



2018 Ontario fall economic statement

November 2018

The provincial election that took place on June 7, 2018 resulted in a change in Ontario's government, with the Conservative party replacing the long-standing Liberal government. This change in leadership occurred subsequent to the release of the [2018 provincial budget](#) on March 28, 2018. To ensure that the province's fiscal policies align with the promises of the newly-elected government, and to provide an update on the fiscal state of the province, the *2018 Ontario Economic Outlook and Fiscal Review (Fall Statement)* was released on November 15, 2018.



In this Fall Statement, privately owned businesses will benefit from the province's decision not to parallel the federal tax changes that reduce (or eliminate) a small business's access to the small business tax rate. Certain private sector employers will also benefit from an increase to the Employer Health Tax exemption.

Individuals will benefit from a new Low-Income Individuals and Families Tax (LIFT) credit that will minimize personal income taxes payable for low-income individuals and families.

Policies and commitments

One of the major themes in this Fall Statement is the government's commitment to promote fiscal transparency and sound financial management. This commitment is further necessitated due to the projected 2018-19 deficit restatement from \$6.7 billion to \$14.5 billion as a result of an independent inquiry into the accounting practices of the former government.

Additional commitments provided in the Fall Statement include:

- Restoring fiscal balance in the province
- Creating and protecting jobs
- Supporting entrepreneurs through the Open for Business Action Plan
- Lowering hydro bills
- Expanding natural gas and broadband networks to rural northern communities
- Protecting farmers against any negative United States-Mexico-Canada Agreement (USMCA) impact

Business tax measures

Corporate tax rates

No changes to corporate tax rates have been proposed. Ontario's corporate tax rates for 2018-2019 are summarized in Table A.

Table A

2018-2019 Ontario corporate tax rates

| | Ontario | | Combined federal and Ontario | |
|---------------------------------------|---------|-------|------------------------------|-------|
| | 2018 | 2019 | 2018 | 2019 |
| Small business tax rate | 3.5% | 3.5% | 13.5% | 12.5% |
| General corporate tax rate | 11.5% | 11.5% | 26.5% | 26.5% |
| Manufacturing and processing tax rate | 10% | 10% | 25% | 25% |

Impact of recent changes to the Ontario and federal small business tax rates

| | 2017 | 2018 | 2019 |
|-----------------|------------|--------------|--------------|
| Federal | 10.5% | 10% | 9% |
| Ontario | 4.5% | 3.5% | 3.5% |
| Combined | 15% | 13.5% | 12.5% |

Rejecting federal measures around small business limit

It has been announced as part of this Fall Statement that Ontario will not parallel the federal measures around passive income earned inside a corporation, effective for taxation years beginning after 2018.

This shift is significant in that it makes Ontario the first province to deviate from the federal government on the recent [tax changes affecting private corporations](#) introduced in 2017, and it is possible that other provinces will consider following suit.

By rejecting this change at the provincial level, it means that the provincial small business limit in Ontario (\$500,000) will not be reduced by any passive investment income earned inside the corporation. It also means that small businesses operating in Ontario may be required to track separate tax accounts federally and in Ontario if they earn passive income.

It is worth noting that the previous 2018 provincial budget indicated that the government would also parallel the federal government's new measures around the taxation of split income and there is no indication that this initiative has been abandoned. Private business owners are therefore still advised to solicit advice from a tax advisor prior to paying dividends or similar income to family members from a private corporation.

Employer Health Tax (EHT)

The 2018 Fall Statement has indicated that the EHT exemption for private sector employers with annual payroll of less than \$5 million will increase from \$450,000 to \$490,000, effective January 1, 2019.

The estimated impact of this change is that 58,000 employers in Ontario will see their EHT payment reduced by an average of \$690.

Ontario Research and Development Tax Credit (ORDTC) and Ontario Innovation Tax Credit (OITC)

To address a decline in research & development (R&D) expenditures in recent years, the previous 2018 provincial budget proposed to expand the application of the ORDTC and OITC by providing certain enhancements, some of which would fluctuate based on a company's ratio of R&D expenditures to gross revenues.

The new government will not be proceeding with these enhancements and will instead be reviewing the support provided by the province in this area, with the purpose of ensuring that it is effective and efficient.

Personal tax measures

Personal income tax rates

In an effort to increase the simplicity of Ontario's personal income tax system, the previous 2018 provincial budget proposed to eliminate the province's surtax and replace it with new personal tax brackets and rates. The 2018 Fall Statement has indicated that the new government will not be proceeding with these changes. The government states that this will prevent an increase in personal tax of approximately \$200, on average, for 1.8 million people.

The previous proposals would have increased Ontario's top tax bracket on taxable income over \$220,000 from 13.16% to 20.53%, and would have added two additional tax brackets. Instead, the old tax brackets will remain, as will the surtax, which is essentially a tax on a tax that applies to Ontarians whose tax liability exceeds certain thresholds (generally, the surtax will apply when an individual's taxable income exceeds \$75,657).

At the personal level, the non-eligible dividend tax credit calculation has been adjusted to maintain a 3.2863% rate.

Table B illustrates the top combined federal-Ontario marginal rate of tax on various types of income for 2018-2019.

Table B

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

| Taxable income | 2018 | 2019 |
|------------------------|--------|--------|
| Interest | 53.53% | 53.53% |
| Capital gains | 26.76% | 26.76% |
| Eligible dividends | 39.34% | 39.34% |
| Non-eligible dividends | 46.65% | 47.40% |

Low-Income Individuals and Families Tax (LIFT) Credit

Beginning in 2019, the Low-Income Individuals and Families Tax (LIFT) Credit will reduce the Ontario tax liability of employed individuals who are considered low-income individuals or are part of a low-income family. The non-refundable credit is equal to 5.05% of the individual's employment income, to a maximum of \$850. The credit is reduced by 10% of the net income of the individual (or family), once the individual's income exceeds \$30,000 (or the family's income exceeds \$60,000).¹ If an individual's income exceeds \$38,500 (or the family's income exceeds \$68,500), the credit is eliminated.

Those who have been in prison more than six months during the year would not be eligible for the tax credit. The credit is only available to taxpayers earning employment income; therefore, taxpayers with only business and/or property income would not be eligible for this credit. The Ontario government estimates that the credit will provide approximately one in six Ontario taxpayers with \$450 in tax relief and that approximately 90% of Ontario taxpayers with taxable income under \$30,000 would have no Ontario personal income tax to pay.

Summary

The 2018 Fall Statement further represents a shift by the Ontario Conservative government away from both the previous Ontario Liberal government's and the current federal Liberal government's legislative policies. This was previously demonstrated by the Ontario government's moves to cancel the planned increase in the minimum wage and withdraw from the cap-and-trade system to deal with climate change, and is reiterated by its current moves to not parallel tax changes to the small business limit introduced at the federal level and to eliminate the planned changes to the personal tax brackets at the provincial level. Budget 2019 will likely offer additional details to the changes that have been offered in this Fall Statement and may yet offer additional departures from previous governments' policies.

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

¹ The credit is reduced by 10% of the greater of (i) the adjusted individual net income greater than \$30,000 or (ii) the adjusted family net income greater than \$60,000. The terms "adjusted individual net income" and "adjusted family net income" are not yet defined for purposes of the LIFT Credit, although the "adjusted family net income" would include the income of the taxpayer and his/her spouse or common-law partner.