



**MacGillivray**  
Chartered Accountants & Business Advisors

## PROVINCIAL BUDGET COMMENTARY

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*For Clients and Associates of  
MacGillivray Hamilton*



## **Introduction**

Finance Minister Dwight Duncan delivered Ontario's 2009 Budget on March 26, 2009. The Budget is projecting a deficit of \$3.9 billion in 2008-09, increasing to \$14.1 billion in 2009-10.

As anticipated the Budget proposes to harmonize Ontario's current 8% Retail Sales Tax and the federal 5% GST tax to create a single 13% value added sales tax. These changes are effective July 1, 2010.

The Budget proposes minor tax rate changes for individuals while increasing the tax rate on both eligible and non-eligible dividends. For corporations there are tax cuts in the general, manufacturing and processing and small business tax rates as well as the elimination of the small business deduction surtax.

The following summarizes the tax related measures included in the current Budget.

## **Sales Tax Harmonization**

### ***General***

It is proposed that starting July 1, 2010 Ontario will introduce a value-added tax. This tax will be combined with the federal Goods and Services Tax ("GST") to create a federally administered single sales tax. The Ontario value-added tax will replace the existing Ontario Retail Sales Tax ("RST"). The single combined value-added tax will have a 13% rate representing a 5% federal portion and

8% Ontario portion (the same rate as the current RST). The single sales tax will be largely consistent with the GST. The single sales tax will tax a wide range of goods and services but will not be charged on items such as basic groceries, prescription drugs and medical devices. Businesses making taxable or zero-rated sales will generally be able to claim input tax credits for the single sales tax paid on their purchases. As part of this sales tax reform process Ontario is to receive \$4.3 billion in cash transfer payments from the federal government to promote economic growth and support transition to the single sales tax.

### ***Sales Tax Transition Benefits for Individuals***

To assist individuals during the introduction of the single sales tax, benefits will be payable to eligible Ontario income tax filers aged 18 and over. A single person with no children and income of less than \$80,000 will receive \$300 in 3 instalments payable June 2010, December 2010 and June 2011. Single parents or couples with combined income of \$160,000 or less will receive \$1,000 in 3 instalments payable June 2010, December 2010 and June 2011.

### ***Sales Tax Transition Support for Small Business***

Effective March 31, 2010 the vendors' compensation currently paid under the RST will be eliminated. To assist small business in transitioning to the single sales tax, a credit will be provided. The credit will be based on taxable sales in

the first full quarter commencing after June 30, 2010.

- businesses with taxable revenues of \$15,000 or less will receive a \$300 credit,
- businesses with taxable revenues between \$15,000 and \$50,000 will receive a credit of 2% of taxable revenue, and
- businesses with taxable revenues between \$50,000 and \$500,000 will receive a credit of \$1,000.

### ***Temporarily Restricted Input Tax Credit (“ITC”)***

Restricted ITCs will be imposed on large businesses with annual taxable sales in excess of \$10 million and financial institutions. The restriction will apply only to the provincial portion of the single sales tax and be in place for the first 5 years and then phased out over the following 3 years. Purchases subject to the ITC restriction include certain energy charges, certain telecommunication services, road vehicles less than 3,000 kilograms, food, beverages and entertainment.

### ***Rebates for Public Service Bodies***

Similar to the GST, rebates will be available for the provincial portion of the single sales tax. These rebates are available to municipalities, universities/colleges, school boards, hospitals, charities and qualifying non-profit organizations.

### ***Point-of-Sale Exemptions***

To provide targeted tax relief, point-of-sale rebates will be introduced for the provincial portion of the single sales tax

on the following items: books, children’s clothing and footwear, children’s car seats, diapers, and feminine hygiene products.

### ***New Housing Rebate***

To ensure that new homes priced under \$400,000 do not attract additional sales tax, a rebate will be available equal to 75% of the provincial component of the single sales tax (6%). This rebate will be phased out for homes priced between \$400,000 and \$500,000 with no rebate available for those priced over \$500,000. Resale home purchases will not be subject to the single sales tax.

### ***Insurance Premiums***

Insurance premiums currently subject to the RST will also be subject to the 8% provincial portion of the single sales tax.

### ***Alcohol Sales***

RST is currently applied on purchases of alcoholic beverages at rates of 10% or 12%. Under the single sales tax these rates will fall to 8%. To ensure that existing revenues are maintained, alcohol fees, levies and charges will be adjusted upward to offset the sales tax rate reduction.

### ***Private Transfers of Motor Vehicles***

After implementation of the single sales tax, Ontario will retain a sales tax on private transfers of automobiles. This will maintain a level playing field between used vehicles sold through dealerships and private sales.

### ***Hotel Rooms and Other Transient Accommodation***

The RST currently applies at a rate of 5% on charges for hotel rooms and other transient accommodation. Under the single sales tax system such charges will be subject to the full 13% thereby increasing the provincial sales taxes applied to 8%.

### **Personal Taxes**

#### ***Tax Rates***

The Budget proposes that, effective January 1, 2010, the lowest Ontario marginal tax rate be reduced to 5.05% from 6.05%. The lowest rate currently applies to the first \$36,848 of taxable income. This threshold is indexed annually.

The maximum amounts of the Ontario Tax Reduction (“OTR”), which reduces or eliminates Ontario personal income tax for low income taxpayers, are not being changed. This lack of change when combined with the reduction of the lowest marginal rate should result in more taxpayers receiving the benefit of the OTR. The government estimates that this will benefit approximately 800,000 taxpayers.

Ontario levies a two-tier personal surtax, the first tier at 20% of Ontario income tax in excess of a base amount and the second tier at 36% of Ontario income tax in excess of a higher base amount. The Budget proposes to reduce both base amounts for 2010. Currently, the threshold amounts are \$4,257 for the first tier and \$5,370 for the second tier.

It is proposed that, for 2010, these thresholds become \$3,978 and \$5,091 respectively.

Personal non-refundable credits claimed against Ontario tax payable are computed by applying the lowest marginal rate to a base amount for each credit. Accordingly, for 2010 and subsequent years, these credits will be computed at 5.05%.

#### ***Tax Treatment of Dividends***

The Budget proposes to reduce the Ontario general corporate tax rate, effective July 1, 2010. As a result of this change, the Budget also proposes to reduce the Ontario dividend tax credit on eligible dividends (essentially those paid out of income taxed at the general rate) effective January 1, 2010 from a previously introduced rate of 7.7% to 6.4% of the “grossed-up” dividend.

Combining the federal rates with the Ontario changes, top marginal rates for eligible dividends in Ontario are as follows:

<b>Year</b>	<b>Federal</b>	<b>Ontario</b>	<b>Total</b>
2009	14.6%	8.5%	23.1%
2010	15.9	10.7	26.6
2011	17.7	10.5	28.2
2012	19.3	10.3	29.6

The Budget also proposes to reduce the Ontario small business corporate tax rate, effective July 1, 2010. As a result of this change, the Budget also proposes to reduce the Ontario dividend tax credit on non-eligible dividends (essentially those paid out of income taxed at small business rates) effective January 1, 2010

from 5.13% to 4.5% of the “grossed-up” dividend.

Combining the federal rates with the Ontario changes, top marginal rates for non-eligible dividends in Ontario are as follows:

Year	Federal	Ontario	Total
2009	19.6%	11.7%	31.3%
2010 and subsequent	19.6	13.0	32.6

### *Property and Sales Tax Credits*

The Budget proposes to replace the existing combined property tax and sales tax credits with two new credits, effective for the 2010 tax year.

#### *Ontario Sales Tax Credit (“OSTC”)*

The OSTC sales tax credit will be paid quarterly starting in July 2010, much like, and in addition to, the existing federal Refundable GST Credit.

The maximum annual credit for July 2010 to June 2011 will be \$260 per family member. The aggregate family credit will be reduced by 4% of family net income in excess of \$20,000 for singles and \$25,000 for families. The family income will be determined based on the prior year’s tax returns for the family members (2009 for the 2010 – 2011 credit). The amount of the credit per family member and the income thresholds will be indexed annually.

#### *Ontario Property Tax Credit*

This refundable credit will be based on property taxes paid or 20% of rent paid, known as occupancy cost. The credit

will be \$250 for non-seniors and \$625 for seniors plus 10% of occupancy cost, to a maximum of \$900 for non-seniors and \$1,025 for seniors. The computed amount will then be reduced by 2% of family net income in excess of \$20,000 for singles and \$25,000 for families.

The amounts and thresholds will be indexed annually for inflation.

### *Property Tax Grants and Credits for Seniors*

The Ontario Senior Homeowners’ Property Tax Grant was introduced in the 2008 Budget. The 2009 Budget confirms that the maximum grant will be \$500 for 2010 and subsequent years.

The refundable Ontario Property and Sales Tax Credits for qualifying seniors have been regularly enhanced since their introduction. The credits are reduced by income over a threshold amount. The Budget proposes to increase the threshold for 2009 for senior couples over the current \$24,300. The increased income threshold will be set so that those receiving the guaranteed minimum level of income from governments will not have their credit reduced. The threshold will be determined once the federal government finalizes Old Age Security and Guaranteed Income Supplement amounts for 2009. Starting in 2010 these credits will be replaced by the New Ontario Sales Tax Credit and Ontario Property Tax Credit.

### *Tax-Free Savings Accounts (“TFSA”)*

Individuals are able to contribute up to \$5,000 annually to a TFSA and

investment income and capital gains earned on these funds is tax-free. The Budget proposes to change the Succession Law Reform Act to allow direct beneficiary designations on TFSAs, similar to those for Registered Retirement Savings Plans and life insurance. The impact of this proposal is to allow TFSAs to pass outside a will thereby avoiding Estate Administration Tax or probate.

### ***Locked-in Pension Accounts***

Enhanced access to locked-in funds will be provided by changes to the Pension Act that will allow 50% unlocking (increased from 25%) on purchase from new Life Income Funds (“LIF”), effective January 1, 2010. Existing LIF and Locked-in Retirement Income Fund owners will be able to unlock an additional 25% of their accounts in order to bring them on side with the new rules. In addition, there will be a temporary two-year waiver of financial-hardship application withdrawal fees for applications approved on or after April 1, 2009.

## **Corporate Taxes**

### ***Tax Rates***

The Budget proposes to reduce the corporate income tax rate for all types of income over a three year period, effective July 1, 2010. In addition, the small business deduction surtax or “clawback”, currently at 4.25%, will be eliminated as of that date. This would result in an annual tax savings of up to \$37,500. Where the corporate taxation year straddles the effective date, rates

will be pro-rated. As a result of these proposals, Ontario corporate income tax rates will be as follows:

	<b>General</b>	<b>M&amp;P</b>	<b>Small Business</b>
Current	14.0%	12.0%	5.5%
July 1, 2010	12.0	10.0	4.5
July 1, 2011	11.5	10.0	4.5
July 1, 2012	11.0	10.0	4.5
July 1, 2013	10.0	10.0	4.5

### ***Corporate Minimum Tax***

The Budget proposes two changes to Corporate Minimum Tax (“CMT”). CMT is currently calculated as the excess of 4% of adjusted accounting net income over “regular” income tax. The CMT rate is to be reduced to 2.7% effective for taxation years ending after June 30, 2010.

Currently, CMT does not apply to a corporation or an associated group of corporations with total assets under \$5 million and annual gross revenues under \$10 million. For taxation years ending after June 30, 2010, CMT will not apply if total assets are under \$50 million or annual gross revenues are under \$100 million.

### ***Ontario Innovation Tax Credit (“OITC”)***

The OITC is a refundable 10% tax credit on qualifying scientific research and experimental development (“SR&ED”) expenditures incurred in Ontario and is available to small and medium-sized corporations. The OITC is currently subject to a graduated phase-out where taxable income exceeds \$400,000 and is fully eliminated at \$700,000 of taxable income. The Budget proposes to

increase these thresholds to \$500,000 and \$800,000 respectively. It is intended that the effective date of these changes parallel that of the federal amendments announced in the 2009 federal Budget. Accordingly, they will be effective for taxation years ending after 2009 with a pro-ration for taxation years that straddle December 31, 2009.

***Ontario Interactive Digital Media Tax Credit (“OIDMTC”)***

The OIDMTC is a refundable credit available to corporations engaging in the creation, marketing and distribution of interactive digital media products in Ontario. The credit is 30% of qualifying expenditures for smaller corporations that develop and market their own products and 25% for larger corporations.

The Budget proposes to make two changes to the credit rates. The rate will be 40% for qualifying corporations, regardless of size, that develop and market their own eligible products and 35% for qualifying corporations that develop eligible products under fee-for-service arrangements. Both changes are effective for qualifying expenditures incurred after March 26, 2009.

The Budget proposes to expand qualifying expenditures to include 100% (increased from 50%) of amounts paid to eligible arm’s length contractors that are attributable to the salaries and wages of the contractor’s employees, effective for expenditures incurred after March 26, 2009. In addition, the OIDMTC will be extended to digital media game developers that incur a minimum of

\$1 million of eligible labour expenditures over a 36 month period for fee-for-service work done in Ontario. There will be no requirement that the purchaser be arm’s length or that the claimant develop all or substantially all of the product. This change is also effective for qualifying expenditures incurred after March 26, 2009.

***Ontario Computer Animation and Special Effects Tax Credit (“OCASETC”)***

The OCASETC is a 20% refundable credit available to corporations engaging in digital animation and special effects for qualifying film and television productions. The Budget proposes enhancements to this credit for qualifying expenditure incurred after March 26, 2009. Firstly, 100% (increased from 50%) of amounts paid to arm’s length freelance individuals and partnerships will qualify. Secondly, 100% of payments to arm’s length incorporated individuals will now qualify. The incorporated individual’s corporation will be prevented from claiming the credit for itself. In addition, it will no longer be a requirement that an eligible animation or visual affect be created primarily with digital technologies.

***Ontario Book Publishing Tax Credit (“OBPTC”)***

The OBPTC is a 30% refundable credit available to corporations engaging in publishing and promoting the first three books of a Canadian author writing in the fields of adult or children’s fiction, non-fiction, poetry or biography. For

expenditures incurred after March 26, 2009, the Budget eliminates the first three books limitation and extends the credit to direct expenses that can reasonably relate to publishing an electronic version of an eligible book.

***Co-operative Education Tax Credit (“CETC”)***

The CETC is a refundable credit available to employers of students in qualifying co-op programs. The credit is 10% (15% rate for small businesses) of salaries and wages paid to a maximum of \$1,000 per placement. For expenditures incurred after March 26, 2009 the rates are to be increased to 25% and 30% respectively and the maximum per placement is to be increased to \$3,000.

***Apprenticeship Training Tax Credit (“ATTC”)***

The ATTC is a refundable credit available to employers of eligible apprentices in qualifying trades. The credit is 25% (30% rate for small businesses) of salaries and wages paid during the first 36 months of apprenticeship to a maximum annual credit of \$5,000. The ATTC is available for apprentices that begin their apprenticeship program before January 1, 2012 and salaries and wages paid before January 1, 2015. For expenditures incurred after March 26, 2009 the rates are to be increased to 35% and 45% respectively and the annual maximum is to be increased to \$10,000. In addition, the ATTC will be available for salaries and wages paid during the first 48 months of apprenticeship and the sunset dates are to be eliminated.

***Ontario Film and Television Tax Credit (“OFTTC”)***

The OFTTC is a refundable credit available to corporations engaged in certified domestic film and television productions. The current rate of 35% was to expire December 31, 2009 and return to the previous rate of 30%. The Budget confirms that the rate will permanently be 35%. This was previously announced on February 20, 2009.

***Ontario Production Services Tax Credit (“OPSTC”)***

The OPSTC is a refundable credit available to corporations engaged in foreign film and television production services and non-certified domestic film and television productions in Ontario. The current rate of 25% was to expire December 31, 2009 and return to the previous rate of 18%. The Budget confirms that the rate will permanently be 25%. This was previously announced on February 20, 2009.

***Political Contributions***

The Budget confirms an announcement made on December 30, 2008 that legislation will be introduced to eliminate the current corporate deduction for Ontario political contributions. Instead of the deduction, a non-refundable credit will be provided. This is to be effective for taxation years ending after December 31, 2008. This measure is a result of the integration of federal and Ontario corporate tax filings. Unused contributions may be carried forward for up to 20 years.

## **Concordance with Federal Measures**

The Budget announces the intention of Ontario to adopt the following previously announced federal measures:

- 100 % accelerated capital cost allowance rate with no half-year rule for eligible computers and software acquired after January 27, 2009 and before February 2011.
- 50% straight-line accelerated capital cost allowance rate for manufacturing and processing machinery and equipment acquired in 2010 and 2011.
- Increase of the RRSP Homebuyer's Plan withdrawal limit to \$25,000 from \$20,000 effective for withdrawals after January 27, 2009.
- Carryback of post-death decreases in value of Registered Retirement Savings Plans and Registered Retirement Income Funds to offset the year-of-death income inclusion for the deceased, effective for deaths after 2008.