



March 26, 2009 Ontario Budget

The Ontario government has brought us a budget which forecasts deficits of \$3.9 billion in 2008-09 and \$14.1 billion in 2009-10. Their plan is also to balance the annual budget by 2015-16, however there are no plans to reduce the provincial debt. In summary, 2009 budget includes the following:

Reforms to Ontario's tax system through

- the implementation of a single value-added sales tax on July 1, 2010;
- providing \$10.6 billion in tax relief over the next three years, which includes personal tax reductions, as well as assistance to consumers to help with the transition to a single sales tax; and providing \$4.5 billion in tax cuts for businesses over three years;
- responding to the current recessionary economic climate by focusing on preserving and creating jobs through the allocation of \$32.5 billion for infrastructure projects, as well as funds for skills training and literacy initiatives, and initiatives supporting youth summer employment.;
- investing in children and families;
- a plan for managing government spending.

The important new measures announced in the budget are:

Harmonization of ORST and GST

The budget proposes to harmonize the Ontario Retail Sales Tax (ORST) with the federal Goods and Services Tax (GST) to create a federally administered single value-added sales tax, effective July 1, 2010. The harmonized rate will be 13%, consisting of the 5% GST and a provincial portion of 8% (the same rate as the current ORST). To support the transition to a single sales tax, the federal government will provide Ontario with \$4.3 billion in cash transfer payments (\$3 billion on July 1, 2010 and the balance one year later). The single sales tax will include the following features:

Single tax base and administration

The single value-added sales tax will generally use the same rules and tax base as the GST. This is expected to significantly reduce the administrative burden on businesses that currently are required to comply with two separate and sometimes conflicting sets of tax rules. Businesses are also expected to realize compliance savings by, for example, only having to file tax returns for a single sales tax, instead of both GST and RST returns. With the elimination of the RST, vendor compensation provided by Ontario to vendors for collecting and remitting the RST will end. Compensation will continue to apply for RST returns up to and including those filed for the period ending March 31, 2010.

Value-added tax structure

Under the current system, RST applies to many purchases made by businesses in the course of providing goods and services for sale. Unlike the GST, producers of goods and services cannot apply for a reimbursement of RST through input tax credits. Businesses selling taxable or zero-rated goods and services will be able to claim input tax credits on their purchases, as under the federal GST, with limited exceptions as noted below.

For the first five years after the implementation of the single sales tax, businesses with annual taxable sales in excess of \$10 million, as well as financial institutions, will not be able to claim input tax credits on the 8% provincial portion of the tax in respect of certain supplies as follows:

- telecommunication services other than internet access or toll-free numbers
- energy except where purchased by farms or used to produce goods for sale
- road vehicles weighing less than 3,000 kg and parts and certain services and fuel to power those vehicles
- food, beverages, and entertainment

After the first five years, full input tax credits on these supplies for these entities will be phased in over a three year period. Businesses selling tax-exempt goods or services would be unable to claim input tax credits as under the current federal GST rules.

Public service bodies

Certain public service bodies will be able to claim rebates equal to a percentage of the 8% provincial portion of the single sales tax paid. The rebate percentages proposed are 78% for municipalities, universities and colleges, 87% for hospitals, 93% for school boards and 82% for charities and qualifying non-profit organizations.

Small supplier threshold

Ontario will parallel the GST small supplier threshold whereby small suppliers with total taxable revenues of \$30,000 or less in the prior year (\$50,000 or less for a public service body) will not be required to register and collect the single sales tax, or file a single sales tax return. However, small suppliers that choose not to register will not be eligible to claim input tax credits.

Small business transition credit

Recognizing that some changes will be required to point-of-sale and accounting systems with the implementation of the single sales tax, a one-time Small Business Transition Credit of up to \$1,000 will be provided to most businesses (other than financial institutions) with less than \$2 million in annual revenue from taxable sales.

New housing rebate

Under the current system, RST applies to building supplies used in the construction of new homes but this embedded tax will be removed under a single value-added sales tax system. On the other hand, purchasers of new homes will be subject to the provincial and federal portions of the single sales tax. To provide homebuyers with relief from this additional tax burden, the budget is proposing to allow purchasers of new homes to claim a rebate for primary residences priced under \$400,000 equal to 75% of the provincial portion of the tax (i.e., 6% of the purchase price). A reduced rebate can be claimed for homes priced between \$400,000 and \$500,000. Resale homes will generally not be subject to the harmonized tax.

Point-of-sale exemptions

The sale of books, children's clothing and footwear, children's car seats and booster seats, diapers and feminine hygiene products will, through the provision of rebates at the point-of-sale, not be subject to the 8% provincial portion of the single sales tax. Retailers' of these items will still be able to claim input tax credits.

Sales tax transition benefit

There will be various goods and services previously exempt from the RST that will now be taxable at point-of-sale. Examples include haircuts, restaurant meals costing less than \$4, and rail and taxi travel. For additional relief, the budget proposes to provide a sales tax transition benefit to eligible individuals aged 18 and over. Maximum benefits totalling \$300 will be provided to single individuals and \$1,000 for single parents or couples, to be paid in three instalments in June and December 2010 and in June 2011. Each maximum benefit will be reduced by 5% of the recipients' previous year's adjusted family net income over \$80,000 for single individuals and over \$160,000 for families. Therefore, the benefit will be phased out completely for single people whose income is over \$82,000 and for families with income over \$166,700. (\$166,600 for the June 2010 benefit). To qualify for the benefits, a 2009 tax return would have to be filed (to receive the 2010 benefits) and a 2010 tax return would have to be filed to receive the 2011 benefit.

Destination marketing

The 5% RST rate on hotel rooms would increase to an 8% provincial portion under the single value-added sales tax. As a result of the difference, additional revenue will be allocated to destination marketing in Ontario tourism regions.

Alcohol sales

The 12% rate on alcoholic beverages or 10% when sold through licensed establishments will be replaced with the single tax, thereby changing the provincial portion to 8%. However, the government indicates that it will make adjustments to current alcohol fees, levies and charges to maintain social responsibility and existing revenue.

Items not included under the single sales tax

Ontario will retain a separate sales tax for private transfers of used motor vehicles and on premiums for certain types of insurance such as group insurance. Automobile insurance would continue to be exempt.

The government intends to release transitional rules in the coming months to help businesses prepare for the proposed changes and effectively deal with transactions that straddle the July 1, 2010 implementation date. From now until the implementation date, businesses must evaluate the impact of the single sales tax on their business transactions.

Corporate income tax rate reductions

The budget proposes to reduce the general income tax rate from 14% to 12% effective July 1, 2010 with further reductions to 11.5% on July 1, 2011, 11% on July 1, 2012 and 10% on July 1, 2013. The rate applicable to manufacturing and processing companies will be reduced from 12% to 10%, effective July 1, 2010.

Small business rate reduction and elimination of SBD surtax

The rate applicable to eligible Canadian-controlled private corporations on the first \$500,000 of active business income will be reduced from 5.5% to 4.5% effective July 1, 2010. In addition, the small business deduction surtax of 4.25% which was designed to phase-out the small business deduction on taxable income between \$500,000 and \$1.5 million will be eliminated on the same date. Therefore, all CCPCs will be taxed at the small business rate on the first \$500,000 of active business income regardless of income level. This is a welcome change for any corporation that earns at least \$500,000 in active business income and where the preference would be to retain income in excess of \$500,000 in the corporation for capital investment purposes.

CMT rate reduction

The budget proposes a reduction in the Corporate Minimum Tax (CMT) rate from 4% of adjusted net income for accounting purposes in excess of corporate income tax payable to 2.7%, effective for taxation years ending after June 30, 2010. An additional measure proposes to exempt more small and medium sized business from the CMT by providing that corporations or associated groups with under \$50 million in total assets or \$100 million in annual gross revenues would not be subject to CMT. The current exemption thresholds are \$5 million and \$10 million, respectively.

Enhancements to existing tax credits

Enhancements to the Co-operative Education Tax Credit which will see the 10% refundable credit on salaries and wages paid (15% for small businesses) increase to 25% (30% for small businesses) effective for eligible expenditures incurred after March 26, 2009. In addition, the maximum available credit will increase from \$1,000 to \$3,000 per work placement;

Enhancements to the Apprenticeship Training Tax Credit which will increase the 25% refundable credit rate on salaries and wages paid to 35%, and the 30% enhanced rate for small businesses to 45%, effective for expenditures incurred after March 26, 2009. The budget also proposes to increase the yearly maximum credit from \$5,000 to \$10,000, and make the credit a permanent tax incentive;

Increasing the taxable income phase-out range for the Ontario Innovation Tax Credit; and Enhancements to the Ontario Interactive Digital Media Tax Credit. This refundable credit is currently equal to 30% for qualifying expenditures incurred by small corporations and 25% for large corporations that develop their own eligible products. Effective for qualifying expenditures incurred after March 26, 2009, the budget proposes to increase this credit to 40%, regardless of the size of the corporation and to provide a 35% credit for qualifying corporations that develop eligible products under a fee-for-service arrangement. Other enhancements are also proposed.

Enhancements to the Ontario Computer Animation and Special Effects Tax Credit. This is a 20% refundable credit based on eligible labour expenditures. The budget proposes to increase eligible labour expenditures incurred after March 26, 2009 to 100% from 50% of amounts paid to arm's length unincorporated individuals and partnerships providing freelance services. In addition, eligible labour expenditures will be expanded to include 100% of amounts paid to arm's length incorporated individuals providing freelance services while ensuring that incorporated individuals cannot claim the credit directly.

Personal tax measures

The budget proposes to reduce the lowest tax rate by 1% from 6.05% to 5.05%, effective January 1, 2010 (applicable to the first \$36,848 of taxable income based on 2009 bracket thresholds). This change in the personal tax rate will result in an adjustment to most non-refundable tax credits, such that the credit amounts will be multiplied by 5.05% instead of 6.05%.

Adjustment to surtax thresholds

The budget proposes to adjust the surtax thresholds, effective in 2010, to 20% of basic Ontario tax in excess of \$3,978 (\$4,257 in 2009) and to 36% of basic Ontario tax in excess of \$5,091 (\$5,370 in 2009).

Adjustment to dividend tax credit rates

The budget proposes to adjust the 2010 dividend tax credit rate on eligible dividends from 7.7% to 6.4% and on other taxable dividends from 5.13% to 4.5%. This will result in a top marginal tax rate of 25.52% for eligible dividends and 32.57% for other taxable dividends.

Ontario sales tax and property tax credits

The budget proposes replacing the current combined sales and property tax credits with a new Ontario Sales Tax Credit (OSTC) and Ontario Property Tax Credit (OPTC) which would come into effect in July 2010.

Unlike the current system where Ontario low to middle-income families only receive sales tax relief after filing their returns for a taxation year, the new credit would provide for advance payments. The OSTC will be refundable and paid quarterly providing for a maximum credit of \$260 for each adult and each child.

The proposed OPTC is also a refundable credit that will be based on occupancy cost, which is property tax paid or 20% of rent paid. The credit will be equal to a maximum of \$250 for non-seniors and \$625 for seniors, plus 10% of occupancy cost, to an overall maximum of \$900 for non-seniors and \$1,025 for seniors.

Both the OSTC and the OPTC will be indexed for inflation and will begin to be phased out for adjusted family net income of over \$20,000 for single individuals and over \$25,000 for families.

Ontario senior homeowners' property tax credit

Effective in 2010, the maximum grant will be doubled from \$250 to \$500 to help eligible low to middle-income senior homeowners pay their property taxes.

Tax free savings accounts

The budget proposes to change the *Succession Law Reform Act* (SLRA) to allow for beneficiary designation of Tax-Free Savings Accounts (TFSAs). Designated beneficiaries would be able to receive TFSAs outside of a will in the same way that beneficiaries can receive proceeds of RRSPs. The TFSA could also pass to the designated beneficiary without being subject to Estate Administration Tax, simplifying estate matters and reducing costs.

Ontario parallels federal tax measures

The budget proposes a number of tax measures to parallel tax measures introduced in the 2009 federal budget, subject to federal implementation:

Increasing the Home Buyers' Plan withdrawal limit from RRSPs to \$25,000 from \$20,000 for withdrawals made after January 27, 2009.

Providing a temporary 100% accelerated CCA rate for eligible computer hardware and systems software acquired after January 27, 2009 and before February 2011. **The half-year rule will not be applicable to these acquisitions.**

Extending the 50% straight-line accelerated CCA rate for eligible manufacturing and processing machinery and equipment acquired in 2010 and 2011.

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