

TaxTalk

2010 ONTARIO BUDGET HIGHLIGHTS

On Thursday, March 25, 2010, Ontario's Minister of Finance, Dwight Duncan, presented the 2010 Budget. Set out below are highlights of the Budget that we believe to be of most interest to you.

ECONOMIC OVERVIEW

	2009/ 2010 ¹ (\$billion)	2010/ 2011 ² (\$billion)	Growth (%)
Revenue	96.4	106.9	10.9
Expenditure			
Public debt interest	8.9	10.0	12.4
Other ³	108.8	116.6	7.2
Surplus (Deficit)	(21.3)	(19.7)	
Net Provincial Debt ⁴	193.2	220.0	

	2009 (%)	2010 ¹ (%)	2011 ² (%)
Inflation	0.4	1.9	2.1
Unemployment rate	9.0	9.1	8.5
Real Growth in GDP	(3.4)	2.7	3.2

The Budget projects a deficit of \$21.3 billion in 2009-10, decreasing to \$19.7 billion in 2010-11. The 2009-10 deficit is much higher than what was forecast in the 2009 budget - \$14.1 billion. Much of the increased deficit is due to expenditures being higher than forecast. The Budget puts forward a plan to cut the deficit in half within five years and to eliminate it in eight years. The 'plan' involves modest restraint in spending; instead relying on a prolonged economic recovery to increase government revenues via higher personal and corporate taxes etc.

As previously announced, effective July 1, 2010 Ontario will harmonize the current 8% Retail Sales Tax (RST)

¹ Estimate, for the fiscal year ending March 31, 2010.

² Forecast, for the fiscal year ending March 31, 2011.

³ Includes contingency reserve of \$0.7 billion in 2010/2011.

⁴ The annual change in the net provincial debt is equal to the surplus/deficit less the projected investment in capital assets.

with the federal 5% Goods and Services Tax (GST) to create a single 13% Harmonized Sales Tax (HST).

There are very few tax related measures included in the Budget, but scheduled tax rate reductions will come into force. The details are summarized below.

PERSONAL TAX MEASURES

Personal Income Tax Rates

The Budget proposes no **new** changes to personal income tax rates. The top marginal rate for individuals remains at 46.41% for 2010. This rate starts to apply when taxable income for 2010 exceeds \$127,022.

The following table summarizes marginal tax rates (on regular income, i.e., salary, interest, etc.) (excluding the Ontario Health Premium) that apply to the income tax brackets for 2010.

Taxable Income *	Federal Rate %	Ontario Rate %	Total %
\$ 10,382 to \$ 37,106	15.00	5.05	20.05
\$ 37,107 to \$ 40,970	15.00	9.15	24.15
\$ 40,971 to \$ 65,345	22.00	9.15	31.15
\$ 65,346 to \$ 74,214	22.00	10.98	32.98
\$ 74,215 to \$ 76,986	22.00	13.39	35.39
\$ 76,987 to \$ 81,941	22.00	17.41	39.41
\$ 81,942 to \$127,021	26.00	17.41	43.41
\$ 127,022 and over	29.00	17.41	46.41

*These are the Ontario tax brackets.

The table above includes the effect of the Ontario surtax. The surtax increases the top marginal tax rate by 6.25% from 40.16% to 46.41%. Ontario's surtax is two-tiered⁵ and is calculated as a percentage of basic Ontario tax in excess of specified amounts.

Effective January 1, 2010, the lowest Ontario marginal tax rate is reduced to 5.05% from 6.05%. The lowest rate currently applies to the first \$37,106 of taxable income. This threshold is indexed annually.

⁵ For 2010, the first-tier surtax is 20% of Ontario tax in excess of \$4,006 (applies when taxable income exceeds \$65,345); and the second-tier surtax of 36% of Ontario tax over \$5,127 (applies when taxable income exceeds \$76,986).

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%.

Ontario Property Tax Credit (OPTC)

The Budget proposes to convert the existing OPTC to the Ontario Energy and Property Tax Credit (OEPTC), effective starting in 2011 based on 2010 personal income tax returns. The OEPTC will be paid quarterly. The timing of the quarterly payments will be determined after consultation with social policy groups. The budget documents provide no further details on the computation of this credit.

Property and Sales Tax Credits

The existing combined property tax and sales tax credits will be replaced with two new credits, effective for the 2010 tax year.

The Ontario Sales Tax Credit (OSTC) will provide for a maximum of \$260 for each adult and child while the new Ontario Property Tax Credit (OPTC) will provide for a maximum of \$900 for non-seniors and \$1,025 for seniors.

Tax Treatment of Dividends

Effective January 1, 2010 the Ontario dividend tax credit on eligible dividends⁶ is reduced from the 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 will be as follows:

Year	Federal	Ontario	Total
	%	%	%
2010	15.9	10.7	26.6
2011	17.7	10.5	28.2
2012	19.3	10.3	29.6

Effective July 1, 2010 the Ontario small business corporate tax rate is reduced. As a result of this change, the Ontario dividend tax credit on non-eligible dividends (essentially those paid out of income taxed at small

⁶ In general, eligible dividends are dividends that are paid from corporate business income that has been taxed at the high corporate federal income tax rate – 18% for December 31, 2010 year end.

business rates) is reduced 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 will be as follows:

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

Sales Tax Transition Benefit

To help Ontarians adjust to the HST, eligible Ontario residents aged 18 or over or who have a spouse of common-law partner or live with a dependent child will receive Sales Tax Transition Benefit payments in June 2010, December 2010 and June 2011. Eligible families (including single parents) with adjusted family net incomes of \$160,000 or less will get three payments totaling \$1,000. Eligible single individuals with adjusted net incomes of \$80,000 or less will get three payments totaling \$300.

BUSINESS TAX MEASURES

Corporate Tax Rates

This Budget introduces no **new** changes to corporate income tax rates for 2010, but previously announced measures will come into effect.

The following table summarizes federal and Ontario corporate tax rates, with respect to active business income (ABI) earned by a Canadian controlled private corporation in Ontario, in 2010:

For 2010 - December 31 year end

Active Business Income	Federal Rate %	Ontario Rate %	Total Rate %
up to \$500,000	11.00	5.00	16.00
from \$500,001 to \$1,500,000*	18.00	15.10	33.10
> \$1,500,000	18.00	13.00	31.00
> \$1,500,000 with M&P**	18.00	11.00	29.00

* includes clawback of Ontario small business deduction
 ** M & P - manufacturing and processing tax credit

The table above reflects some reductions that will come into force in 2010. Further corporate tax reductions are to proceed on schedule.

- Effective July 1, 2010 the general corporate income tax rate will be reduced over a three year period. In addition, the small business deduction surtax or clawback, currently at 4.25%, will be eliminated as of that date. Where the corporate taxation year straddles the effective date, rates will be pro-rated.
- For corporations that claim the Ontario small business deduction (SBD), a surtax (clawback) is levied to reduce the benefit of the SBD where corporate income exceeds \$500,000. The clawback increases the tax rate on active business income between \$500,000 and \$1.5 million by 3.10% from 30.0% to 33.10%, as indicated in the table above.

As a result of these changes, *Ontario* corporate income tax rates will be as follows:

	General	M&P	Small Business	SBD Surtax
	%	%	%	%
Current	14.0	12.0	5.5	4.25
July 1, 2010	12.0	10.0	4.5	Eliminated
July 1, 2011	11.5	10.0	4.5	Eliminated
July 1, 2012	11.0	10.0	4.5	Eliminated
July 1, 2013	10.0	10.0	4.5	Eliminated

Taking into account proposed or scheduled reductions to *federal* corporate tax rates, total *federal and Ontario* corporate rates will be as follows:

	General	M&P	Small Business
	%	%	%
Current	33.0*	31.0	16.5
July 1, 2010	30.0	28.0	15.5
July 1, 2011	28.0	26.5	15.5
July 1, 2012	26.0	25.0	15.5
July 1, 2013	25.0	25.0	15.5

* 37.25% with Ontario clawback

Reduction and Elimination of the Ontario Capital Tax

This budget does not change the previously announced capital tax rates. As a recap, capital tax was eliminated on January 1, 2007 for some of the corporations in the manufacturing and resource industries and will be eliminated for all corporations as of July 1, 2010.

The exemption and rates are prorated for taxation years straddling the effective dates and are summarized in the following table:

Year	Exemption (\$Millions)	Current/Expected Rate %
January 1, 2009	15	0.225
January 1, 2010	15	0.150
July 1, 2010	Eliminated	

SALES TAX HARMONIZATION

General

The **2009** Budget announced that, effective July 1, 2010, Ontario will introduce a value-added tax. This tax will be combined with the federal GST to create a federally administered single sales tax or HST. The Ontario value-added tax (VAT) will replace the existing Ontario RST. A VAT is a multi-stage tax on consumption that applies throughout the supply chain regardless of whether the purchase is for use by business or consumer, but that allows most businesses to be reimbursed for the tax paid on their business inputs through the use of input tax credits.

The HST will have a 13% rate representing a 5% federal portion and 8% Ontario portion (the same rate as the current RST). The HST will be largely consistent with the GST. The HST 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 HST paid on their purchases.

In addition to various transitional and relief measures announced in the 2009 Budget, this Budget proposes the following additional measures:

RST Refunds and Rebates

The Budget proposes that vendors will be allowed to provide refunds of RST to purchasers after October 31, 2010, other than for returned goods.

Where a purchaser has paid both RST and HST on goods and/or services acquired after June 30, 2010, a rebate of the RST will be available to the purchaser to eliminate the double taxation.

RST Exemptions

RST will continue to apply after June 30, 2010 to private sales of used vehicles. There is currently an exemption for gifts of used vehicles between certain family members which will be extended to include gifts between siblings after June 30, 2010.

RST Vendor Compensation

The original 2009 HST proposals eliminated RST vendor compensation effective March 31, 2010. The Budget proposes to extend RST vendor compensation to June 30, 2010. A maximum of \$375 will be available for the April 1 to June 30, 2010 collection period.

The HST transitional rules include a credit intended to assist small business in transitioning to the HST. The credit is to be based on taxable sales for a 12 month period. The Budget proposes to allow the Province to prescribe the 12 month period for this purpose.

Insurance Premiums

Insurance premiums currently subject to the RST will continue to be subject to RST after June 30, 2010. The Budget proposes that vendors of such insurance continue to be eligible for RST vendor compensation of up to \$1,500 annually.

In addition, it is proposed that certain insurance-related costs and fees, such as administration fees for benefit plans are exempt from RST. This will ensure that such amounts are not subject to both RST and HST.

LAND TRANSFER TAX

To facilitate reorganization of registered charities, certain transfers of land will be exempt from land transfer tax, effective for transfers after March 25, 2010. Transfers from trustees to a non-share capital corporation or between two such corporations will be exempt provided that the recipient corporation will be continuing the same

charitable purpose and there is no consideration other than the assumption of existing liabilities on the land.

CONCORDANCE WITH FEDERAL MEASURES

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

- Rollover on death of certain Registered Retirement Savings Plan, Registered Retirement Income Fund and Registered Pension Plan proceeds to a Registered Disability Plan of a qualifying beneficiary
- The ability of single parents to tax the Universal Child Care Benefit in a child's hands
- The elimination of eligibility of costs for purely cosmetic medical procedures for the medical expense credit
- Provisions related to scholarships
- Provisions related to employee stock options including the elimination of the deferral for public company options
- The deduction for US social security benefits
- Overhaul of the disbursement quota system for charities
- Capital cost allowance system changes for clean energy generation, set-top boxes and Canadian renewable and conservation expenses

In addition, the federal Budget of March 4, 2010 announced the federal government's intention to explore ways of streamlining the tax system for corporate groups. Possibilities include a formal loss transfer system and consolidated returns. The Budget applauds this initiative. Furthermore, it urges the federal government to ensure corporate tax losses are utilized in the province in which they arose.

A memorandum of this nature cannot be all encompassing and is not intended to replace professional advice. Its purpose is to highlight tax-planning possibilities and identify areas of possible concern. Anyone wishing to discuss the contents or to make any comments or suggestions about this TaxTalk is invited to contact one of our offices.

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