:

YEAR	REFUNDABLE	NON-REFUNDABLE	TOTAL
2025	23%	7%	30%
2026	22%	8%	30%
2027	21%	9%	30%
2028+	20%	10%	30%

Key changes:

- /// **Salary cap eliminated:** No more \$83,333 limit per employee
- /// **Exclusion threshold introduced:** \$18,571 minimum (2025), only salaries above this threshold qualify
- /// **Gradual shift:** Less immediate cash refund, more tax reduction over time



QUALIFYING FOR CDAEIA

ELIGIBLE ACTIVITIES UNDER CDAEIA

Core eligible activities

- /// Software development with AI integration
- /// AI system design and integration
- /// Machine learning algorithm development
- /// Data processing and analysis using AI
- /// Automated decision-making system creation
- /// AI-powered optimization solutions
- /// Intelligent automation development

Enhanced scope: Data processing and hosting

CDAEIA expands eligibility to include:

- /// Cloud services with AI components
- /// Data hosting with intelligent processing
- /// Infrastructure services supporting AI applications

AI COMPONENT REQUIREMENTS

To meet the AI integration mandate, your solutions must demonstrate:

Substantial AI integration

- /// AI drives core functionality, not peripheral features
- /// Measurable performance improvements through AI
- /// Clear differentiation from traditional programming

Acceptable AI technologies

- /// **Machine learning:** Supervised, unsupervised, reinforcement learning
- /// **Natural language processing:** Text analysis, language generation
- /// **Computer vision:** Image recognition, object detection
- /// **Predictive analytics:** Forecasting, trend analysis
- /// **Automation Intelligence:** Process optimization, decision support

DOCUMENTATION REQUIREMENTS

Strong documentation is crucial for CDAEIA claims.

AI integration evidence:

- Technical specifications showing AI components.
- Performance metrics demonstrating AI impact.
- Development logs tracking AI integration.
- Testing results validating AI functionality.

Project documentation:

- AI development methodologies used.
- Data sources and training processes.
- Algorithm selection and optimization.
- Integration challenges and solutions.

CALCULATING YOUR CREDIT

UNDERSTANDING THE NEW RATE STRUCTURE

$$\text{CDAEIA Credit} = (\text{Eligible Salaries} \times \text{Credit Rate}) - \text{Government Assistance}$$

Credit rate application:

SCENARIO	RATE	NOTES
Standard projects	30%	Full rate applies
Dependency link projects	15%	Rate halved for related entity work
Mixed projects	Variable	Proportional calculation

SALARY THRESHOLD CALCULATION

With the elimination of the salary cap, here is the difference between the old and the new program:

SCENARIO	CDAE	CDAEIA
Gross salary	\$120,000	\$120,000
Salary cap/ exclusion threshold	\$83,333 (cap)	\$18,571 (exclusion threshold)
Eligible salary	\$83,333 (capped at max)	\$120,000 - \$18,571 = \$101, 429
Credit rate	30%	23% (refundable)
Resulting credit	\$83,333 x 30%	\$101,429 x 23% = \$23,329

Under the previous CDAE program, this salary would have been capped at **\$83,333**. The new system allows for higher eligible amounts, particularly beneficial for senior AI specialists and technical leads with salaries higher than **\$100K**.

DEPENDENCY LINK REDUCTIONS

Companies with dependency relationships face credit reductions:

When reductions apply:

- Development work for related entities
- Applications used primarily outside Quebec
- Revenue sharing with affiliated companies

Expanded dependency definition:

The new rules broaden "dependency" to include:

- Ownership ties:** Direct or indirect control
- Contractual relationships:** Supply, licensing, commercialization agreements
- Significant business relationships:** Major client dependencies



PREPARING FOR THE TRANSITION

EARLY ADOPTION STRATEGY

Companies can opt for early adoption starting March 25, 2025:

Benefits of early adoption:

- /// Access to new credit structure sooner
- /// More time to prepare the full AI requirements
- /// Competitive advantage in AI development
- /// Better alignment with 2026 mandatory changes

Requirements for early adoption:

- /// Formal notification to Investissement Québec
- /// Projects must already demonstrate AI integration
- /// Compliance with new eligibility criteria

STRATEGIC PLANNING CONSIDERATIONS

For current CDAE recipients:

- 1 Assess current projects for AI integration potential
- 2 Identify gaps between current work and CDAEIA requirements
- 3 Plan AI integration strategy for ongoing projects
- 4 Review workforce composition for eligibility requirements

For new applicants:

- 1 Design projects with substantial AI components
- 2 Structure workforce to meet minimum requirements
- 3 Plan revenue stream to satisfy 75%/50% rules
- 4 Prepare documentation systems for AI evidence

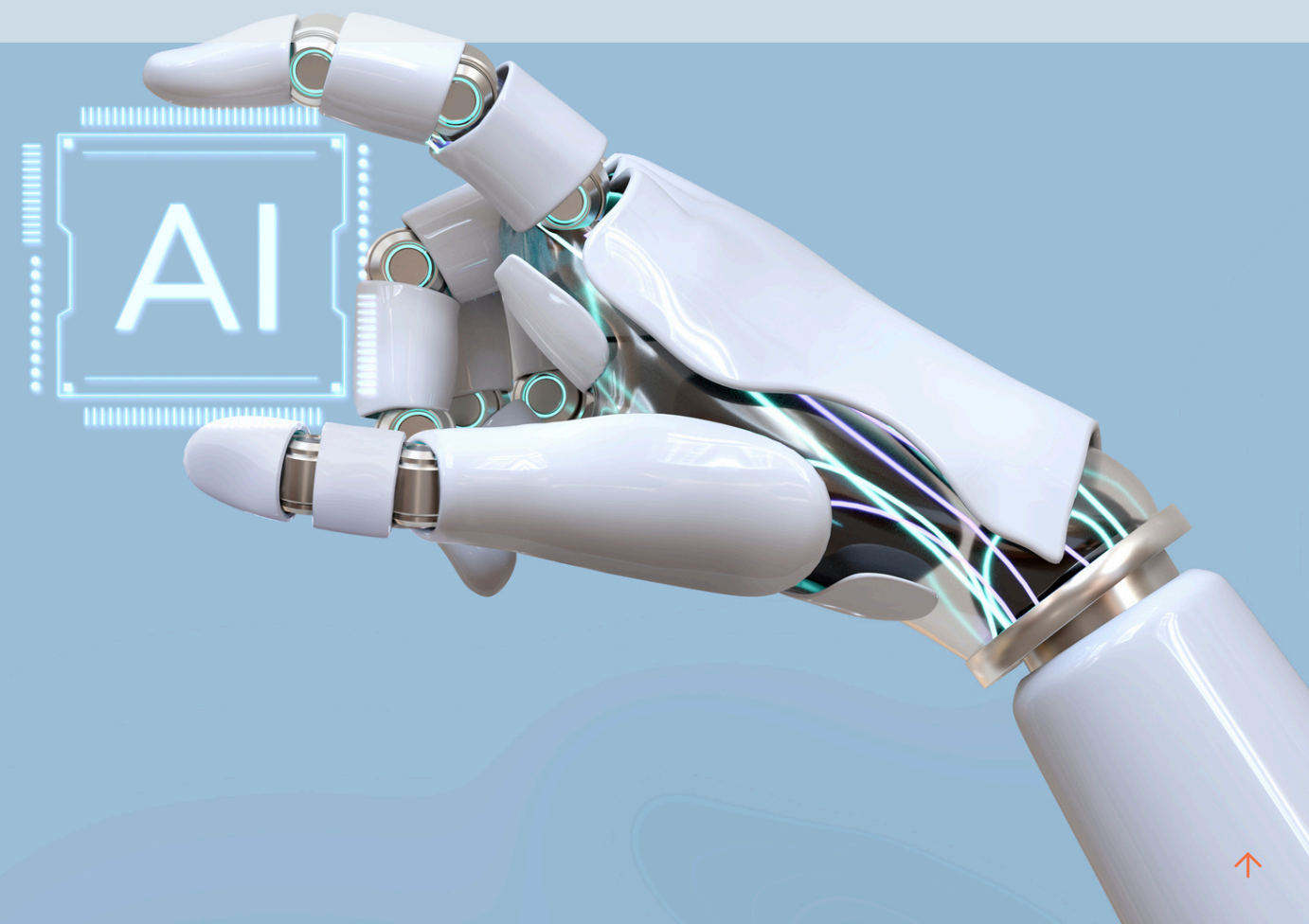
DOCUMENTATION BEST PRACTICES

AI-focused documentation:

- | | | | |
|--|--|---|---|
| 1 | 2 | 3 | 4 |
| Technical architecture
Detailed AI system design | Development process
AI methodology and iteration | Performance metrics
Before/after AI integration | Integration evidence
How AI enhances core functionality |

Financial documentation:

- | | | |
|--|--|--|
| 1 | 2 | 3 |
| Salary records
Detailed time tracking for eligible employees | Revenue classification
Clear IT vs non-IT revenue separation | Expense allocation
Direct and indirect costs of AI development |



CASE STUDIES

CASE STUDY EXAMPLE 1: MANUFACTURING AI OPTIMIZATION



Overview:

- Company: A Quebec-based manufacturing software company
- Project: AI powered production line optimization system
- Timeline: 12 month development cycle



CDAEIA application:

- Eligible salaries: \$850,000 (15 employees)
- AI integration: Substantial, core product functionality
- Credit rate: 30%
- Credit received: \$255,000



Project details:

- Developed machine learning algorithms for predictive maintenance
- Integrated computer vision for quality control
- Created automated scheduling optimization
- Achieved 25% efficiency improvement

Outcome:

Successful claim with full documentation of AI impact and performance improvements



CASE STUDIES

CASE STUDY EXAMPLE 2: HEALTHCARE DATA ANALYTICS PLATFORM



Overview:

- Company: A Quebec healthtech startup
- Project: AI driven patient data analysis platform
- Timeline: 18 month development and deployment



CDAEIA application:

- Eligible salaries: \$1,200,000 (21 employees)
- AI integration: Core platform functionality
- Credit rate: 30% full rate
- Credit received: \$360,000



Project details:

- Natural language processing for medical records
- Predictive analytics for patient outcomes
- Automated risk assessment algorithms
- PHIPA-compliant data processing infrastructure

Outcome:

Platform now serves multiple Quebec hospitals with measurable patient outcome improvements.



FREQUENTLY ASKED QUESTIONS (Q&A)



Q: How do I know if my AI integration is substantial enough?

A: The AI must drive core functionality and provide measurable improvements. Surface-level AI features or marketing claims won't qualify. Document specific performance metrics and technical specifications showing how AI enhances your solution's value.

Q: Can I combine CDAEIA with SR&ED tax credits?

A: Yes, CDAEIA can be combined with SR&ED credits, provided the activities meet both programs' requirements. However, the same expenses cannot be claimed under both programs simultaneously.

Q: What happens if I don't meet the 75% IT revenue requirement?

A: Companies not meeting this threshold won't qualify for CDAEIA. Consider restructuring your business operations or focusing on IT-specific subsidiaries to meet eligibility requirements.

Q: How does the dependency link reduction work in practice?

A: If you develop AI solutions primarily for related entities outside Quebec, your credit rate drops to 15%. This applies when more than 50% of project revenue comes from such arrangements.

Q: Is early adoption worth considering?

A: Early adoption benefits companies whose projects already incorporate substantial AI. It provides access to the new credit structure sooner and more time to prepare for full 2026 requirements.

Q: What documentation should I maintain for AI components?

A: Maintain technical specifications, development logs, performance metrics, testing results and clear evidence of how AI improves system functionality. This documentation is crucial for claim validation.

Q: How do I calculate the exclusion threshold for part-time employees?

A: The exclusion threshold is prorated based on the number of eligible days worked. For example, an employee working 50% time would have a 9,286 threshold (50% of 18,571 in 2025)

Q: What happens if I still have CDAE claims pending or my fiscal year ends before January 2025?

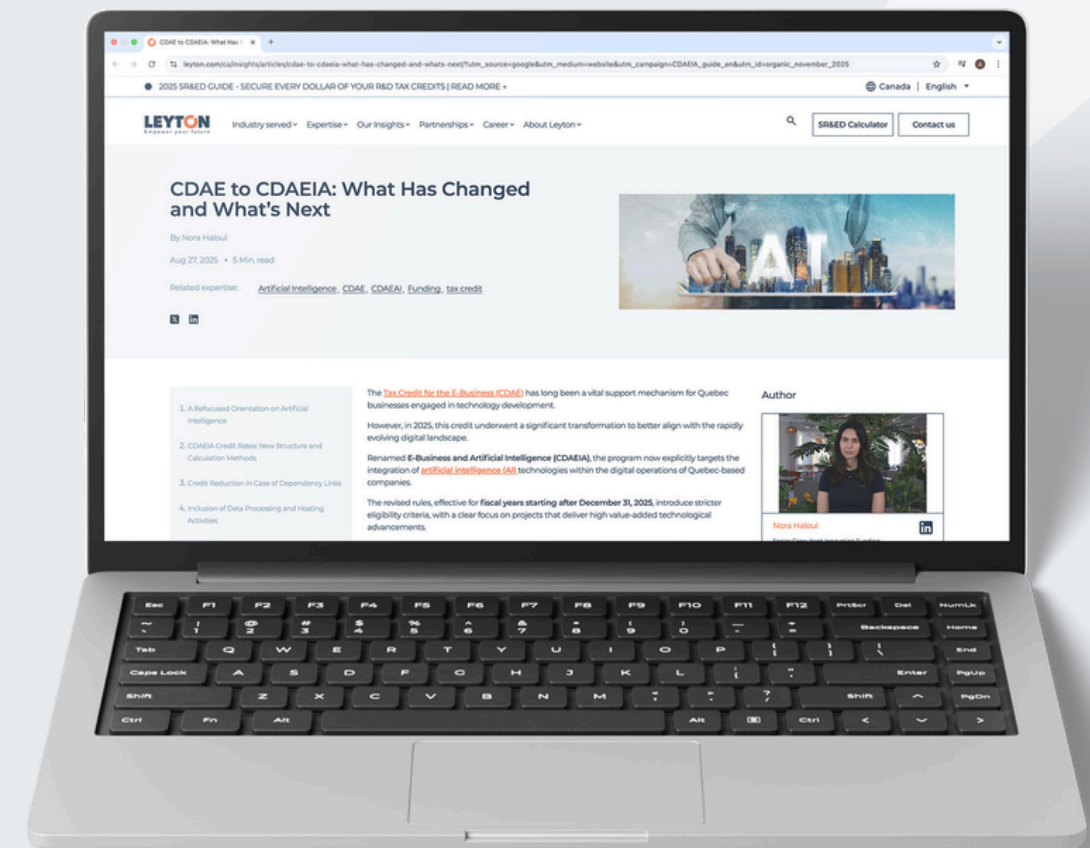
A: Any pending claims or fiscal years ending before January 2025 will be processed under the previous CDAE program. After this period, the old CDAE credit will be discontinued.

CONCLUSION

The transition from CDAE to CDAEIA represents both an opportunity and a challenge. Quebec's focus on AI-driven innovation creates substantial benefits for companies that adapt successfully, but the new requirements demand careful planning and documentation.

Watch our comprehensive webinar *"The CDAE becomes the CDAEIA: Keys to a Smooth Transition"* available as a full replay to help you understand all aspects of this important change.

For a quick read you can check this article: *CDAE to CDAEIA: What Has Changed and What's Next?* where one of our Senior Consultants breaks down the recent changes on the CDAEIA program.





MAXIMIZE YOUR CDAEIA BENEFITS WITH LEYTON

Contact our experts today to develop your transition strategy and ensure you capture every available credit opportunity.

Talk to an expert ↗



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