

2016 Ontario budget summary

February 2016

Ontario Finance Minister Charles Sousa tabled the province's fiscal 2016–17 budget on February 25, 2016. The government forecasts a deficit of \$5.7 billion for 2015–2016 and is projecting a deficit of \$4.3 billion in 2016–17, and a balanced budget for fiscal 2017–18. Ontario's net debt, as of March 31, 2016, is forecast to be \$296.1 billion, but is projected to increase to \$308.3 billion for fiscal 2016–17. Net debt-to-GDP is expected to peak at 39.6% in 2015–16, remain level in 2016–17 and begin to decline in 2017–18.

The government's focus in this budget includes the third year of a 12-year plan for approximately \$160 billion of investments in public infrastructure. For 2016–17, \$13 billion has been earmarked for investments in capital assets, including roads, bridges, public transit, hospitals and schools. Ontario is also introducing a cap-and-trade program in order to limit greenhouse gas emissions.

The tax measures included in the budget are discussed below.

Business tax measures

Corporate tax rates

No changes are proposed to the \$500,000 small business limit or the small business and general tax rates.

Ontario's corporate tax rates for 2016 are summarized in Table A below:

Table A

Ontario corporate tax rates

Year	Small business tax rate	General corporate tax rate	Manufacturing and processing tax rate
2016	4.5%	11.5%	10%

Research and development (R&D) tax credits

Effective for eligible R&D expenditures incurred in taxation years ending on or after June 1, 2016, the non-refundable Ontario Research and Development Tax Credit (ORDTC) will decrease from 4.5% to 3.5%, and the refundable Ontario Innovation Tax Credit (OITC) will decrease from 10%

to 8% on eligible R&D expenditures incurred by small to medium-size companies. The rate reduction will be prorated for taxation years straddling June 1, 2016.

The government intends to reinvest the savings realized from the proposed ORDTC and OITC tax credit rate reductions in other research and innovation-related investment programs.

Apprenticeship training tax credit

The government announced that it is reviewing this refundable tax credit to determine if changes can be made to encourage increased completion rates of apprenticeship training programs, and to enhance opportunities for under-represented groups such as newcomers, indigenous peoples, women, apprentices with disabilities and apprentices from francophone communities. Further details will be announced later in 2016.

Personal tax measures

Personal income tax rates

No changes are proposed to personal income tax rates.

Table B illustrates the combined 2016 federal-Ontario marginal rate of tax on various types of income for the top three marginal rates of tax:

Table B

Taxable income	Over \$220,000	\$200,001 to \$220,000	\$150,001 to \$200,000
Interest	53.53%	51.97%	47.97%
Capital gains	26.77%	25.98%	23.98%
Eligible dividends	39.34%	37.19%	31.67%
Regular dividends	45.30%	43.48%	38.80%

Non-eligible dividend tax credit rate

Ontario's non-eligible dividend tax credit rate is decreasing to 4.2863% in 2016, from 4.5% in 2015. The rate is declining in response to the decline in the federal small business tax rate (from 11% in 2015 to 9% by 2019), in order to maintain integration in the tax system. Ontario will review its non-eligible dividend tax credit rate for 2017 and subsequent years.

Tuition and education tax credits

The government is proposing to eliminate the Ontario tuition and education tax credits as of September 2017, with the introduction of the new Ontario Student Grant (see below). Ontario students will be able to claim the tuition tax credit for eligible tuition fees paid in respect of studies up to and including September 4, 2017, and will be able to claim the education tax credit for months of study before September 2017. Taxpayers resident in Ontario on December 31, 2017 who have unused tuition and education tax credits will still be able to carry them forward to future tax years. Taxpayers who move to Ontario from other provinces after December 31, 2017 will not be able to claim their unused credits in Ontario.

Ontario Student Grant

Effective for the 2017–2018 school year, the government will be replacing its current student grant programs and the Ontario tuition and education tax credits with a single upfront grant, the Ontario Student Grant. This new grant system is intended to make average tuition free for students from

families with incomes of under \$50,000, and will make tuition more affordable for middle-class families. No Ontario student will receive less than they are currently eligible for through the 30% Off Ontario Tuition grant. In addition, financial support for mature or married students will be enhanced. Further details will be provided later this year.

Children's activity tax credit

The children's activity tax credit is a 10% refundable credit provided to parents for eligible costs of enrolling their children in eligible fitness, arts and cultural programs. For 2016, the maximum credit is \$56 per child, age 16 or less (\$112 for a child with a disability who is under 18). The government has stated that, although the credit is refundable, it largely goes to higher-income families.¹

Therefore, effective January 1, 2017, this credit will be eliminated. The government will, instead, focus on developing other programs to encourage physical activity among Ontario's children, including those in lower-income families.

Healthy homes renovation tax credit

The Ontario healthy homes renovation tax credit provides a maximum \$1,500 credit for eligible renovation expenditures incurred to improve seniors' accessibility in their homes. Ontario proposes to eliminate this credit as of January 1, 2017.

Other measures

Cap-and-trade program

As widely expected, the government is proposing to introduce a cap-and-trade program, effective January 1, 2017, to reduce greenhouse gas emissions. The program will apply to suppliers and distributors of heating and transportation fuels, electricity generators, importers of fuels and electricity, and other industries.² The province will set a cap on greenhouse emissions each year, which will translate into the total number of emission allowances that would be made available to the covered sectors through auctioning, as well as free-of-charge allocation (to certain industries as a transitional measure). Carbon emitters in the covered sectors will be required to hold a sufficient number of allowances to cover their annual emissions, with one allowance covering one tonne of greenhouse gas emissions.

The cap is expected to decline by 4.17% each year up to 2020³ to meet the province's 2020 emissions reduction target. As the cap declines, there will be fewer allowances made available to encourage carbon emitters in the covered sectors to reduce emissions. The program will reward those that reduce their emissions by enabling them to sell their excess allowances in the carbon market.

Proceeds from the program will be dedicated to the reduction of greenhouse gas emissions through investments in various other programs and initiatives. The cap-and-trade program is expected to result in price increases for energy consumers, including an estimated increase of 4.3 cents per litre for gasoline and 3.3 cents per cubic metre for natural gas.

¹ In 2015, approximately 50% of families expected to benefit from this credit had incomes over \$100,000.

² i.e., cement, steel, lime.

³ Although the sector-specific cap for electricity generators will remain unchanged, in recognition of emission reductions this sector has already undertaken with the closure of coal-fired power plants.

Ontario retirement pension plan (ORPP)

The 2014 budget introduced a proposal to establish the ORPP, a mandatory pension plan for employees resident in Ontario who do not participate in a comparable workplace pension plan. As previously announced, the government intends to proceed with the ORPP, although the scheduled launch of the plan will be deferred by one year with enrolment now scheduled to start in January 2017, and the first phase of contributions in January 2018.

Tobacco tax

Effective 12:01 a.m. on February 26, 2016, Ontario's tobacco tax will increase from 13.975 cents to 15.475 cents per cigarette and per gram of tobacco products other than cigars. The government also announced that beginning in 2017 it will increase tobacco tax rates based on the rate of inflation over each of the next five years.

Alcohol charges

The Liquor Control Board of Ontario (LCBO) will increase the ad valorem mark-up on wine products by 2%, effective June 2016, with further increases of 2% in each of April 2017 and April 2018, and 1% in April 2019. The basic tax on non-Ontario wine purchased at winery retail stores will be increased by 1% on each of June 2016, April 2017, April 2018 and April 2019. The minimum retail price for table wine will increase (to be consistent with spirits and beer) to \$7.95, including deposit, for a 750 ml bottle, phased in over three years. The government also announced that it will establish a definition of authorized grocery stores and provide for the collection of tax in those stores.

Paralleling federal tax measures

The government announced that it will parallel the federal approach of applying the top marginal income tax rate to income that is split with certain related children (the so-called kiddie tax). Effective January 1, 2016, such income will be taxed at Ontario's top marginal rate of 20.53%.

Measures to combat the underground economy

Ontario is prepared to move forward with its plan to launch specialized audit teams to focus on sectors that are at a high risk of underground economic activity, in partnership with the CRA. The budget states that these teams will consist of specialized auditors who will use advanced analytics and innovative enforcement tools.

Please contact us if you have any questions about any of the tax measures discussed in this release.

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