

2019 Ontario economic outlook and fiscal review



Finance Minister Rod Phillips delivered the Progressive Conservative (PC) government’s 2019 Fall Economic Statement on November 6, 2019.

The Fall Statement included many promises of investment and spending, much of which was in areas where the PC government had previously implemented cuts from Budget 2019.

The Fall Statement also included a revised deficit estimate for the 2019-20 fiscal year, reduced from \$10.3 billion in Budget 2019 down to \$9 billion in this current Fall Statement.

Table A: Estimated deficits

	2019-20	2020-21	2021-22
Original estimate (Budget 2019)	(\$10.3B)	(\$6.8B)	(\$5.6B)
Revised estimate (Fall Economic Statement 2019)	(\$9B)	(\$6.7B)	(\$5.4B)

The PC government has had a somewhat tumultuous first year at Queen’s Park, with many of the government’s proposed changes being backtracked or diluted – particularly spending cuts. The Fall Statement appears to indicate a shift in the government’s direction to reverse some of the spending cuts in key areas that were announced in Budget 2019 and to work more closely with stakeholders, as arguably evidenced by the slogan “A Plan to Build Ontario Together.” Although the PCs will continue to make cuts in some areas, the Fall Statement also appears to make a concerted effort to implement policies and spending to benefit small businesses.



Government spending



Expenditures for 2019-20

The Fall Statement includes increases to 2019-20 expenditures (as compared to Budget 2019) as follows:

- **Healthcare:** Increase of \$404 million to cover items such as increased OHIP services and removing the prescription co-payment requirement from long-term care residents.
- **Education:** Increase of \$186 million for childcare programs and funding for elementary and secondary schools.
- **Children's and social services:** Increase of \$637 million to continue to support autism programs and continue to deliver the Transition Child Benefit and support for disability programs.

However, cuts will continue in other areas, as the government works towards its goal to balance the budget by the 2023-24 fiscal year.

Long-term investments in infrastructure

Significant investments in infrastructure have also been pledged, totaling \$144 billion over 10 years. Some of these investments include:

- **Transit:** \$67 billion for new subways in the GTA and light rail in Ottawa.
- **Healthcare:** \$27 billion to modernize and increase capacity in hospitals.
- **Education:** \$19 billion to build new schools and \$3 billion for post-secondary infrastructure and state-of-the-art equipment for apprenticeship training.
- **Highway infrastructure:** \$22 billion for highway expansion.



\$144 billion

over 10 years in investments
in infrastructure

Business measures



Corporate tax rates

The Fall Statement includes a cut to the corporate tax rate applicable to small businesses from 3.5% down to

3.2%, starting January 1, 2020.

No other changes to corporate tax rates were announced.

Table B: 2019-2020 Ontario corporate tax rates

	Ontario		Combined federal and Ontario	
	2019	2020	2019	2020
Small business tax rate	3.5%	3.2%	12.5%	12.2%
General corporate tax rate	11.5%	11.5%	26.5%	26.5%
Manufacturing and processing tax rate	10%	10%	25%	25%



Cannabis

As part of its effort to increase private sector participation in the cannabis industry, the government is proposing two significant changes to the rules governing cannabis sales:

- 1** Allowing for licensed producers to sell cannabis products through retail stores at their production sites.
- 2** Allowing private retailers to sell cannabis products by phone or online for in-store pickup.

Furthermore, the government has reiterated its position to move towards an open allocation of retail store licenses based on market demand.





Support for small businesses

The Fall Statement includes changes that the government plans to implement as part of its strategy to promote business and job growth in Ontario. The Fall Statement provides additional details on programs previously introduced in Budget 2019 and also includes a new initiative in the Premier's Advisory Council on Competitiveness.

Premier's Advisory Council on Competitiveness

The government proposes to form the Premier's Advisory Council on Competitiveness, which will be supported by the Ministry of Finance and Ministry of Economic Development. Its purpose will be to talk to business leaders and workers in the private sector to find ways to improve the province's competitiveness.

Regional Development Program

As part of its "Open for Jobs Blueprint" in Budget 2019, the government stated its intention to focus on promoting development, particularly in parts of Ontario that have experienced less growth. The Fall Statement provides greater detail on its Regional Development Program, which includes a redesign of the Eastern Ontario Development Fund and Southwestern Ontario Development Fund. Through these funds, loans will be provided to small and medium-sized businesses that are operating or looking to expand in these particular regions.

Automotive sector

As part of its Driving Prosperity strategy to promote the automotive sector, the government will be moving forward with its Job Site Challenge, which will help identify tracts of land in Ontario that are available for automotive plant construction.

The purpose of this initiative is to attract investment from automakers by making it easier to find a suitable site and by streamlining the approval process.

Forestry

The government will invest \$10 million annually in the Forestry Growth Fund, which will provide predominantly loans and loan guarantees to businesses in the forestry industry.

Farming

As part of the Canadian Agricultural Partnership (CAP), which is a joint collaboration of the federal and Ontario governments to support farming, the government will be investing \$6.45 million over three years to support new trade opportunities. This includes monies for the Market Access Initiative, which will assist food and agri-food product exporters, and an allocation of \$1.2 million to support in-market trade representatives, provide export marketing support and attract foreign investment.

The CAP has also allocated \$1.25 million for provincially licensed meat processors and will support the growth of provincially licensed abattoirs, which will allow the processing of lower volumes of meat, facilitating the sale of these products to local farmers' markets.

Mining and exploration

The government will continue to work with First Nations to open Ontario's Ring of Fire region for mineral development. The Ontario government will also be looking towards the federal government to assist with a cost-sharing approach on road construction and investment.

Personal measures

Personal income tax rates

No changes to personal income tax rates are proposed. The top combined federal Ontario marginal tax rates for 2019 and 2020 are as follows:

Table C: Ontario combined (federal and provincial) top marginal personal tax rates

Taxable income	2019	2020
Interest	53.53%	53.53%
Capital Gains	26.76%	26.76%
Eligible dividends	39.34%	39.34%
Non-eligible dividends	47.40%	47.74%

Sales and excise tax measures

Aviation fuel tax

The provincial government is proposing to reduce the aviation fuel tax rate in Northern Ontario to 2.7 cents per litre, down from the current rate of 6.7 cents per litre, effective January 1, 2020.

Tax on beer and wine

As part of its review of the rules surrounding the alcohol industry, the government is proposing to pause upcoming wine tax and beer tax increases. Wine tax increases had also been paused as part of Budget 2019.

Refunds on gasoline tax

Changes to the Gasoline Tax Act are proposed to make interest on refunds payable from the date of the refund application to the date the government pays the refund.



Previously announced measures

The Fall Statement reiterates changes to tax rules that were previously announced by the PC government, including:

- Not paralleling the federal government's rules to **grind the small business deduction** for corporations earning passive income;
- Ongoing support for the **Low-income Individuals and Families Tax (LIFT)** credit targeted towards individuals with income less than \$38,500 (or \$68,500 for families);
- Ongoing support for the **Childcare Access and Relief from Expenses (CARE)** tax credit, a refundable tax credit on up to 75% of eligible childcare costs, also dependent upon income levels;
- Reducing the **Estate Administration Tax** by eliminating the tax on the first \$50,000 of the estate's value, as well as extending filing deadlines.

Summary

The 2019 Fall Statement included some new help for businesses in the form of a reduced small business tax rate and programs to help businesses. Furthermore, the government appears to be making an effort to change its approach by offering more opportunity for consultation and collaboration with stakeholders prior to implementing changes. It remains to be seen what changes will result from these discussions when it releases Budget 2020 next year.

Please contact your [Grant Thornton advisor](#) should you have any questions or concerns regarding these measures.



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