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Ontario Budget Commentary

April 27, 2017

Introduction

Finance Minister Charles Sousa tabled the Ontario Budget on April 27, 2017.

The deficit for the 2016-17 fiscal year is projected to be \$1.5 billion, with a balanced budget projected for 2017-18, 2018-19 and 2019-20.

The Budget does not include any changes to Ontario's personal or corporate income tax rates.

Measures Affecting Individuals

Personal Income Tax Rates

This Budget does not propose any changes to personal income tax rates; the top marginal rates are as follows:

Type of Income	2017
Salary and other income	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Non-eligible dividends	45.30%

Ontario Seniors' Public Transit Tax Credit

A new refundable Ontario Seniors' Public Transit Tax Credit is being introduced effective for July 1, 2017. The credit will be 15 per cent of eligible expenditures, which have yet to be defined.

Ontario Caregiver Tax Credit

Paralleling the federal government changes, there will be a new Ontario Caregiver Tax Credit which replaces the provincial caregiver and infirm dependant tax credits with the following features:

- Non-refundable at a rate of 5.05 per cent to a maximum of \$4,794, which is phased out for dependent's income over \$16,401
- Eligible relatives are infirm dependents, including adult children and spouses
- There will be an increase in the amounts for dependents not living with the caregiver
- Not available for non-infirm senior parents or grandparents living with children or grandchildren

Medical Tax Credit for Fertility-Related Expenses

Mirroring the federal budget changes yet to be approved, Ontario proposes to extend the application of the medical expense tax credit for fertility-related expenses to those who require medical intervention to conceive a child, even when the treatment is not on account of medical infertility.

Multijurisdictional Tax Filers

Effective January 1, 2017 there will be new technical rules to deal with the provincial surtax and the Ontario Tax Reduction for taxpayers who pay income taxes to another province and non-residents who pay income taxes to Ontario. These changes are designed to ensure consistency between multijurisdictional filers and other filers.

Postsecondary Education

As previously announced, the new Ontario Student Assistance Program (OSAP) will start this fall and replace many existing programs with a single up-front grant, increased weekly aid limits and be annually indexed to inflation. There will also be reduced expectation of contributions from parents and spouses of the student. Savings from Registered Education Savings Plans will not reduce OSAP assistance.

Students will not have to start repaying the provincial portion of their OSAP loan until they earn a salary of \$35,000 per annum, rather than \$25,000.

Measures Affecting Businesses

Corporate Income Tax Rates

The Budget proposes no changes to corporate income tax rates, which are as follows for 2017:

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%

Employer Health Tax Avoidance

Ontario will undertake a review to ensure that structures are not used to multiply the Employer Health Tax (EHT) relief that is intended for employers with an Ontario payroll of less than \$450,000 per annum. As part of the process, the EHT exemption is eliminated for employers that are designated members of a partnership, as defined in the *Income Tax Act*. To provide an opportunity for feedback and consultation, the change will be effective no earlier than January 1, 2018.

Paralleling Federal Measures

Ontario will work closely with the federal government to review tax planning strategies involving private corporations. These include:

- Income splitting
- Transformation of investment income into business income or capital gains
- Other perceived loopholes and sophisticated tax planning

¹ Canadian-Controlled Private Corporation

Other Measures

Hotel Tax

Ontario will grant municipalities the authority to levy a tax on transient accommodation by amending the *City of Toronto Act, 2006* and the *Municipal Act, 2001*.

Tobacco Tax

Effective 12:01 a.m. April 28, 2017, the tobacco tax is being increased from 15.475 cents to 16.475 cents per cigarette and gram of tobacco products other than cigars.

Enhancements to the Canada Pension Plan

Legislation to implement the enhancement to the Canada Pension Plan (CPP) came into effect in March

2017. To allow businesses to adapt, increases to CPP contributions will be phased in over seven years, beginning January 1, 2019.

Property Tax Measures

Pursuant to reviews of legislation on small-scale agri-food business on farms, railway rights-of-way and the Provincial Land Tax, the Budget proposes certain changes to these measures.

Income Tax Avoidance/Strengthening Ontario's Tax System

The Budget indicates that the government is continuing to work with the Canada Revenue Agency to address the underground economy, and legislative and administrative reviews to promote greater effectiveness and efficiency of the tax system.

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