



2018 Ontario budget summary

March 2018

Tax alert

On March 28, 2018, Finance Minister Charles Sousa tabled Ontario's 2018-19 budget. As a result of the province's strong economic performance over the 2017-18 fiscal year, the government has announced through this budget that it has achieved its target of fiscal balance for the year. While previously it was projected that the province's Liberal government would present balanced budgets over the next two fiscal years, recent policy changes have indicated that the government intends to make large strategic investments in infrastructure and social programs with the goal of creating conditions for a more robust economic expansion. Notable investments include the expansion of the OHIP+ (free prescription) program so that it applies to people aged 65 and above commencing August 2019, as well as investing \$2.2 billion over three years to provide free, licensed child care, beginning in 2020, to children aged 30 months and above.



In acknowledging that the newly projected deficits in 2018-19 and 2019-20 deviate from the government's previous indications that it would provide balanced budgets in those years, a new fiscal recovery plan has been provided outlining that the province intends to return to fiscal balance in 2024-25. Fiscal results are projected as follows:

Year	Projected surplus/(deficit)
2017-18	\$0.6 billion
2018-19	(\$6.7 billion)
2019-20	(\$6.6 billion)
2020-21	(\$6.5 billion)
2021-22	(\$5.6 billion)
2022-23	(\$4.0 billion)
2023-24	(\$2.5 billion)
2024-25	Balanced budget
2025-26	\$2.6 billion

Ontario's net debt as a percentage of its GDP reached a peak of 39.3% in the 2014-15 fiscal year and has declined to 37.1% for the 2017-18 fiscal year. Over the next three fiscal years it is projected that this percentage will hover around 38% (remaining below the 2014-15 peak) and will begin decreasing again as of the 2022-23 fiscal year.

Business tax measures

Corporate tax rates

The budget reiterates the 1% reduction to the small business tax rate initially introduced in the 2017 fall economic statement. No further changes to the corporate tax rates or the \$500,000 small business limit are proposed. Ontario's corporate tax rates for 2018 are summarized in Table A.

Table A

Ontario corporate tax rates

	Ontario	Combined federal and Ontario
Small business tax rate	3.50%	13.50%
General corporate tax rate	11.50%	26.50%
Manufacturing and processing tax rate	10.00%	25.00%

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

	2017	2018	2019
Federal	10.50%	10.00%	9.00%
Ontario	4.50%	3.50%	3.50%
Combined	15.00%	13.50%	12.50%

Ontario Research and Development Tax Credit (ORDTC)

To address a decline in research & development (R&D) expenditures in recent years, the 2018 provincial budget proposes to expand the application of the ORDTC. This expansion targets large businesses in particular by providing an enhanced 5.5% non-refundable tax credit on eligible R&D expenditures over \$1 million in a taxation year. In effect, this provides a 2% enhancement over the existing 3.5% non-refundable tax credit on eligible R&D expenditures and will become effective for relevant expenditures incurred on or after March 28, 2018. It has been noted that this enhancement will not be available to businesses whose eligible R&D expenditures in a given taxation year are less than 90% of eligible expenditures in the prior taxation year.

In the case that a business's taxation year straddles March 28, 2018, the enhanced ORDTC will be pro-rated.

Ontario Innovation Tax Credit (OITC)

Effective for eligible R&D expenditures incurred on or after March 28, 2018, the 2018 provincial budget has proposed that the OITC be enhanced.

In the case that a company qualifies for the OITC, this enhancement will apply in the following manner depending on the company's ratio of R&D expenditures to gross revenues:

Ratio of R&D expenditures to gross revenues	OITC rate
10% or less	8%
Between 10% and 20%	Enhanced rate that would increase on a straight-line basis from 8% to 12% as the company's ratio increases from 10% to 20%
20% or more	12%

It is worth noting that the values used in the ratio of R&D expenditures to gross revenues must be attributable to Ontario operations.

In the case that a business's taxation year straddles March 28, 2018, the enhanced OITC will be pro-rated.

Commercialization of intellectual property

The 2018 provincial budget has announced that the government of Ontario will be reviewing the effectiveness and feasibility of implementing tax incentives such as patent boxes (i.e. preferential CIT rates), refunds of taxes paid, tax deductions and exemptions to develop an incentive plan to assist the province in retaining the economic and social benefits obtained from intellectual property developed within Ontario.

Ontario Interactive Digital Media Tax Credit

The 2018 provincial budget has proposed that eligibility for the Ontario Interactive Digital Media Tax Credit be extended to include film and television websites purchased or licensed by a broadcaster and embedded in the broadcaster's

website. This amendment would apply specifically to websites hosting eligible content, where the content has not received either a certificate of eligibility or letter of ineligibility prior to November 1, 2017.

Employer Health Tax (EHT)

Effective January 1, 2019, it has been proposed that the EHT exemption for corporations be limited so that it aligns with the federal *Income Tax Act* criteria for the small business deduction. As a result, the EHT exemption would only be available to individuals, charities, not-for-profit organizations, private trusts and partnerships, and Canadian-controlled private corporations.

Along with this change, the *Employer Health Tax Act* will be amended to incorporate federal anti-avoidance rules related to the multiplication of the small business deduction. It has been noted that there will be an opportunity for public comment prior to the introduction of this anti-avoidance legislation.

Paralleling federal measures

It has been announced as part of this provincial budget that Ontario will implement provincial legislation to parallel the federal measures relating to the taxation of split income and passive investment income. For additional detail relating to these federal measures, see [Budget 2018, Business owner's executive briefing](#).

Furthermore, it has been indicated that Ontario will also parallel federal measures announced in the 2018 federal budget that deny artificial tax losses realized through the use of synthetic equity arrangements and securities lending arrangements once the respective federal legislation has been approved.

Personal tax measures

Personal income tax rates

As part of an overall commitment to increase the simplicity and transparency of Ontario's personal income tax system, the 2018 provincial budget proposes to eliminate the province's surtax and replace it with new personal tax brackets and rates. The changes to these brackets and rates are as follows:

Current ¹		Proposed	
Rate	Bracket	Rate	Bracket
5.05%	\$0 to \$42,960	5.05%	\$0 to \$42,960
9.15%	\$42,960 to \$85,923 (no surtax)	9.15%	\$42,960 to \$71,500
10.98%	\$42,960 to \$85,923 (incl. 20% surtax)	11.00%	\$71,500 to \$82,000
14.27%	\$42,960 to \$85,923 (incl. 56% surtax)	13.50%	\$82,000 to \$92,000
17.41%	\$85,923 to \$150,000 (incl. 56% surtax)	17.50%	\$92,000 to \$150,000
18.97%	\$150,000 to \$220,000 (incl. 56% surtax)	19.00%	\$150,000 to \$220,000
20.53%	Greater than \$220,000 (incl. 56% surtax)	20.53%	Greater than \$220,000

It has been noted that eliminating the surtax will have the added benefit of creating efficiencies within the personal tax system by ensuring that higher income taxpayers are not receiving more tax relief from claiming non-refundable tax credits as compared to lower income taxpayers.

The current system provides taxpayers with a non-refundable tax credit computed at the lowest Ontario tax rate of 5.05%, however taxpayers subject to Ontario's surtax will have their credits computed at a rate as high as 7.88%. The elimination of the surtax will ensure that the tax benefit from non-refundable tax credits are computed equally for all taxpayers.

Legislation relating to the elimination of the surtax is expected to be released shortly and, once passed, changes to personal tax withholdings would begin on July 1, 2018.

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

Table B

Ontario combined marginal personal tax rates

Taxable income	2018
Interest	53.53%
Capital gains	26.76%
Eligible dividends	39.34%
Regular dividends	46.84%

Ontario Charitable Donation Tax Credit (OCDTC)

Along with the elimination of the surtax, it has been proposed that the top rate of the non-refundable OCDTC be increased to 17.5% on eligible charitable donations exceeding \$200 in a taxation year. As a result of this increase, the relevant rates applicable to the OCDTC are as follows:

- 5.05% on eligible charitable donations between \$1 and \$200 (20.05% combined with federal credit)
- 17.50% on eligible charitable donations exceeding \$200 (46.5% combined with federal credit)

Other tax measures

Cannabis tax

The provincial government has re-confirmed in this budget its commitment to enter into an agreement with the federal government regarding the taxation of cannabis whereby Ontario would receive 75% of the federal excise duty collected on cannabis intended for sale within Ontario.

With regards to First Nations, it has been indicated that the province intends for the full 13% HST to apply to off-reserve purchases of recreational cannabis once it has been legalized. This treatment aligns with the HST treatment of off-reserve purchases of tobacco and alcoholic beverages. Additionally, the supply of medical cannabis from a licensed

¹ Current tax rates present the impact that the surtax currently has on Ontario's statutory PIT rates (5.05%, 9.15%, 11.16%, 12.16% and 13.16% respectively). Surtax is calculated as an additional tax on provincial taxes payable after non-refundable tax credits have been

applied. A 20% surtax rate applies to Ontario taxes payable between \$4,638 and \$5,936, and a surtax rate of 56% applies to Ontario taxes payable greater than \$5,936.

producer delivered off-reserve to a Status Indian registered to acquire it will be eligible for the point of sale rebate for the provincial portion of the HST.

Land transfer tax

To reduce the administrative burden imposed on certain businesses as a result of land transfer taxes arising from certain unregistered dispositions of a beneficial interest in land through certain types of partnerships and trusts, such tax will now be required to be paid 30 days after the end of the calendar quarter in which the disposition occurred—as opposed to within 30 days of the disposition itself.

The provincial government has also committed to providing guidance on its website as to the minimum information and documents that would be required to be provided by an authorized representative of a partnership or trust when submitting a consolidated quarterly filing.

Tobacco tax

As a result of government efforts to curtail the sale of unregulated tobacco, amendments to the *Tobacco Tax Act* will be made as follows:

- Adding penalties and offense provisions in the case that the Ministry of Finance is not notified prior to the destruction of raw leaf tobacco
- Allowing the courts to authorize the use of tracking devices in an investigation to provide greater support for enforcement efforts

Furthermore, the 2018 provincial budget proposes that Ontario's tobacco tax rates be increased from 16.475 cents to 18.475 cents per cigarette and per gram of tobacco products other than cigars (equivalent to an increase of \$4 per carton) effective after March 28, 2018. Tobacco tax rates will increase by an additional \$4 per carton in 2019.

Property tax

As part of an overall review of the property taxation of railway rights-of-way in 2016, the 2018 provincial budget proposes the following changes:

- Railway right-of-way property tax rates will increase by approximately \$7 per acre for 2018

- The lowest property tax rates on mainline railway rights-of-way will be increased to a minimum of \$110 per acre from \$35 per acre
- Municipalities will be provided with the option to increase rates per acre on high-tonnage rail lines based on a new adjusted tax rate schedule
- Shortline railway property tax rates will remain frozen at 2016 levels

Further proposed changes to the property tax system are as follows:

- The *Assessment Act* will be amended to provide a tax exemption to non-profit child care facilities that lease space in otherwise tax-exempt properties.
- Property tax reductions of up to 50% will be provided to qualifying facilities that offer affordable spaces for the arts and culture sector in the City of Toronto. Eligibility under this program will be determined at the discretion of the City.
- A review of the approach used to calculate the payments in lieu of property tax (PILT) made by airport authorities in Ontario will take place.
- Based on a review of the approaches related to the education property tax portion of the vacancy rebate and reduction programs it has been noted that, beginning in 2019, the provincial government will align the education property tax portion of these programs with the changes made by municipalities.
- The technical adjustment to the property tax rate calculation that was announced as part of the 2016 provincial budget will be maintained for 2018.
- To further strengthen the Advance Disclosures process used as part of the Municipal Property Assessment Corporation's (MPAC) valuation process, it is proposed that an earlier valuation date be used as the basis for property assessments. In the upcoming 2021 assessment update, a valuation date of January 1, 2019 would be used as the basis for the assessment.
- Further amendments to provide a framework for addressing non-compliance with MPAC's requests for information will be introduced in the fall of 2018.

Administrative measures

Technical amendments

As in prior years, amendments to various statutes administered by the Minister of Finance will be proposed to improve administrative efficiencies and enforcement, maintain the integrity and equity of Ontario's tax and revenue collection system, and enhance legislative clarity and regulatory flexibility to preserve policy intent.

Combatting the underground economy

The government has provided an update on its efforts to combat tax avoidance in the underground economy, noting that it intends to release legislation to address the manipulation of point-of-sale systems for the purposes of underreporting income (referred to as electronic sales suppression). This legislation would require prescribed businesses to update their electronic cash register systems to meet legal requirements that will remove the ability to manipulate sales transaction information. Consultation surrounding this proposed legislation will take place over the coming months.