

**Ontario
Budget
Commentary**

March 27, 2012

Introduction

Finance Minister Dwight Duncan delivered Ontario's 2012 Budget on March 27, 2012. The Budget is projecting a deficit of \$15.3 billion in 2011-12, \$1 billion lower than projected a year ago, and decreasing to \$15.2 billion in 2012-13. The 2010 Budget put forward a plan to cut the deficit in half within five years and to eliminate it in eight years. The government remains on track to meet the fiscal targets outlined in the 2010 Budget beyond 2012-13. This includes steadily declining deficits and a return to a balanced budget by 2017-18.

There are very few tax related measures included in the Budget. Those that were introduced are summarized below.

Personal Taxes

Tax Rates

The Budget proposes no changes to personal income tax rates. Accordingly, the top marginal rates for 2012 are as follows:

Type of Income	Federal	Ontario	Total
Eligible Dividends	19.3%	10.3%	29.6%
Non-eligible Dividends	19.6	13.0	32.6
Capital Gains	14.5	8.7	23.2
Ordinary Income	29.0	17.4	46.4

Individual Tax Credits

Ontario Trillium Benefit (OTB)

The OTB, which combines the Ontario Sales Tax Credit, the Ontario Energy and Property Tax Credit and The Northern Ontario Energy Credit, provides Ontario low- to moderate-income families with relief for taxes and energy costs. Starting July 2012, it will be paid monthly instead of quarterly, to assist eligible taxpayers to better manage their household budgets. The Budget proposes no changes to the OTB.

Ontario Clean Energy Benefit (OCEB)

The OCEB became effective January 1, 2011. It is a 10 per cent benefit applied on hydro billings and is intended to assist with rising energy costs. The Budget proposes to cap the OCEB to the cost of the first 3,000 kilowatt hours per month, effective September 1, 2012. This should not affect most residential households and small businesses but will cap the benefit for large users of electricity.

Healthy Homes Renovation Tax Credit (HHRTC)

The Budget confirms the HHRTC, which has already been introduced in the legislature. The HHRTC is a refundable tax credit of up to \$1,500 per annum on expenditures for permanent home modifications to improve access for seniors or help a senior to be more mobile or functional in their home. The credit will be computed at 15 per cent of eligible expenditures to a maximum of \$10,000 per annum per household. It

will apply to expenditures after September 2011 and will be effective for 2012 and subsequent years. It is available to senior homeowners, tenants and people who share a home with a senior relative.

Ontario Child Benefit (OCB)

The Budget proposes to increase the maximum OCB payments from \$1,100 to \$1,210 per child effective July 2013 with a further increase to \$1,310 July 2014.

Ontario Drug Benefit (ODB)

The ODB partially pays for prescription drugs for Ontario seniors. Under current legislation, benefits are not income tested. There is an annual deductible of \$100 per person and a patient co-payment of \$6.11 per prescription. For low-income seniors, the deductible is waived and the co-payment reduced to \$2 per prescription. The Budget proposes to introduce an income-based deductible, effective August 2014. For single seniors, the deductible will become \$100 plus 3 per cent of net income in excess of \$100,000. For senior couples, the deductible will become \$200 plus 3 per cent of combined net income in excess of \$160,000. The co-payment will remain at \$6.11 per prescription. The reduction for low-income seniors will be maintained.

30% Off Ontario Tuition Grant

This measure, which was announced in January 2012, provides a grant of up to \$800 per term for a maximum of two terms per year for full-time

undergraduate university or college degree students and up to \$365 per term for a maximum of two terms for students enrolled in college diploma or certificate programs at publicly funded Ontario institutions. The Budget affirms the commitment to continuing this program.

Corporate Taxes

Tax Rates

The general corporate income tax rate is currently 11.5 per cent. It was to be reduced to 11 per cent July 1, 2012 and to 10 per cent July 1, 2013. The Budget proposes to temporarily freeze the rate at 11.5 per cent until such time as the budget is balanced (projected to be in 2017-18). Accordingly, Ontario corporate income tax rates are as follows:

General	M&P	Small Business
11.5%	10.0%	4.5%

Business Education Tax (BET)

In 2007 significant reductions in the BET over a seven year period were proposed. Significant reductions have taken place over the intervening period. The Budget proposes to temporarily freeze the BET reduction program, starting in 2013. It is intended to resume once the budget is balanced (projected to be in 2017-18). BET rate reductions which have been implemented will not be reversed.

Ontario Apprenticeship Training Tax Credit (OATTC)

The Budget indicates that the effectiveness and efficiency of the OATTC will be reviewed in terms of its promotion of apprenticeship completions with potential linking of the credit to apprenticeship completions.

Research and Development (R&D)

The Budget indicates that the effectiveness of provincially provided R&D tax credits will continue to be reviewed. It is anticipated that the upcoming Federal Budget will make significant changes in this area which would impact on any provincial changes. The Jobs and Prosperity Council will be consulted on improvements to R&D tax support.

Employer Health Tax (EHT)

Administrative practice in determining whether or not an employer/employee relationship exists will be strengthened. Federal rulings on the status of workers will continue to be used. However, Ontario will no longer be bound by such rulings for EHT purposes. This administrative practice change applies to EHT assessments issued after March 27, 2012.

Retail Sales Tax (RST) Refunds and Rebates

The Budget proposes to shorten the RST refund and rebate periods in order to accelerate the wind down of the RST system. Currently, refunds and rebates can be applied for until the time limits

for claiming them have expired or June 30, 2014, whichever is earlier. The Budget requires that refund applications will have to be made on or before December 31, 2012. No changes are proposed for refund applications in respect of RST relating to insurance premiums and private transfers of used vehicles.

Corporate Tax Avoidance

Arrangements that cause income or losses to be shifted across provincial or international borders can result in a significant erosion of the tax base. Consideration is being given to the implementation of measures similar to those introduced in Quebec to combat aggressive tax planning and particularly, interprovincial tax planning. The province will work with the federal government to ensure that income is being properly allocated between provinces. If necessary, the government is prepared to introduce specific legislation to ensure that the province can evaluate and address interprovincial profit and loss shifting and inappropriate allocation of income between provinces.

Underground Economy

The government proposes to adopt various measures to curb underground economy activities that result in the loss of tax revenue. The Budget provides a list of some of the potential measures the government is actively exploring.

Loss Utilization

Although each corporation in a corporate group currently must file separate tax returns, federal administrative practice facilitates an informal loss transfer system between corporations within the group in certain circumstances. Where all corporations do not operate in the same province, this can result in a slippage of revenue to a particular province. The Budget indicates that the province will work with the federal government to ensure a fair and reasonable allocation of income.

Tax Administration

The Budget proposes to amend the various tax statutes to enhance collection abilities including those of garnishment for monies to be loaned or advanced. In addition, technical amendments will be introduced to ensure that the deemed trust and enhanced garnishment provisions align with federal bankruptcy and insolvency laws.

In addition, the Budget proposes to implement measures requiring those who receive government grants and other forms of direct assistance to be tax compliant. Existing procurement requirements will be expanded to ensure that businesses cannot bid on provincially-funded projects and contracts unless they are tax compliant.

Mining Tax Act

The Budget indicates that a review of the Mining Tax Act will be undertaken to ensure its structure is still appropriate in the current tax environment and Ontario receives fair compensation for its non-renewable resources.

Tobacco Tax Act

The Budget proposes to review various potential changes to the Tobacco Tax Act to enhance enforcement measures. Any proposed changes will be the subject of consultations with stakeholders.

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

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