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Ontario Budget Commentary

February 25, 2016

Introduction

On February 25, 2016 Finance Minister Charles Sousa tabled his fourth Budget.

The deficit for the 2015-16 fiscal year is projected to be \$5.7 billion, which is \$2.8 billion less than forecasted in the 2015 Budget. The deficit is projected to drop to \$4.3 billion for 2016-17 and to be eliminated by 2017-18. Furthermore, the government is also projecting a balanced budget in 2018-19.

The Budget does not include any changes to Ontario's personal tax rates but certain personal tax credits are being eliminated. In addition, changes to the so-called "sin taxes" are proposed. From a business perspective, although there are no changes to corporate tax rates, there are proposed reductions to certain credits.

Measures Affecting Individuals

Personal Income Tax Rates

While this Budget does not propose any changes to personal income tax rates, federal personal rates were changed effective January 1, 2016. The resulting top marginal rates where income is over \$220,000 are as follows:

Type of Income	2016	2015
Salary and other income	53.53%	49.53%
Capital gains	26.76%	24.76%
Eligible dividends	39.34%	33.82%
Non-eligible dividends	45.30%	40.13%

Tuition and Education Tax Credits

The Budget proposes a radical restructuring of post-secondary education funding. The changes are intended to target increased support for students from lower income families.

Ontario Tuition and Education Credits ("TEC") are being eliminated effective fall 2017. Tuition for studies after September 4, 2017 will not be eligible for the credit. In addition, months of study after August 2017 will not be eligible. Where the student is resident in Ontario at December 31, 2017, any carry forward TEC will continue to carry forward and can be claimed in the future. If the student becomes an Ontario resident after 2017, any tuition and education amounts carry forward from another province cannot be claimed.

The TEC, as well as the 30% Off Tuition Grant, Ontario Access Grants and other grants, will be replaced by the Ontario Student Grant ("OSG") starting with the 2017-18 school year. Where family income is \$50,000 or less the OSG should exceed average tuition. No student will receive less than that to which they are currently entitled.

Children's Activity Tax Credit

The Children's Activity Credit ("CATC") is a refundable credit designed to assist parents with the cost of enrolling children in various extracurricular activities. The CATC is to be eliminated effective January 1, 2017, as it largely benefits higher income families.

Healthy Homes Renovation Tax Credit

The Healthy Homes Renovation Tax Credit (“HHRTC”) is intended to assist with home renovations that improve safety and/or accessibility of the home for seniors. The HHRTC is 15% of up to \$10,000 of eligible expenditures. Since there has been little “take up” on the HHRTC, it is to be eliminated January 1, 2017.

Tax on Split Income

The Budget proposes that, effective January 1, 2016, Ontario will parallel the federal taxation of income split with related minors, commonly referred to as “Kiddie Tax”. Split income will be taxed at Ontario’s top marginal rate, with no surtax applying.

Simplification of Personal Income Tax

The Budget indicates that the government is planning to examine ways to simplify the personal tax calculation.

Measures Affecting Businesses

Corporate Income Tax Rates

The Budget proposes no changes to corporate income tax rates, which are as follows for 2016:

Income	Ontario	Federal	Combined
Small Business income	4.5%	10.5%	15.0%
CCPC ¹ investment income	11.5%	38.67%	50.17%
Manufacturing and Processing income	10.0%	15.0%	25.0%
General income	11.5%	15.0%	26.5%

Research and Development Tax Credits

The Budget proposes reductions to research and development tax credits.

The Ontario Research and Development Tax Credit (“ORDTC”) is a 4.5% non-refundable credit. The ORDTC rate is to be reduced to 3.5% of eligible expenditures effective June 1, 2016.

The Ontario Innovation Tax Credit (“OITC”) is a 10% refundable credit for small to medium companies. The rate is to be reduced to 8% of eligible expenditures effective June 1, 2016.

Where the taxation year straddles June 1, 2016 the rate will be pro-rated for both the ORDTC and the OITC.

¹ Canadian-Controlled Private Corporation

Apprenticeship Training Tax Credit

As announced in the 2015 Budget, the Apprenticeship Training Tax Credit (“ATTC”) is being reviewed to ensure that it meets its objectives. Budget 2016 confirms that the ATTC review is continuing along with other reviews of initiatives in support of apprenticeships.

Workplace Safety Insurance Premiums

As a consequence of steps taken in respect of cost reductions and improving the financial condition of the Workplace Safety and Insurance Board (“WSIB”), the Budget projects a significant reduction in WSIB premiums, starting in 2017.

Other Taxes

Tobacco Tax

Effective 12:01 a.m. February 26, 2016, the tobacco tax is being increased from 13.975 cents to 15.475 cents per cigarette and gram of tobacco products other than cigars. The Budget proposes to inflation index the tobacco tax annually after 2016.

Alcohol Charges

The Budget proposes the following changes in respect of alcohol charges:

- Increase in the ad valorem wine mark-up by the LCBO by two percentage points effective June 2016 with further increases of two percentage points in each of April 2017 and 2018 and one percentage point in April 2019;
- Increase in the basic tax on non-Ontario wine purchased at winery retail stores by one percentage point in each of June 2016, April 2017, April 2018 and April 2019;
- Increase in the minimum retail price for table wine to \$7.95 per 750 ml bottle, including deposit, phased in over three years;
- Phase-in of minimum retail prices for cider, fortified wine and low-alcohol wine over three years;
- Establishment of higher basic wine tax rates for sales at winery retail outlets in grocery stores; and
- Replacement of the current mark-up and commission structure with a tax on purchases at on-site distillery retail stores.

Underground Economy

The Budget indicates that the government is continuing to focus on underground economy activities in all high-risk sectors. It will work with the Canada Revenue Agency in launching specialized audit teams. It will also propose legislation to enhance enforcement capabilities.

Tackling Climate Change

The Budget indicates that Ontario intends to move forward with a cap-and-trade system in respect of carbon pricing, effective January 1, 2017. The program will place a cap on greenhouse gas emissions, create tradable emissions allowances for a given period and require covered emitters to hold allowances equal to their emissions in that period. Those who reduce their emissions will be able to sell their excess allowances in the carbon market. As a result of this program, it is projected that the price of gas at the pump will increase by 4.3 cents per litre, average household natural gas costs will rise by \$5 per month and residential electricity costs decrease by \$2 per month.

Ontario Retirement Pension Plan

Legislation to implement the Ontario Retirement Pension Plan will be introduced in spring 2016. The employer verification and enrolment process will start in 2017, with employer and employee contributions beginning in 2018.

Property Tax Measures

The Budget confirms the continued review of the property tax assessment system including the Business Property Tax Capping Program, the Vacant Unit Rebate and Vacant/Excess Land Subclasses. Ontario will also continue consultations on the Provincial Land Tax which applies to land outside municipal areas in Northern Ontario.

User Fees

As of January 2016, hospitals have been directed not to raise their daily parking rates for the next three years. The Budget introduces additional measures effective October 1, 2016 that will reduce parking costs for frequent hospital users.

Ontario has revised its fee schedule for court services and will continue to update licensing and vehicle validation fees. The government will eliminate certain fees related to adoptions and the Drive Clean emissions test. Other fees will be reviewed for potential elimination or updating.

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CPA Ontario wishes to gratefully acknowledge the contribution of those listed below in the preparation of this Ontario Budget Commentary.

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