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Tax Alert – Canada

Prince Edward Island budget 2025-26

EY Tax Alerts cover significant tax news, developments and changes in legislation that affect Canadian businesses. They act as technical summaries to keep you on top of the latest tax issues. For more information, please contact your EY advisor or EY Law advisor.

"We know the world around us is uncertain – costs are rising, trade relationships are changing, and shifting political winds beyond our borders continue to impact our Island.

Today, we take another step forward – securing our future by strengthening our province, investing in the people who make it great, and ensuring a strong, sustainable future for all.

It is a budget that balances our ambitions with responsibility."

*Prince Edward Island Finance Minister and Chair of Treasury Board Jill Burridge
2025-26 budget speech*

On 10 April 2025, Prince Edward Island Finance Minister and Chair of Treasury Board Jill Burridge tabled the province's fiscal 2025-26 budget. The budget contains tax measures affecting individuals and corporations.

The minister anticipates a deficit of \$166.3 million for 2024-25 and projects a deficit of \$183.9 million for 2025-26, followed by further deficits for each of the next two years (\$167.8 million for 2026-27 and \$119.5 million for 2027-28). The projected 2025-26 deficit includes a \$32 million tariff and trade contingency fund to provide direct support to businesses and workers affected by tariffs, reinforce trade relationships and help Prince Edward Island businesses diversify into new markets (an additional \$10 million tariff working capital program will also provide financial relief through flexible loans).

Following is a brief summary of the key tax measures.



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with confidence**

Business tax measures

Corporate income tax rates

Effective 1 July 2025, the budget proposes to decrease the general corporate income tax rate to 15% from 16% and increase the \$500,000 small-business limit to \$600,000. The small-business corporate income tax rate will remain at 1%.

Prince Edward Island's current and proposed 2025 corporate income tax rates are summarized in Table A.

Table A - 2025 Prince Edward Island corporate income tax rates¹

	Current PEI rate	Proposed rates			
		Prior to 1 July 2025		After 30 June 2025	
		PEI	Federal and PEI combined	PEI	Federal and PEI combined
Small-business tax rate ²	1.00%	1.00%	10.00%	1.00%	10.00%
General corporate tax rate ^{2, 3}	16.00%	16.00%	31.00%	15.00%	30.00%

¹ The rates represent calendar-year-end rates unless otherwise indicated.

² The federal corporate income tax rates for manufacturers of qualifying zero-emission technology are reduced to 7.5% for eligible income otherwise subject to the 15% federal general corporate income tax rate or 4.5% for eligible income otherwise subject to the 9% federal small-business corporate income tax rate. These reductions are not reflected in the combined federal and Prince Edward Island rates above.

³ An additional tax applies to banks and life insurers at a rate of 1.5% on taxable income (subject to a \$100 million exemption to be shared by group members).

Personal tax

Personal income tax rates

The budget does not include any changes to personal income tax rates. However, the minister proposes to increase the five tax brackets by 1.8% for 2026.

The 2025 and 2026 Prince Edward Island personal income tax rates are summarized in Table B.

Table B - 2025 and 2026 Prince Edward Island personal income tax rates

First bracket rate ¹		Second bracket rate		Third bracket rate		Fourth bracket rate		Fifth bracket rate	
2025	2026 (proposed bracket)	2025	2026 (proposed bracket)	2025	2026 (proposed bracket)	2025	2026 (proposed bracket)	2025	2026 (proposed bracket)
\$0 to \$33,328	\$0 to \$33,928	\$33,329 to \$64,656	\$33,929 to \$65,820	\$64,657 to \$105,000	\$65,821 to \$106,890	\$105,001 to \$140,000	\$106,891 to \$142,520	Above \$140,000	Above \$142,520
9.50%		13.47%		16.60%		17.62%		19.00%	

¹ Individuals resident in Prince Edward Island on 31 December 2025 with taxable income up to \$17,934 pay no provincial income tax as a result of a low-income tax reduction. The low-income tax reduction is clawed back for income in excess of \$22,250 until the reduction is eliminated, resulting in an additional 5% of provincial tax on income between \$22,251 and \$29,250.

For taxable income in excess of \$140,000, the 2025 combined federal-Prince Edward Island personal income tax rates are outlined in Table C.

Table C - Combined 2025 federal and Prince Edward Island personal income tax rates

Bracket	Ordinary income ¹	Eligible dividends	Non-eligible dividends
\$140,001 to \$177,882	45.00%	26.88%	39.87%
\$177,883 to \$253,414 ²	48.32%	31.46%	43.68%
Above \$253,414	52.00%	36.54%	47.92%

¹ The rate on capital gains is one-half the ordinary income tax rate.

² The federal basic personal amount comprises two elements: the base amount (\$14,538 for 2025) and an additional amount (\$1,591 for 2025). The additional amount is reduced for individuals with net income in excess of \$177,882 and is fully eliminated for individuals with net income in excess of \$253,414. Consequently, the additional amount is clawed back on net income in excess of \$177,882 until the additional tax credit of \$239 is eliminated; this results in additional federal income tax (e.g., 0.32% on ordinary income) on net income between \$177,883 and \$253,414.

Personal tax credits

This budget proposes changes to the following personal credits/amounts:

- ▶ **Basic personal amount** - Increase in the basic personal amount from \$14,250 to \$14,650 and to \$15,000 for 2025 and 2026, respectively.
- ▶ **Low-income tax reduction** - Similar \$400 and \$350 increases in the income threshold for the low-income tax reduction to \$22,650 and to \$23,000 for 2025 and 2026, respectively.
- ▶ **Spousal and equivalent amounts** - Increase in the spouse or common-law partner amount, as well as in the amount for an eligible dependent, from \$12,103 to \$12,443 for 2025 and to \$12,740 for 2026, and increase in the related income threshold from \$1,210 to \$1,244 for 2025 and to \$1,274 for 2026.

Other tax measures

Tobacco tax

The budget proposes to increase the tobacco tax rate per cigarette from \$0.2952 to \$0.3000, effective 28 April 2025.

Real property transfer tax

The budget proposes to increase the real property transfer tax rate from 1% to 2% once a \$1,000,000 threshold is reached, effective 28 April 2025. Although no further details are provided in the budget, it is presumed that the 2% rate will apply where the amount subject to the tax (i.e., the greater of the consideration for the transfer of a real property or its assessed value) is \$1,000,000 or higher.

It is also proposed that the current first-time homebuyers exemption from the tax will not apply where the consideration or the assessed value is equal to or above the \$1,000,000 threshold. The new 2% rate will apply.

Learn more

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